

## Q4 2017 Earnings Call - Follow-Up

### Company Participants

- Kary Brunner, Director of Investor Relations
- Pauline Mohler, Senior Director-Corporate Finance
- Steven P. Schmitt, Vice President-Investor Relations

### Other Participants

- Beryl Bugatch, Analyst
- Daniel Thomas Binder, Analyst
- Greg Melich, Analyst
- John Zolidis, Analyst
- Joshua M. Siber, Analyst
- Karen Short, Analyst
- Matthew J. Fassler, Analyst
- Michael Lehrhoff, Analyst
- Michael Louis Lasser, Analyst
- Mike D. Otway, Analyst
- Oliver Chen, Analyst
- Robert Drbul, Analyst
- Robert F. Ohmes, Analyst
- Tiffany Kanaga, Analyst
- Zachary Fadem, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Greetings and welcome to Walmart's Fourth Quarter and Fiscal Year 2017 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

I would now like to turn the conference over to Mr. Steve Schmitt, Investor Relations for Walmart. Thank you Mr. Schmitt. You may now begin.

### Steven P. Schmitt {BIO 17077384 <GO>}

Thanks, Manny. Good morning, everyone. Thank you for joining us and welcome to Walmart's Investor Relations call to discuss our fourth quarter earnings. This is Steve

Schmitt and I'm joined today by Pauline Mohler, Kary Brunner, Michael Brigance and Miguel Garcia from the IR team here in Bentonville. I'm going to make a few brief opening comments in a moment and then we'll open up the call to Q&A. There will be forward-looking statements on today's call which are subject to future events and uncertainties. Actual results could differ materially from these statements. Please review the full Safe Harbor statements accompanying our earnings materials.

I hope you've seen our earnings materials from early this morning. I'm not going to repeat everything that's in those materials, but I will touch on a few of the highlights. Adjusted EPS was \$1.30 for the fourth quarter and we really had a solid close to the year. Nice top-line growth really across the company. I would point out we've had a 1.2% comp growth in the United States with a 1.4% increase in traffic and US GMV growth of 36% and I'm going to talk about that here in just a bit.

We're making progress to win with customers through our stores, through mobile and e-commerce. Our financial strength continues to be a great competitive advantage for us. We generated \$31.5 billion of operating cash flow in the year, demonstrating consistent strength in the business and continued strength in the business. We returned over \$14.5 billion in the form of dividends and share repurchases for the year while at the same time investing to grow the business. You may have seen also today that we raised our dividend for the 44th consecutive year from \$2 per share to \$2.04 per share on an annual basis.

Now let me talk about - a little bit about GMV and e-commerce. You may have noticed in the materials this morning that we are going to be reporting e-commerce a bit differently going forward. We've typically reported a global GMV and sales number and we've given you that number in our remarks. And if you haven't seen it, our global GMV number increased 29.7% in Q4 ex Yihaodian and that compares to about - that compares to 28.6% that we reported in the third quarter.

I want to just touch on that going forward we're going to be focusing more on the US e-commerce business which is led by Mark Lore. This includes all web-initiated transactions including those through walmart.com such as ship to home, ship to store, pickup today and online grocery and transactions through Jet.com. We hope you find this new way of reporting e-commerce helpful as you dig into our largest e-commerce business.

So those are my opening comments. I know you are probably anxious to ask your questions, so we'll go ahead.

And, Manny, take it over to Q&A now.

## **Q&A**

### **Operator**

Thank you. Our first question is from Oliver Chen of Cowen & Co. Please go ahead.

FINAL

Bloomberg Transcript

**Q - Oliver Chen** {BIO 15320650 <GO>}

Hi. Congrats on solid results. We had a modeling question. As we think about inventory, it's been impressive. Going forward, would you expect us to continue to underpay comps and sales and what is your assumption as well for the outlook for wages and wage growth? And just a follow-up. A question we are receiving a lot from clients is regarding the regulatory and geopolitical landscape. Do you have flexibility in your supply chain to think about changes in the context of potential tariff issues? Thanks.

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Thanks, Oliver. I hope you didn't drop off. I actually missed the first part of your question. We didn't have a great - did you get it Kary?

**A - Kary Brunner** {BIO 20114316 <GO>}

Yeah, I think he was talking about wage growth and kind of our outlook for that. As you know, we're lapping our large wage investment, our multi-year wage investment here in February. And so, that will now be in our base. As we think about wages and being competitive - we're always looking to be competitive in the market to get the associates that we need to serve our customers, but we don't expect a large increase this year like we've had in the previous two years.

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Thanks, Kary. And then, Oliver, I didn't get the last part of your question. I know you were talking about supply chain in general I think.

**Q - Oliver Chen** {BIO 15320650 <GO>}

The geopolitical and the regulatory landscape in terms of supply chain flexibility, if indeed there is a border adjustment tax. It's just a topic that clients in the buy side have been asking us about regarding - there is a lot of different possibilities, but I was curious if there was a framework we should think about?

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Thanks for the question. It's certainly been a topic of interest. Certainly in the news, it's on constantly. So we certainly have robust supply chain for sure and anything - one thing I've learned in my experience is, anything related to tax is complicated and this is no different.

In terms of what we're talking about is, we're aware. Obviously we're engaged, but in terms of trying to speculate on what that might mean, it's just too early for us to do at this point. So I certainly appreciate the question. We are aware and we're engaged. Thanks.

**Q - Oliver Chen** {BIO 15320650 <GO>}

Okay. And just lastly on the inventory, inventories was really great this quarter. Do you expect it to continue to decline at a rate greater than sales for this next year as we model that line?

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Yes. It's hard to give a prediction on where it might go, but I know the US team's made a lot of progress and they think there is more progress to go.

**Q - Oliver Chen** {BIO 15320650 <GO>}

Thank you. Best regards.

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Thanks, Oliver.

**Operator**

Thank you. The next question is from Simeon Gutman of Morgan Stanley. Please go ahead.

**Q - Joshua M. Siber** {BIO 18253213 <GO>}

Hey, this is Joshua Siber on for Simeon. A couple of e-commerce related questions. First, did you guys parse out the e-commerce growth between Walmart and Jet.com? And then second, does the 1.8% comp include Jet.com sales? And lastly, what percentage of your sales are e-commerce?

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

All right. So the first piece of it is, no we didn't break out Jet.com specifically and we've really made the judgment going forward as - as we talk about our US e-commerce business, we're going to report it in total. And it's not just Jet.com if you think about. There's other acquisitions in the space. Jet.com has a business called Hayneedle that they bought before Walmart acquired it. You may have seen in the news, we've bought a company called ShoeBuy as well as Moosejaw. So we've made the decision not to break all of those different pieces out. We'll just be reporting the US business e-commerce number in totality.

The second part of your question was, is Jet.com in the comp? And the answer is, no it's not. We wait until we anniversary any new business before it actually is included in the comp. We did note in a release that e-commerce for the US contributed 40 basis points to the total comp and - and what's the last question, Kary?

**Q - Joshua M. Siber** {BIO 18253213 <GO>}

Yeah, percentage of sales from e-commerce total in the U.S.

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Oh, that's the number we've broken out in fashion.

**A - Kary Brunner** {BIO 20114316 <GO>}

Overall, it's...

**Q - Joshua M. Siber** {BIO 18253213 <GO>}

Oh, okay. Then my follow-up on related. What are you guys seeing in grocery? Where is the deflation moderating and do you guys have an outlook for potential inflation going forward?

**A - Kary Brunner** {BIO 20114316 <GO>}

Yeah, this is Kary. So really, solid quarter for grocery perspective. And you're right, we had about 90 basis points headwind in the food comp. The primary factors are - continue to be meat and dairy, eggs. We even saw some deflation in produce this quarter as well. So, kind of the same culprits you've heard us talk about over the last couple of quarters, but underlying traffic in grocery, particularly in food, much improved from Q3.

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Sorry, I think the other question that you asked about, what percent e-commerce makes up in the US. It's about 3%.

**Operator**

Thank you. The next question is from Karen Short of Barclays. Please go ahead.

**Q - Karen Short** {BIO 20587902 <GO>}

Hi. Thanks. Just curious. So you've been discussing the fact that we'd start seeing the components of the U.S. margin shift with more meaningful declines in gross margin but less pressure on OpEx. So I guess the question is, was the decline in the fourth quarter gross margin kind of the new norm to think about going forward? And then I guess the follow-up would be, in the transcript Brett commented that Walmart would lever expenses slightly in 2018. So is that statement also true for the US? And then I guess, what would have been so unique about the fourth quarter that caused such deleverage?

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Thanks, Karen. When we're talking about margin, obviously, there's a lot of moving pieces. You mentioned the two that Brett called out, which actually mentioned one of them, which was the price investment. We continue to invest in price. We also had top post-holiday markdowns in the quarter that had some impact.

Just going back to how we addressed really operating profit in general going forward at our October meeting, we laid out that - a couple of pieces. Number one, that we expected Op Inc to go down. And, Karen, you mentioned that Brett had - that had - in his script today. But also, we would be leveraging expenses at the same time. So that would be putting pressure on gross margin. So we would expect some of that going forward. In terms of order of our magnitude, we just aren't in a position to talk about that or even - even as it relates to the U.S. business, but I think it would hold there. And that's kind of - hopefully that answers your question.

**Q - Karen Short** {BIO 20587902 <GO>}

Okay. And just a follow up. What's the level of food inflation or deflation that's embedded into your comp guidance or expectations?

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

We haven't talked about that specifically. We have seen, I think as Kary mentioned a trend from deceleration (10:32-10:35) something we'll continue to watch and report on a quarterly basis.

**Q - Karen Short** {BIO 20587902 <GO>}

Okay. Thanks.

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Thanks, Karen.

**Operator**

Thank you. The next question is from Scott Mushkin of Wolfe Research. Please go ahead.

**Q - Mike D. Otway** {BIO 18086065 <GO>}

Hey. Good morning, guys. This is Mike Otway in for Scott. Thanks for taking the question. First, I think in the prepared remarks you guys said that the sales have been slower to start the year. Do you have any context around that comment?

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

I think two things. Brett had mentioned that sales were a little slower than expectations coming into the year due in part to the delayed tax checks coming in. So in light of that, we've guided to 1% to 1.5% comps in the US business.

**Q - Mike D. Otway** {BIO 18086065 <GO>}

Okay. And then I guess secondly on kind of Jet-specific, the dilution from Jet, how is that progressing relative to your expectations? Better or worse? In line?

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

I think there's always going to be change. I don't have the exact numbers on where that's falling in versus our initial expectations, but it's all included in our outlook.

**Q - Mike D. Otway** {BIO 18086065 <GO>}

Okay. I appreciate it. Thanks for taking the questions.

**Operator**

Thank you. The next question is from Matt Fassler of Goldman Sachs. Please go ahead.

**Q - Matthew J. Fassler** {BIO 1509751 <GO>}

Thanks a lot. My first question, guys, relates to U.S. gross margin. You spoke about pricing investment. Was that the biggest factor that led to that - the break in that series of increases that you had on the gross margin side? And I ask because I know that vendor negotiations have been a big piece of what had helped you drive that number higher I think for six quarters running. So how would you talk to the change in trend or the components of the change in trend for that line item?

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

It's certainly no surprise that we continue to invest in price. We're not going to break out each different element on what it weighed on (12:34-12:35) factor as well as the post-holiday markdowns and a number of other issues. Kary, you want to mention any other issues?

**A - Kary Brunner** {BIO 20114316 <GO>}

Yeah, I think a biggest change from Q3 was, as Steve mentioned, the post-holiday markdowns. We've pulled those forward from original plan in Q1.

**Q - Matthew J. Fassler** {BIO 1509751 <GO>}

Great. And then a follow up. You Sam's Club comp ex gas picked up a bit, was a strong number. Any sense as to what's changing within that business? I know it doesn't get a lot of focus on these calls, but it did show some acceleration.

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Yeah, hi, Matt. Tobacco performed well, so Grocery, Beverage, Home & Apparel, Health & Wellness, all of those categories performed - continue to perform well for us. So you see that affecting the comp.

**Q - Matthew J. Fassler** {BIO 1509751 <GO>}

Got it. Thanks so much, guys.

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Appreciate it, Matt. Next question, please, Manny.

**Operator**

Thank you. The next question is from Budd Bugatch of Raymond James. Please go ahead.

**Q - Beryl Bugatch** {BIO 1504748 <GO>}

Good morning and thank you for taking my questions. There have been some confusion, a story appeared in the press about the combination of the online and the in-store buying

organizations, and then I think a correction or something was - appeared I think a day or so ago. Can you kind of give us a feel of what's going on with the organization for e-commerce and merchandising organization of - in your stores?

**A - Kary Brunner** {BIO 20114316 <GO>}

Sure, Budd. I can take that one. We're really approaching the business to serve a customer really any way the customer wants to shop, so through our stores, through online, or through omnichannel. And we're really just positioning the business and the merchandising organization to serve customers. So, if a supplier wants to sell on store and online, he'll now have one point of contact within the merchandising organization to get that done, to accomplish that. So it really streamlines our organization.

We think it's a benefit not only for us, but also for our suppliers. That's the feedback we're getting. And this is not unlike some of the other changes we've had in other parts of the business like marketing where there is one individual sort of responsible for both stores and e-commerce marketing. So, just positioning the business to better serve customers and streamline our interactions with suppliers we think for the benefit of both.

**Q - Beryl Bugatch** {BIO 1504748 <GO>}

So, Kary, that actually confuses me, because then you have in fact combined the organization? Or is it just not? And...

**A - Kary Brunner** {BIO 20114316 <GO>}

No, it's just - if a supplier were to sell goods in a store and they wanted also sell a good online, in the past they would have talked to two different merchants, one for the store and for online. Now, in today's day - in the future state, they'll talk to one individual. If they are only selling goods online, they'll continue to just talk to an e-commerce merchant.

**Q - Beryl Bugatch** {BIO 1504748 <GO>}

So has the SKU file been combined? That was one of the issues that was preventing that, I thought.

**A - Kary Brunner** {BIO 20114316 <GO>}

I didn't get...

**A - Pauline Mohler** {BIO 19462241 <GO>}

SKU file.

**A - Kary Brunner** {BIO 20114316 <GO>}

That's something we're focused on, yeah.

**Q - Beryl Bugatch** {BIO 1504748 <GO>}



Okay. And lastly from me, on some of the new innovations in the store. You talked about Scan & Go inside of Walmart. I thought that was something that couldn't be done because of the weighing issue inside of Walmart. Is Scan & Go being deployed inside Walmart?

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

It's being tested, Budd.

**Operator**

Thank you. The next question is from Greg Melich of Evercore ISI. Please go ahead.

**Q - Greg Melich** {BIO 1507344 <GO>}

Hi. Thanks, guys. I guess I wanted to follow up a little bit more detail on the categories. I think in the general merchandise, you mentioned some strength in apparel. Like to know a little bit more about that beyond just newness. Was it, you know, mix helping there as well? And then in entertainment, you said it was soft in electronics. Does that mean like TVs and what were actually down for that category? Or is it just softer than the company?

**A - Kary Brunner** {BIO 20114316 <GO>}

Hey, Greg, I'll take that one. Yeah, so as we look at apparel, it really did have a strong fourth quarter. Now, as we talked about in Q3, there was some pent-up demand as there was some weather impacts in Q3 and so some of our benefit in Q4 was due to that. But nevertheless, overall, we just were really - really pleased with the performance there in apparel.

And then I think you mentioned entertainment. Entertainment overall was a headwind for us, and particularly in electronics. Our unit sales in TVs were still good, but just deflationary pressures that we've seen in the industry continue to be a headwind there. There are some pockets of entertainment that are doing better than others. Toys had a good quarter. We think about wireless, had a pretty good quarter, and virtual reality, some of the new items that we have are doing pretty well. And so really where there's newness and innovation, those categories are doing really well; and where there's not, there's a bit of a headwind.

**Q - Greg Melich** {BIO 1507344 <GO>}

Great. And then I go for my - my follow-up would be, switching to your import mix and private label, understanding you're not going to go with the border adjustment or tax reform, but could you just help us understand where you are now, an estimate of how much of your COGS or sales are foreign direct imports or private label - and/or private label?

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Certainly appreciate the question given the back conversation, but we're just not going to go into that level of detail at this time.

## Operator

Thank you. The next question is from Scot Ciccarelli of RBC Capital Markets. Please go ahead.

### Q - Michael Lehrhoff {BIO 18318124 <GO>}

Hi. This is Mike Lehrhoff on for Scot. I just wanted to clarify that Jet I guess would now fall into the comp next year in 3Q and also see how the early sales results are trending versus your previous expectations. And if you could talk a little bit about your strategy behind some of the smaller acquisitions like Moosejaw and ShoeBuy? Thanks.

### A - Steven P. Schmitt {BIO 17077384 <GO>}

Sure. So the answer to your first question is, that's correct, it would fall into the comp in I guess mid third quarter. I think the next question is just around some of the acquisitions that we've made. It really gives us more expertise - access to a lot more SKUs and brands in a short order.

Michael, anything else on the ShoeBuy and Moosejaw?

### A - Operator

I think the industry relationships that they bring along as well are key in some of these categories and the way that we can leverage what they had to display products. The technology is good as well.

### A - Steven P. Schmitt {BIO 17077384 <GO>}

And a lot of expertise in those categories as well.

### A - Operator

Yeah.

### A - Steven P. Schmitt {BIO 17077384 <GO>}

So it's all part of our investments to grow e-commerce faster strategy.

## Operator

Thank you. The next question is from Bob Drbul with Guggenheim Securities. Please go ahead.

### Q - Robert Drbul {BIO 3131258 <GO>}

Hi. Good morning. I just wondered if you could comment a little bit more on Fresh and how it performed during the fourth quarter, and were the - days inventory, how much have you taken out of the supply chain? Maybe just a little bit from those couple of topics?

FINAL

Bloomberg Transcript

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**A - Kary Brunner** {BIO 20114316 <GO>}

Sure, Bob, I'll take that one. Fresh is an area we've been really encouraged by. Customers are responding well, traffic is strong, but you are not seeing probably the reported results because it's been somewhat masked by the heavier levels of deflation that we've seen all year. While that seems to be abating in Q4, the underlying strength of the business is good. And we've invested in that area to add additional head count. We've changed our merchandising approach and displays. And we're trying to get the inventory and days on hand correct. There's a lot of focus on that. And we're working to take days out of the supply chain, so that's fresher for the customer when they get at home. Those are all areas of focus, and we're really pleased with the direction we're headed.

**Q - Robert Drbul** {BIO 3131258 <GO>}

And can you talk a little bit about what you've learned so far as the rollout in online grocery has continued?

**A - Kary Brunner** {BIO 20114316 <GO>}

Yeah, I think we've been pleased with the customer response to that. The promoter scores on online grocery have been exceptional. And customers are increasingly wanting that level of convenience. And clearly, it's a key part of our strategy. We've rolled out 600-plus locations currently, and we'll almost double that next year. So that's a key part of the focus. Customers like it, and we're pleased with how they're responding.

**Operator**

Thank you. The next question is from Dan Binder with Jefferies. Please go ahead.

**Q - Daniel Thomas Binder** {BIO 1749900 <GO>}

Hi. It's Dan Binder. Thanks. I was thinking back to the analyst meeting, and Brett I believe said that he thought in his comments that you would have peak losses in e-commerce this year. And I was just curious, with some of the announcements since then, mainly the free shipping - free two-day shipping with \$35 baskets or higher, if that changes that expectation for peak losses this year? And then secondly, I assume that that same program would probably have more of a detrimental impact on profit than the ShippingPass program, which you have eliminated. And I was just curious if there is some offsets to that?

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Thanks, Dan. Just going back to - in terms of October, one thing we did say is that - in this part of our guidance that we were going to be making investments to accelerate e-commerce, and this is certainly . In terms of out-year guidance on peak, so we typically do that on annual meetings. But this is absolutely an example of one of the investments that we've made to accelerate that growth.

In terms of margin, the impact on our recently announced \$35 minimum two-day shipping - free shipping for millions of SKUs on walmart.com, certainly it could have an impact on

margin, but it's part of our strategy to grow e-commerce faster to give customers more options to use our brands. And all of our assumptions around that initiative are incorporated into our outlook and our guidance.

**Q - Daniel Thomas Binder** {BIO 1749900 <GO>}

And if I could just – one follow-up. In terms of private label product, obviously the hard discounters are going to expand here in the U.S. We know Lidl will open stores later this year. I was just curious, with the private label development program that you started last year with the food innovation center, where you are with that in terms of upping the quality and lowering the price? And how private label performed in the quarter generally?

**A - Kary Brunner** {BIO 20114316 <GO>}

Yeah, Dan. It's a key area of focus, and we're growing penetration in our private label, working to get the price points correct, but also raise the quality. And certainly the Innovation Center that you mentioned is helping us on that front. Private label is one portion of the overall U.S. strategy and we expect it to help us deliver the growth that we expect.

**Q - Daniel Thomas Binder** {BIO 1749900 <GO>}

Okay.

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Thanks, Dan. Manny, next question, please?

**Operator**

Thank you. The next question is from Paul Trussell with Deutsche Bank. Please go ahead.

**Q - Tiffany Kanaga** {BIO 18706009 <GO>}

Hi. This is Tiffany Kanaga on for Paul. Thanks for taking our questions. Would you discuss the puts and takes to your 2017 EPS guidance and where you see the biggest risk factors that could lead results to come in at the low end of the range as well as how your investments in Jet.com and JD.com play into the range that you've given?

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Good question. I think any time you're looking at a forecast, it all starts with top-line. That's going to dictate the majority of it. Already – in addition to top-line, I mean we've talked about getting more focused around cost. I think there's always moving pieces. I think inflation assumptions would come into it. I can't think of any specific things. We've made assumptions around e-commerce investment. Certainly FX is always a variable. Tax rate, we did talk about tax rate being a little bit higher this coming year than what we saw some of the benefits that came through last year. That's probably a good list of the puts and takes.

## Operator

Thank you. The next question is from Robby Ohmes of Bank of America Merrill Lynch. Please go ahead.

### Q - Robert F. Ohmes {BIO 1541955 <GO>}

Hey, guys. On the gross margin shift in trend, can you give us a sense and – or just remind us if you guys have spoken of this. But is the gross margin shift in trend, is it broader and deeper price investment this year versus last year? Or is it e-commerce having more of an impact on the gross margin this year versus last year? Or is it just the offsets won't be as great in fiscal 2018 as they were in fiscal 2017?

### A - Steven P. Schmitt {BIO 17077384 <GO>}

Yeah, I think – let's talk about pricing first I guess. We initiated the price investment towards the end of our first quarter – so we continue that. So as you continue that process, it will put a little bit more pressure until you start cycling through some of that. That's the pricing piece. And I think from the other initiatives – I think that you mentioned e-commerce, those are all contributors and we have to get better on the cost management side, similar to what Brett laid out in the guidance in October and reiterated today in his script.

### Q - Robert F. Ohmes {BIO 1541955 <GO>}

So incrementally though, is it – are there more initiatives hitting at the store level than you did last year? I'm just trying to get a sense of, is it a – I think you guys used the term, continues to ramp up. And maybe just a sense of, you know you've already been investing in price, but is it – are we seeing another level coming on this year and that's what you have in your gross margin guidance?

### A - Steven P. Schmitt {BIO 17077384 <GO>}

We have price investment in our gross margin guidance for sure. I mean, this – it's a continuation of the program that we started last year. So I don't know how much more we can add than that.

## Operator

Thank you. Our next question is from Michael Lasser of UBS. Please go ahead.

### Q - Michael Louis Lasser {BIO 7266130 <GO>}

Good morning. Thanks a lot for taking my question. I think Kary mentioned that traffic to the food category accelerated from the third quarter to the fourth quarter. Was that all due to the price investment?

### A - Steven P. Schmitt {BIO 17077384 <GO>}

No. We've had healthy traffic all year actually in Grocery, and so this is just continuation. We did see a slowdown in Q3, and then it – Q4 came out better than Q3.

**Q - Michael Louis Lasser** {BIO 7266130 <GO>}

Okay. And on the first quarter guidance, do you assume that all of the tax rebate issues normalized over the course of the full quarter? It's - it will be neutral or will it still be a drag to your comp in the first quarter?

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

I think it's difficult to say. We'll have to watch it. We've got a lot of tax refunds dropping this week, so would be an interesting week to read for sure. But there's always a lot of moving pieces in the guidance, and that's what we're comfortable with.

**Operator**

Thank you. The next question is from John Zolidis of Buckingham Research. Please go ahead.

**Q - John Zolidis** {BIO 1917556 <GO>}

Hi. Questions on two different topics. First, could you explain the decision to move the post-holiday markdowns into 4Q from 1Q? And could that be a contributing factor to the weaker than expected start to the first quarter? And then my second question is on the grocery drive-thru's. You said that you've gotten up to 600 drive-thrus. Do believe that those are accretive to same-store sales? And can you quantify, or do you have ability to measure the extent to which you might be capturing new customers to shift - or rather than just shifting in-store customers to the drive-thru's? Thanks.

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Sure. Maybe I'll take the second part of the question first, and maybe Kary can address the first piece. So the online grocery piece, we're expanding it at a high rate, at 600 groceries this year and we expect to nearly double that this year with the amount of new online grocery locations that we're adding. So all-in we're confident what we're seeing. Customers are giving us great feedback. In terms of exactly how incremental it is or accretive for the comp, we are not going to go into that level of detail, but I think it's safe to say, with our expansion plans we are happy with what from an overall result standpoint. Kary, you want to comment on the [timing]?

**A - Kary Brunner** {BIO 20114316 <GO>}

Sure. Yeah. So we had a very strong fourth quarter and we saw an opportunity to kind of position our inventory and clean-up some kind of winter-related cold weather merchandise through clearances and otherwise. And so, really just - some of the markdowns that were planned for a couple weeks later were moved forward so that we could put the business in a good position going into the spring set.

**A - Steven P. Schmitt** {BIO 17077384 <GO>}

Thanks. Manny, next question, please.

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## Operator

Thank you. The next question is from Zach Fadem of Wells Fargo. Please go ahead.

### Q - Zachary Fadem {BIO 18911015 <GO>}

Hey. Thank you. So with respect to the online grocery and pickup. I know it's early, but are you including the sales in the e-commerce contribution or - for the comp or in the traffic bucket? And then on the traffic, just with Walmart US and Sam's Club both improving quite a bit in the quarter, I'm curious if there are any specific callouts here in terms of drivers, be it grocery or otherwise?

### A - Steven P. Schmitt {BIO 17077384 <GO>}

Sure. So I think the first part of your question, the online grocery is included in the e-commerce growth as well as the comp. And then what was the question on Sam's?

### Q - Zachary Fadem {BIO 18911015 <GO>}

Well, just with the traffic accelerating, just drivers there.

### A - Steven P. Schmitt {BIO 17077384 <GO>}

Yeah, I mean, traffic at Sam's - the overall comp is pretty balanced between ticket and traffic. I think Tobacco has been a good traffic driver for us, but also Health & Wellness.

### Q - Zachary Fadem {BIO 18911015 <GO>}

Thanks.

### A - Steven P. Schmitt {BIO 17077384 <GO>}

I think that's the last question, isn't it?

## Operator

Yes, it is. I would like to turn it back to you, Mr. Schmitt for closing remarks.

### A - Steven P. Schmitt {BIO 17077384 <GO>}

Thanks. Again, thanks everybody for joining us. Again, just kind of the highlights. We think we had a really solid close to the year. We appreciate your interest in Walmart and your time on today's call and Investor Relations, myself and the rest of the team will be available today for follow-up. Have a great week. I know today is a busy day for you guys.

## Operator

Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time, and thank you for your participation.

FINAL

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