

Walmart Inc to Invest in Flipkart Group M&A Call

Company Participants

- Brett M. Biggs, Executive VP & CFO
- C. Douglas McMillon, President, CEO & Director
- Judith McKenna, Executive VP, President & CEO of Walmart International
- Steve Schmitt, VP of IR

Other Participants

- Charles P. Grom, MD & Senior Analyst of Retail, Gordon Haskett Research Advisors
- Christopher Michael Horvers, Senior Analyst, JP Morgan Chase & Co, Research Division
- Daniel Robert Imbro, Research Associate, Stephens Inc., Research Division
- Daniel Thomas Binder, MD and Senior Equity Research Analyst, Jefferies LLC, Research Division
- Edward James Yruma, MD & Senior Research Analyst, KeyBanc Capital Markets Inc., Research Division
- Edward Joseph Kelly, Senior Analyst, Wells Fargo Securities, LLC, Research Division
- Gregory Scott Melich, Partner, MoffettNathanson LLC
- Joseph Isaac Feldman, Senior MD, Assistant Director of Research & Senior Research Analyst, Telsey Advisory Group LLC
- Karen Fiona Short, Research Analyst, Barclays Bank PLC, Research Division
- Matthew Jeremy Fassler, MD, Goldman Sachs Group Inc., Research Division
- Michael Lasser, MD and Equity Research Analyst of Consumer Hardlines, UBS Investment Bank, Research Division
- Oliver Chen, MD & Senior Equity Research Analyst, Cowen and Company, LLC, Research Division
- Paul Trussell, Research Analyst, Deutsche Bank AG, Research Division
- Peter Sloan Benedict, Senior Research Analyst, Robert W. Baird & Co. Incorporated, Research Division
- Robert Frederick Ohmes, MD, BofA Merrill Lynch, Research Division
- Robert Scott Drbul, Senior MD, Guggenheim Securities, LLC, Research Division
- Scot Ciccarelli, Analyst, RBC Capital Markets, LLC, Research Division
- Scott Andrew Mushkin, MD and Senior Retail & Staples Analyst, Wolfe Research, LLC
- Simeon Ari Gutman, Executive Director, Morgan Stanley, Research Division

Presentation

Operator

Greetings. Welcome to the Walmart Investor Call and Q&A. (Operator Instructions) I'd now like to turn the conference over to Steve Schmitt, Head of Investor Relations. Please go ahead.

Steve Schmitt {BIO 19791185 <GO>}

Thank you for joining us today to discuss our investment in Flipkart Group. On the call is Doug McMillon, Walmart's President and CEO. And Doug is joining the call from India. So please bear with us if there's a slight delay in the audio. Also on the call is Judith McKenna, President and CEO of Walmart International; and Brett Biggs, Walmart's EVP and CFO.

Before I turn the call over to Doug, let me remind you that we'll be making forward-looking statements. You can find our safe harbor for these statements in the investor presentation accompanying this call on our website.

Walmart will release its First Quarter earnings next Thursday, May 17. With this in mind, we will not be discussing our First Quarter results today. We're hosting this call to discuss and answer your questions related to our announcement to invest in a majority stake in Flipkart. We've also put out a presentation with the release this morning to discuss the strategic rationale.

Given various schedules around the world, we're going to keep this call to a maximum of 45 minutes. So I apologize in advance if we're not able to get to everyone's question. The Investor Relations team will be available for follow-up calls. And with that, I'll turn the call over to Doug.

C. Douglas McMillon {BIO 17082935 <GO>}

Thanks, Steve. And hello, everyone. As a company in and around the world, we're taking steps to strengthen our service to customers with increased value, a broader assortment and improved experience while, at the same time, we're taking action to position the company for the future. In other words, we are actively working to shape the portfolio of geographies and businesses we're in, in order to set the company up for success for another generation. If you've been following us closely, in addition to the investments we've been making, you will have noticed decisions to sell or exit parts of our businesses around the world these past few years. There are examples in the United States, Mexico, Japan, Chile and Brazil where we've exited store formats, banks, restaurants and e-commerce businesses. Most recently, we shared the intention to merge our Asda business with Sainsbury's. Doing so will help position Asda for long-term success, benefiting our customers and colleagues in the U.K. as well as shareholders.

Today, we're excited to announce our investment in Flipkart Group. India is one of the largest and fastest-growing economies in the world and represents an enormous market opportunity with 1.3 billion people, strong GDP growth and a growing middle class. We've been operating in India since 2009. And we're very encouraged by the progress we're seeing.

One of the things we're most excited about is e-commerce in India, which we expect to grow at 4x the rate of overall retail. Flipkart is already capturing a large portion of this growth and is well positioned to accelerate into the future. Founded in 2007, Flipkart has led a transformation in India's e-commerce market. They're a homegrown winner with a strong team. Over the last few months, we've gotten to know the leadership team. And we're confident that they are building a business that will scale and last. We found them to be committed, passionate and creative. Their ability to identify and solve problems resulting in an improved customer experience is impressive. We see alignment between Walmart and Flipkart as it relates to our purpose and values. Most importantly, we have a shared commitment to serve customers.

We're also pleased to partner with Tencent, Tiger Global and Microsoft, which will be key strategic and technology partners as we make this investment. The new Flipkart work will partially change in composition to reflect our new structure and be an important ingredient in the future success of this company. This will be a team effort, strengthening existing and building strategic and competitive advantages for the company.

As it stands today, the company is generating losses to accelerate their growth. We understand the dilution impacts our shareholders and have given that significant thought as we contemplated this investment. We understand both the short-term and long-term expectations of our shareholders. When you weigh in those expectations, we believe this transaction is very important to our company for the future. Here's why. Flipkart is large and growing. In the fiscal year ending March 31, Flipkart had annual GMV of \$7.5 billion, representing more than 50% year-over-year growth. Flipkart's number of active customers has also grown 7x since 2014, coming in at approximately 54 million last year. It's also important to understand that Flipkart has built and is building a powerful ecosystem. It's comprised of the following segments. Flipkart, the core general merchandise platform, has leadership positions in some of the most attractive categories in the Indian retail market, including apparel, mobile, electronics and large appliances. Myntra and Jabong come together to form a fast-growing fashion e-commerce platform. This is an important category to win, a positive when it comes to margin mix. And we believe this piece of the company is positioned well with India's growing middle-class and relatively young population. The PhonePe payments business supports the growth and development of e-commerce, delivering innovation to merchants and customers to simplify transactions. This is an important piece of the puzzle when building an ecosystem, helping to deepen customer relationships through more frequent interactions and personalization based on insights in the customer needs and wants. Plus Flipkart's supply chain arm, Ekart, serves more than 800 cities, making 500,000 deliveries daily. At Walmart, we're learning how to build and how to partner and

build retail ecosystems around the world. India will now become a key center of learning for our entire company.

With this investment, we're pleased to be making a long-term commitment to India's future. We believe we can be a force for good in the country as we work to deliver shared value. As we look to the future, we believe this investment will contribute to sustained economic growth especially across India's agriculture, food and retail sectors. Jobs will be created through development of supply chains, commercial opportunity and direct employment. We'll continue to invest in local communities, partnering with kirana owners and members to help modernize their retail practices, supporting farms through local sourcing and greater market access and reducing food waste by improving waste management practices and investing in supply chains.

Walmart is transforming globally to not only meet the needs of customers but to exceed and delight them. New opportunities emerge every day. And we're moving quickly to stay out in front of change. We're harnessing technology, investing in people and thinking differently about how to serve customers. India is a priority market for us. The investment will help us continue to serve our members in India, gain new customers and create more opportunity for our associates.

Now I'll turn the call over to Brett to review the financial implications of this investment.

Brett M. Biggs {BIO 17414705 <GO>}

All right. Thanks, Doug. Good morning, everybody. As Doug mentioned, we believe our investment in Flipkart Group will position us to realize tremendous growth opportunities in India. Over the next five years, India's retail market is expected to reach approximately \$1.3 trillion. And we believe that India will be a top 5 e-commerce market within the next five years.

Flipkart has seen rapid growth over the past several years. And we expect this trend to continue. In the latest fiscal year, Flipkart had GMV of \$7.5 billion and \$4.6 billion in net sales, representing more than 50% growth in both cases. As you likely saw in our press release this morning, Walmart will invest approximately \$16 billion for an initial stake of approximately 77% in the Flipkart Group. This investment includes \$2 billion of new equity funding, which will help Flipkart accelerate growth in the future.

We're in discussions with additional potential investors who may join the round, which could result in our stake moving lower. But we would continue to retain clear majority ownership. The remainder of the business will be held by Flipkart's existing shareholders, including Flipkart's Co-Founder, Binny Bansal; Tencent, Tiger Global and Microsoft. Walmart will finance the transaction with the combination of newly issued debt and cash on hand. Upon closing, Flipkart's financials will be reported as part of Walmart International business segment.

From an EPS perspective, if the transaction were to close at the end of Q2 FY '19, we expect a negative impact of fiscal 2019 EPS of approximately \$0.25 to \$0.30, which includes incremental interest expense related to this investment. In FY '20, as we look to accelerate growth in this important market, we anticipate an EPS headwind in total of around \$0.60 per share comprised of operating losses of approximately \$0.40 to \$0.45 per share. That assumes minimal tax benefit for those losses in the near to midterm. This amount also includes about \$0.05 per share related to amortization of intangible assets and depreciation of short-lived assets resulting from purchase accounting which will only last for a few years post-closing and also includes interest expense of approximately \$0.15 per share.

In the mid to long term, as the business scales and efficiencies are realized, we expect losses to decline and returns to improve. Given Walmart's financial strength, we anticipate the continuation of our current share buyback program while maintaining our strong credit profile. This investment represents a unique opportunity in a market with significant long-term growth prospects. We're investing in a local leader with strong leadership and a culture of innovation and service. And Walmart is aligned with a strategic and committed shareholder group focused on serving customers.

So with that, Doug, Judith and I would be happy to take your questions.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from the line of Karen Short with Barclays.

Q - Karen Fiona Short {BIO 7215781 <GO>}

Just a quick question in terms of the operating losses. So -- and we can all back into what that implies on a monthly basis in terms of operating losses. But wondering if you could just talk to the cadence a little bit in terms of how those losses have kind of cycled like from last year into this year and then maybe talk a little bit about some of the ways you plan to stem the losses in the past taking -- I mean, greater profits, I guess?

A - Brett M. Biggs {BIO 17414705 <GO>}

Hi. Karen, I'll start. This is Brett Biggs. Thanks for joining. The losses that they've had up to this point, while we're not going to get too much into the historical financials of the company and what we'll look at is going forward, when you -- as you said, when you look at our numbers, you can back in pretty closely to where we think the losses will be. We -- as you can imagine, we're going to have to get into the business more; assess what we think we can do with the business, we've done a lot of that obviously before we've signed; continue to learn in the market; and continue to give you as good a visibility as we can going forward. As you know, we typically, this time of year, wouldn't even give any guidance toward next year. And so we've tried to do that

because of this being a unique situation that we'll continue to update that along with our company guidance as we go forward. Judith, do you want to talk about what do you think about the business?

A - Judith McKenna {BIO 4806787 <GO>}

So just in terms of kind of the business model. One of the reasons we've put the \$2 billion of primary in as well is to allow the business to continue to grow for the future. And that's really important in this market. We believe there are synergies that we will bring which, over the mid to longer term, mean that we'll see improvements in the operating model from them. But we're confident that they've got the right strategy. And they're doing the right things. And this is really important to us that the Flipkart team can continue to operate in a way that they have and make sure that the business is successful.

A - Brett M. Biggs {BIO 17414705 <GO>}

Karen, were you trying to ask a follow-up? Go ahead if you'd like to, please.

Q - Karen Fiona Short {BIO 7215781 <GO>}

Sorry, yes. I just wanted to ask, I mean, there's been a lot of kind of commentary in the press about the potential for an IPO down the road as well. Just was wondering if you could comment on that and if that's something that you think is viable and what time line that might be.

A - Judith McKenna {BIO 4806787 <GO>}

Yes. So we're not giving a time line to that. We're just saying that we're supportive of management who would like to see that happen in the future. And there's no time line associated with that at all.

Operator

The next question is coming from the line of Matt Fassler with Goldman Sachs.

Q - Matthew Jeremy Fassler {BIO 1509751 <GO>}

My primary question relates to infrastructure. Can you talk about the company's current distribution infrastructure and the kind of investments that you'd need to make to scale it?

A - Judith McKenna {BIO 4806787 <GO>}

Yes. So they currently have quite a lot of investment already in the infrastructure. One of the things that's great about that business is it has a logistics arm to it. And it's building out. We think that one of the ways that we can help support the business is with our expertise in supply chain and e-commerce supply chains as well as retail supply chains. So that's one of the areas we're looking at. We took into account, as we look to this business, that there will need to be some investment in that area. But we're comfortable that we've got the right level of investment in that.

Q - Matthew Jeremy Fassler {BIO 1509751 <GO>}

And by way of a quick follow-up, globally, you're a big player almost everywhere you do business in food. And Flipkart doesn't seem to have a big presence in food and consumables. Can you talk about your plans for that for that, for potentially changing that in the future? Or do you expect the lines of business to be consistent with where they are currently?

A - Judith McKenna {BIO 4806787 <GO>}

The Flipkart team would say that they believe there is good opportunity with the food in India. And you heard Doug talk about the opportunities for agriculture, for food within the whole Indian economy. So it is one of those areas that we're growing an expertise in. And we're excited about how we can help develop in the future.

Operator

Next question comes from the line of Oliver Chen with Cowen and Company.

Q - Oliver Chen {BIO 15320650 <GO>}

Our question was about the framework around this and thinking about the majority investment versus the partnership and how you approach the priorities there. And as you spoke to the retail ecosystem, what are your thoughts on those synergies and what best practices may be applicable to -- as you think about U.S. Walmart and your overall bricks and clicks and physical plus digital dots?

A - C. Douglas McMillon {BIO 17082935 <GO>}

Yes, maybe, Judith, I'll comment first on the ecosystem. I think China has been quite informative. If you look at how that market has developed and understand the relationship between e-commerce and payment marketplace. And e-commerce and payment. And then look at what this platform represents in India, we pick up a payment business, a margin business, unit payroll that's helpful, an e-commerce business and last mile. And so it really was a unique opportunity to put all those pieces together. And over time, we think they'll be complementary. In the short term, we're raising to build scale. And so we won't necessarily lean into leverage. I think right now speed trumps leverage.

A - Judith McKenna {BIO 4806787 <GO>}

Yes. And Doug, just to return to the point about why it's 77% and how did that come about. One of the things that was important to us here was to have some partners alongside us as well. So having Tencent, Microsoft and Tiger Global, who are already investors in this business, is really powerful in terms of the model that we're creating. When we run through an independent board, we will have to have some Walmart representation on that. But we think that, that structure best will keep the entrepreneurial spirit of this business and help guide it strategically as well.

A - Brett M. Biggs {BIO 17414705 <GO>}

And Oliver, as we mentioned, we still are having discussions potentially with other investors that might come in on the round which will be great. We'll continue to have control. But if we're at 77%, we're happy with that as well.

Operator

Next question is from the line of Peter Benedict with Robert W. Baird.

Q - Peter Sloan Benedict {BIO 3350921 <GO>}

Hey guys, kind of a follow-up to that, just on the potential for additional partners to join. Is that -- from a time line perspective, is that decided upon at closing? Should we expect -- or could there be news on that prior to closing? Just kind of curious how that could theoretically play out.

A - Judith McKenna {BIO 4806787 <GO>}

Yes. So we said we're in discussions with a number of people. We'll see how that plays out. And we'll let you know if there's any kind of updates on that.

Operator

Next question is from the line of Michael Lasser with UBS.

Q - Michael Lasser {BIO 7266130 <GO>}

Can you just offer some perspective on your philosophy about absorbing operating losses from the business kind of beyond the next two years and how you think about the governance structure and its influence on the business between generating growth and building for the future and managing more intermediate-term profitability?

A - Brett M. Biggs {BIO 17414705 <GO>}

Yes, Michael. This is Brett, I'll take the question. As you can imagine, what you just described is a lot of things that we've been discussing as a management team. And we've said that before that these are the kind of things that we've been discussing. And as we went through this process, we're certainly thinking about how to set this business up 10, 20, 30 years from now to be incredibly successful but also understanding short-term expectations from shareholders. And we have expectations of ourselves as well. And so it's really that balance that was a big part of these discussions. We realize from an investor standpoint, in the short to midterm, that the dilution is not insignificant. But when we balance that out with an opportunity to really be a player with an innovative company with 1.3 billion people, we felt like this was the right investment at the right time for Walmart.

Operator

The next question is from the line of Christopher Horvers with JPMorgan.

Q - Christopher Michael Horvers {BIO 7499419 <GO>}

So I had more of a big picture question. As you think about deploying \$16 billion in capital, how did you weigh that versus deploying that in the U.S.? Does it limit your ability to do more in the U.S.? We saw yesterday that the Uber delivery relationship was ended according to the press report. Why not use that capital in the U.S. to shore up same-day delivery? Or do you think you it -- you think U.S. platform is where it needs to be from a last-mile perspective. You generate \$20 billion in free cash a year. So this would seem to limit another sizable capital deployment in the near term.

A - C. Douglas McMillon {BIO 17082935 <GO>}

Yes, Chris, this is Doug. I would say that the plans that we have in place reflects ongoing investment in the United States. And it's not our intention to let the business suffer as a result of investments made elsewhere. But we are being choiceful about resources. I think the announcement in the U.K. is representative of that. So we've gone through and basically continually go through a process of prioritization to make sure that our investments are balanced relative to where we see opportunity, both sales and profit-wise over the mid to long term.

Operator

The next question comes from the line of Robbie Ohmes with Bank of America Merrill Lynch.

Q - Robert Frederick Ohmes {BIO 1541955 <GO>}

Hey guys, another kind of big picture question for you, Doug. Maybe a little more background, a little more on why do this right now. And also, I think Amazon has shown much stronger market share gains the last couple of years more recently in India. And Flipkart's market share gains have been slowing. Does Walmart have a strategy to help Flipkart reaccelerate market share gains in India? And just another question would be does Flipkart bring anything to Walmart's U.S. business or other international businesses?

A - C. Douglas McMillon {BIO 17082935 <GO>}

Yes, Robbie, we like Flipkart's plan and the results that we've seen in the business over the last couple of quarters in particular. And I think it should be emphasized that this is more than just a marketplace business in e-commerce. The logistics capability, the payment capability makes this one unique. And so we feel like that we're going to be able to learn about how pieces of an ecosystem work individually and collectively and take that learning to other parts of the world. And there is a strong tech team here. And I've really enjoyed the interaction we've had over the last few months, including being here this week. And getting to meet them and hear about some of the innovative things that they're doing across the business, in the apparel area as well as in payment and e-commerce. So I do believe that we're going to get learning out of Flipkart that will help the rest of the business. It may also be worth mentioning that for a long time now, we've had tech resources in India. We have a sourcing operation here. So we're really familiar with the country, in addition

to the cash-and-carry business that we operate. And we have seen some great talent. And I expect that we'll see people come out of India to help lead parts of our business as well as tech innovation.

Operator

Next question comes from line of Scott Mushkin with Wolfe Research.

Q - Scott Andrew Mushkin {BIO 7138867 <GO>}

I had a question and a clarification in the press release. It talked about -- I guess, I'd get to the point, are you guys -- are maintaining your credit ratings when you do this? Or are they going to fall? Then I actually have a question. So a clarification and a question.

A - Brett M. Biggs {BIO 17414705 <GO>}

Yes, Scott, this is Brett. As you could imagine, we've discussed this with our rating agencies. And I'm sure they'll be issuing reports at some point. But as we've said, our strong credit rating is important. And we believe with this -- because of what we've done over the last couple of years from a working capital perspective, we started bending the cost curve in the business, we've set ourselves up financially really nicely to do this transaction. I believe our credit profile will remain very strong.

Q - Scott Andrew Mushkin {BIO 7138867 <GO>}

Okay. Then for my question. And we've kind of hit on it a little bit. But I mean, obviously, you guys have done a remarkable job with the U.S. business, at least it's obvious to us. But also, I think if we take a step back, the investments made overseas had generally been a little bit more difficult. And we also see the e-commerce has been losing money for a lot long. And we keep leading to that term. But it really hasn't happened yet. So I guess -- and we look at the numbers, \$28 billion in EBIT in fiscal '14. It looks like it's going to be somewhere like \$21 billion in fiscal '20. I guess, I'm just trying to understand, why not deploy capital into your core business in the U.S. or North America, obviously, Canada and Mexico do really well, too. I'm just trying to understand the philosophy a little bit better because the track record in the core competitive advantages you guys have are really in these super centers in North America or stores in North America. So maybe some comments on that would be great.

A - C. Douglas McMillon {BIO 17082935 <GO>}

I'll go first. And you guys can chime in if you want to. I think, if you look at international business, it's important to remember it's not one business really and evaluate Walmex and Canada, Brazil, independently as you do that. As it relates to the U.S., I mean, it's obviously very important that we win there. And if we were looking at this company with, say, a 3; to 5-year horizon, we would invest in the U.S. and protect the core and maybe consider not doing other things. As I mentioned a few minutes ago, we've got a plan that relates to the U.S. investment. And we're comfortable that we can execute that plan and have a bit of a longer-term point of view beyond 3 to five years as it relates to setting the company up for growth and

profits in the future. And when you step back and look at the world, look at all the countries, their size, their growth rate, their potential, there just aren't opportunities like the one that we're looking at. India, as a country, the growth rate in GDP, the size of the market, the growth of middle income, the opportunity that still exists for the adoption of technology and mobile and then click down to what space would you want to be in, we're retailers. And if you're going to look at the retail space in India, the e-commerce marketplace is the place you'd want to be. And the fact that it's got this fashion business, payment business, logistics business is just an added plus. So if you're thinking 10 years or beyond, you check the box on the country, you check the box on the positioning of the businesses and you check the box on the management team beyond just one person. But a group of people, I think it leads you to a conclusion that this is the right decision to make and to do this now. And we're excited about it. And I think you can continue to expect us to have success in the U.S. at the same time.

A - Judith McKenna {BIO 4806787 <GO>}

Yes, Doug, I'd just add to that, which is we continue to be thoughtful about the choices we make around the portfolio. And the Asda, Sainsbury's decision that we announced last week is a really good example of that, about how we're finding unique solutions around the world to make sure that the capital choices that we make are the right ones overall.

Operator

Next question is from the line of Simeon Gutman with Morgan Stanley.

Q - Simeon Ari Gutman {BIO 7528320 <GO>}

Just a couple of questions, I'll put it into one. First, I think there was an earlier question on infrastructure. Curious if having stores one day and Walmart being able to open stores one day is any part of the consideration. And the second question is, as you've evaluated this decision with the board and amongst yourselves, I wanted to ask about the hesitations you may have had from an operating perspective, not about the losses which you said was a tough decision but just what are the considerations why this business may or may not scale, if it -- the market doesn't scale or if the competitive set, just curious what some of those issues may have been.

A - C. Douglas McMillon {BIO 17082935 <GO>}

Maybe I'll take the last part first. I think we are excited about this management team. And when I think about risks, the first one that comes to mind is we've got to balance the requirement that we will have as it relates to clients, ethics, accounting standards and controls, all the things that as a company we've been doing for a long time in lots of markets and understand that this is a business that's still relatively young and has been focused on customers and, inevitably, there are going to be some improvements that we want to make there, I'm sure, as we get into the business. Doing that, at the same time that you enable the freedom to move with speed, innovate, serve customers, is this tricky balance. And I've been so encouraged by and impressed by what I've learned from this Flipkart team over the last few months

as it relates to problem-solving. They identify customer problems, other challenges in the business. And they innovate and they do it quickly. So part of what we're doing is investing in a country, in a position, certainly, a management team, a leadership team. But we're also investing in a set of creative problem solvers. So it's not just what they've done before but what they will do that causes us to be so optimistic about the opportunity.

Operator

The next question is from Ben Bienvenu with Stephens.

Q - Daniel Robert Imbro {BIO 20333664 <GO>}

This is actually Daniel Imbro on for Ben. First, to clarify the other question. To clarify, you noted the dilution of the transaction will increase in FY '20. Is that just annualizing the FY '19 impact? Or are there more significant incremental investments that you guys will need to make to support this growth?

A - Brett M. Biggs {BIO 17414705 <GO>}

Hi. Daniel, this is Brett Biggs. For the most part, it's the annualization of it. So what you see in FY '19 -- again, we don't know when the transaction will close. But if it were for 0.5 year, that's a half-year number. But we do anticipate allowing this company to continue to accelerate its growth. And we'll be supportive of that.

Operator

Next question comes from the line of Scot Ciccarelli with RBC.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

In today's press release, you commented that, over the long term, you expect losses to decline which, frankly, isn't the same as transitioning to profits. So I guess the question is, is there a general rule we should be using for either how big you think this business needs to be to hit breakeven or maybe how far into the future till the business hits breakeven?

A - Brett M. Biggs {BIO 17414705 <GO>}

Yes. This is Brett. I appreciate the question. So again, as we've been in India for a while, we know the market well, we want to make sure that we allow this business to do everything that it needs to do to grow. The good thing about our business is we're global, there's a lot of different levers that we have to pull and how we balance this out as a company. But we want to allow this as another part for our business to do what it needs to grow. As we go through time and as we go through time as a company, we'll be coming back and talking to you about what our expectations are. And right now going out to next year is what we feel comfortable talking about at this time.

Operator

The next question is from the line of Ed Yruma with KeyBanc.

Q - Edward James Yruma {BIO 4940857 <GO>}

Just 2 quick ones. First, on the \$2 billion that's part of the recap here, is that to accelerate growth? Or is that to kind of offset maybe cash losses in the business? Then, secondly, how important is the physical retail strategy for the market going forward?

A - Brett M. Biggs {BIO 17414705 <GO>}

Yes, on the \$2 billion, again, we want to give them every opportunity to do what they want to do to grow the business. And so it really is to allow them to continue to accelerate what they're doing.

A - C. Douglas McMillon {BIO 17082935 <GO>}

And as it relates to -- sorry, Judith, go ahead.

A - Judith McKenna {BIO 4806787 <GO>}

Yes, sorry, Doug. Just to say from a retail strategy perspective, clearly, we already have an Indian business there with 21 cash-and-carry stores. They've returned to growth recently, opening 5 stores this year. That will continue to run as an independent part of the business. But we definitely see in the future, down the line, that we can use omnichannel experience to see how well we can continue to grow and find innovative ways to serve customers.

Operator

The next question is from the line of Bob Drbul with Guggenheim Securities.

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

Just have 2 questions. The first one is, when you look at -- in the e-commerce penetration as a percentage of total retail in India, the last couple of years, 1.8, 1.8, this year, 2.1, projected to go to 6% over the next five years. Why do you -- why are you convinced that, that's going to triple in terms of penetration over the next five years? Like what's going to change between now and what's happened in the next five years in terms of that penetration rate? And the second question that I have is, can you just talk to like the competitiveness for talent in that market and your ability to retain the talent within the Flipkart organization?

A - Judith McKenna {BIO 4806787 <GO>}

Yes. So just to talk about the kind of the growth there and what that looks like. What we've also got to remember is the absolute numbers in India in terms of the total population as really significant. So those percentages are a lot of customers on the platforms that we are talking about. But in terms of the growth, the information is that we've got a CAGR in retail about 9% over the next -- last 10 years, e-commerce is forecast to grow at 4x that rate. You've got a population where it's becoming increasingly mobile where you've got Internet penetration across the country

increasing as well, it's going to be around about 60% by 2020. It's about 30% today. So all the indicators are there that this will be a market that will accelerate very fast from an e-commerce perspective. Interestingly, as well, if you look around the world, if you take a market like China and you think about, six years ago, in China, that was a cash-on-delivery market. I don't think anybody would have predicted then as to what it looks like today to be one of the most sophisticated payments markets in the world. So we're really excited about what that level of growth looks like and what that will give us. From a team perspective, in terms of retention, it is clearly a competitive market in India. But Flipkart's already proved itself that it's got a great tech team. And Doug's just talked about that in some of the talent that's there. We're excited not only about Binny Bansal who's going to continue to lead as Group CEO. But the business unit leaders as well. And they have a real depth of talent across the business. As you'd expect, we're putting the appropriate retention into place to make sure that people know how excited we are about them continuing in the new business.

A - C. Douglas McMillon {BIO 17082935 <GO>}

It's also exciting dimension as it relates to the IPO that we've spoken about in the future. And I think the other thing that's key is giving them freedom to continue to innovate and lead. If we over manage this thing, that would be the best way to chase off talent. But we're going to be careful not to do that.

Operator

Next question is from the line of Edward Kelly with Wells Fargo.

Q - Edward Joseph Kelly {BIO 21274619 <GO>}

Just 2 questions for you. First, can you take a step back maybe and help us think about the cash flow profile of Walmart right now? You made significant investments in the U.S. business since 2014. But your free cash flow hasn't skipped a beat, if anything, it got better. Now you're selling Asda, which is generating cash, buying Flipkart, it's dilutive. And I don't want to sound short-sighted because I know you're not going to run your business like that. But how should we think about the free cash flow profile over the next two years with no other offsets? Then the second question I have for you, is there any change in how you're thinking about investment in the U.S. business? So your appetite for near-term losses for the longer-term benefit from the outside looking in seems to be growing. Does the U.S. business also need more investment?

A - Brett M. Biggs {BIO 17414705 <GO>}

Yes. You bet. This is Brett, I'll start off. From a cash flow perspective. And you pointed out our cash flow has actually gotten better. So if you look at the last two years and combine the last two years, we've generated almost \$60 billion of operating cash flow. CapEx has actually come down a little bit as we're building fewer stores. We're investing our CapEx differently. But it's come down, actually a little bit significantly over the last 3 or four years. So as we go forward, we're going to balance. Again, we've got a lot of different things that we can do, a lot of different ways for us to balance what we want to do long term with short term and midterm expectations.

And that, as a management team, that's what we spend a lot of time on is making those decisions. From an investor standpoint, what I believe you should be encouraged by is that we are making decisions. There are times today where we're going to make a big investment; there's times we're saying we're going to invest differently or we're going to get out of a situation. I think you've seen us do both of those. And so we're trying to take a balanced approach as we go into the future. Doug, I don't know if you want to talk about the U.S. business, your thoughts.

A - C. Douglas McMillon {BIO 17082935 <GO>}

Yes, sure. I think the U.S. plan continues to include some level of price investments which we manage very closely. You know that we made some additional changes to wages that we shared a few months ago. We'll continue to see that through. No new news as it relates to that. Then as it relates to U.S. e-commerce, if you look back over the last few years, we've been telling you hey, we've got to get our fulfillment centers open, which we've done. We've got to get our e-commerce tech platform in place, which we've done, continues to be enhanced. But it's there. I'm excited about the web reset -- design reset that we did just recently. The other things that have to be done that are not behind us are we've got to have the assortment that customers are looking for. And we've got to be able to deliver it on time when they expect it. And we still have room to improve as it relates to those 2 dimensions. Mark, in the past, has talked to you about our customer value index, habit and delivered are the 2 areas that we're focused on in particular. So we still have an appetite for acquisitions that make sense that help us accelerate on the assortment side, which not only drives the top line but also helps us with margin specifically as we work our way towards profitability in the U.S. e-commerce.

Operator

The next question is from the line of Charles Grom with Gordon Haskett.

Q - Charles P. Grom {BIO 1450381 <GO>}

First, congrats on the transaction. I'm sure a lot went into it. When you think about the benefits from the deal, I'm curious what you think Flipkart can actually bring back to your U.S. business, similar to kind of when you acquired Jet with Marc. Are there any intellectual capital opportunities, category opportunities for the company? Then second, when I think about the deal, how will Flipkart, the Flipkart team work with Marc in the U.S. team? Are they going to be separate? Will they be working together?

A - Judith McKenna {BIO 4806787 <GO>}

This is Judith. So if you think about the benefits from the deal, I think we've outlined what some of the key things around this business that particularly interested us. Not only is it the innovative problem-solving culture that they have. But they do some great work, both in the artificial intelligence space, how they're using data across their platforms. But particularly in terms of the payment platform that they've created through the business called PhonePe. I think all of those things we can learn from, from the future and see how that we can leverage those around the international markets and potentially into the U.S. as well. The business will be run as part of the

international segment. But actually it's an independent part of that, going through a really important board structure. Marc and the team will help provide advice to that. And equally, the team, I'm sure, will spend some time with them over the future. But it's very much a separate business. And we want it to retain that way to keep that spirit of entrepreneurship very clear. Just as we did. And Doug was very clear about, when we did the Jet acquisition as well.

A - C. Douglas McMillon {BIO 17082935 <GO>}

I would just add that Mark has been helpful to Judith, Brett and I and the rest of the team as it relates to understanding the Flipkart business, digging deep into it. He made a trip to India with Judith and I awhile back. He spent time with the Flipkart team in the United States and is supportive of the transaction. But we, Marc and I and the rest of the team, are very clear that we want Marc focused on the United States with the vast majority of his time. Maybe someday, we might involve him in more. But right now, there's plenty to do in the U.S.. And that's what he's focused on.

Operator

Next question comes from the line of Greg Malik with MoffettNathanson.

Q - Gregory Scott Melich {BIO 22796815 <GO>}

I want to follow up on something on the first paragraph of the press release, which was talking about -- or second -- that majority ownership would be key. But also being -- the ambition of being publicly traded or being a listed firm in India. Why is that important? Is it there to help keep the talent and to get it onboard? Is Walmex a good example there? And does that mean that Flipkart ultimately could be a brand taken outside of India?

A - Judith McKenna {BIO 4806787 <GO>}

Greg, it's Judith. Yes, I think you're thinking about that in the right way, which is that not only is that something that the management team there would be very interested in doing. But we also have one of our models of operating around the world, Walmex. And that's proved today an incredibly successful business for us. So it aligns with the management team's ambitions, it aligns with an operating model that we are used to and comfortable with working with. So there's no time frame on that. But I think it is something that, for the future, we are considering.

A - Brett M. Biggs {BIO 17414705 <GO>}

And Greg, I think as you look at the last week now, it's a good example of how the -- it's a good example of how we are thinking about partnerships differently and we're willing to look at different structures around the world.

Operator

The next question is from the line of Joseph Feldman with Telsey Advisory Group.

Q - Joseph Isaac Feldman {BIO 4772233 <GO>}

A lot of my questions have been answered. But I wanted more of a detailed question. Can you talk a little bit about just kind of the financing of the deal and the mix of debt versus cash that you're planning to use? And I know you talked about still maintaining your -- the buyback program. Can we discuss maybe the flow of that, like in how that might look this year versus what you -- we all probably thought it would have looked like?

A - Brett M. Biggs {BIO 17414705 <GO>}

Yes, Joe, I'll take that. As we -- as you think about where -- again, where we've been over the last couple of years, our credit metrics are better today than they were two years ago. And so that's given us stability. And this is a good time for us to do a transaction like this. As we think about share buyback going forward, as we mentioned, we believe we can continue our share buyback roughly as we talked about with you in October and continue to maintain a really good credit profile. As to the mix of debt and cash, there's a number of different ways that this could take shape, as you imagine, we'll do what ends up being the best for the company with that mix of some excess cash that we have around the world, the tax reform now makes it a little bit easier to access than maybe in the past, along with some different sources of debt. And we'll be -- you'll be seeing more of that in the coming period of time.

Operator

Next question is from the line of Dan Binder with Jefferies.

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

I was wondering if you could talk a little bit more specifically about what kind of top line growth you're expecting over the next 12 months. I think you said 4x retail. But I don't really know what that rate is exactly. So maybe a little bit more specificity around that. Then if you could discuss what the greatest sources of losses are in the business and how that may change if the growth rate is either softer or stronger than you expected. Then I have a follow-up.

A - Brett M. Biggs {BIO 17414705 <GO>}

Hi. Dan, this is Brett. So from a growth perspective, we haven't given guidance on that. We did talk about what the growth has been over the last year, around 50% both in GMV and sales. And so we won't be talking about that today. From a loss perspective, there's a number of different things that go into that we won't go in as we won't go into a detailed review of the various parts of the P&L. No different than what you see in most e-commerce companies where they have to make decisions around margin, marketing and other things from an e-commerce perspective and ensure that they can allow the business to grow and get the scale that they want to. So it's not that different from other e-commerce businesses that you would have seen.

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

Okay. Then my follow-up is around how Flipkart distinguishes itself in the market, why do customers shop them. And if you can incorporate into that the level of competitiveness in the market -- I don't know if you want to do that -- relative to the U.S. or some other way that we could better understand what they're up against.

A - Judith McKenna {BIO 4806787 <GO>}

One of the things about Flipkart is it's a local Indian kind of business that's been built from the ground up. And it's incredibly customer-centric within that. And we think that is one of the things that really sets it apart in this market is that it understands its customer, it's built an infrastructure to get items to those customers and, thirdly, the fact that it's building out this e-commerce -- this e-payments platform which connects back into the banking system and allows easy transfer of payments on an open-source system. So we think it's got some key components of the business that come together. And the other part about it is it's got an incredibly strong, growing apparel business as well, which is an important part of the mix for the overall health of the business. So it's got 3 key streams, it's got Flipkart, it's got apparel and it's got PhonePe as well which, together, we think is a unique combination within that market. From a competitiveness perspective, all of the buckets we operate in around the world are pretty competitive. And we've got a lot of learnings from the China market, in different places. But that's why we're excited about Flipkart is because of what it brings to be competitive in that market.

Operator

Our last question is coming from the line of Paul Trussell with Deutsche Bank.

Q - Paul Trussell {BIO 20732173 <GO>}

Just wanted to get some additional clarification on a topic that was brought up earlier. Just as we think about this transaction coupled with what's going on in the U.K., Brett, if you can just circle back and help us understand what the free cash flow profile as well as CapEx, how is that changing as we think about fiscal '19 and '20 versus prior plans that were provided? And lastly, how should we think about the reporting of this segment in the business overall? What type of details will you continue to provide on a go-forward basis? Or how will it be integrated into the global GMV number and other metrics that you all provide?

A - Brett M. Biggs {BIO 17414705 <GO>}

Yes. Thanks, Paul. So from a free cash flow perspective, let me start with that. I've been giving you what we have on EPS and operating income into FY '20 to give you a pretty good idea of what you can expect from a cash flow perspective. E-commerce businesses typically aren't this capital-intensive as you see with brick-and-mortar because of the stores you build, brick-and-mortar, there's fulfillment other things like that. So there's a different profile to those types of businesses and, certainly, we thought about that as we look at our free cash flow profile going forward. We're not going to give any more detail from a free cash flow perspective today. From a reporting standpoint, as we said, it will be discussed within

international segment. And we'll just -- we'll have to make decisions and judgments going forward about how we talk about it. As we always will, we will balance out, ensuring our investors understand what's going on. But from a competitive standpoint, we'll have to do what's right for the business.

A - Steve Schmitt {BIO 19791185 <GO>}

Thanks, Paul. That concludes our call today. Thanks, everyone for your time. Have a great day.

Operator

Thank you. The conference has now concluded. You may now disconnect your lines.

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