UBS Global Consumer and Retail Conference

Company Participants

- Brett M. Biggs, CFO and EVP

Other Participants

- Michael Lasser, MD and Equity Research Analyst of Consumer Hardlines, UBS Investment Bank, Research Division

Presentation

Michael Lasser {BIO 7266130 <GO>}

Good morning, everyone. I'm Michael Lasser, the hardline, broadline and food retail analyst from UBS. We couldn't be more excited to have Walmart with us today. They went to very long lengths to get here. We want to thank them very much for their effort, the largest retailer in the world. And we are super excited to have Brett Biggs with us, the company's CFO. We also have its lame-duck Head of IR, Steve Schmitt.

Brett M. Biggs {BIO 17414705 <GO>}

We won't let him go yet.

Michael Lasser {BIO 7266130 <GO>}

Yes. And it's superstar IR person, Kary Brunner. He's going to soon be the CFO of Sam's Club. But Brett's been the CFO of Walmart since 2016. He's been with Walmart since 2000. He's done a phenomenal job. He's brought about -- he's been instrumental in bringing about change to a company that was thought to be difficult to change. And so there's a lot that the team should be really, really proud of. And so this should be a good conversation.

Brett M. Biggs {BIO 17414705 <GO>}

Thanks. I appreciate it. Glad to be here.

Questions And Answers

Q - Michael Lasser {BIO 7266130 <GO>}

Coming out of the quarter, I'm going to start with a not-so-easy one, the focus was about e-com and a little bit of a deceleration in the e-com growth. It was always clear that the channel was going to slow, particularly after you lapped the Jet.com acquisition. But some of the deceleration tend to be unanticipated. What lessons did you learn from this holiday season that you could apply moving forward, especially as you're looking to reaccelerate the growth?

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

Sure. I'm going to have to start with our forward-looking statements first.

Q - Michael Lasser {BIO 7266130 <GO>}

Please do. We wouldn't want it any other way.

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

Kary put it up. So I wouldn't forget about it and so our attorneys would be happy. So I may make forward-looking statements. As you think about our company, make sure you've looked at everything that's online about us. If you're in the room, you can see the statement. If you're online, you should be able to see it as well. So I love starting with that. It gets the conversation with good momentum.

Q - Michael Lasser {BIO 7266130 <GO>}

It really does. It's a good way to inspire.

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

Yes, yes. So let's get back to -- and I might make -- if you don't mind, can I delay your question just a second and just take a couple of minutes on where I think we are as a company? It was a good year. FY '18 was a good year for us overall. I like the momentum that gives us coming into the year, into this year. And when I think about some things about the year that were important to us and that were exciting, surpassing $500 billion revenue for the first time -- it's an arbitrary number. But I think it's a testimony to what we can do as a company and the growth and the strength of the company. The fact that we, if you take out the adjustments for items, we leveraged expenses during the year, it's been a while since we've done that. So we've started to bend the curve around expenses. I'm excited about that. The comp in the U.S. being over 2% for the year. And I'll talk more about that. But when you look at -- think about the base of our U.S. business, it's over $6 billion in growth in comp. So as we've talked about strong efficient growth, I think that is the definition of strong efficient growth. The e-commerce business, which I'll come back to your question in just a second, if you don't mind, being up 44%. Good for the year. It was less in the Fourth Quarter. I'll talk a little bit about that. Then operating cash flows, we had $28 billion of operating cash flow, just over that, for the year. That's almost $60 billion in the last two years combined. So the strength that, that gives us as we're transforming this company is incredibly important. We are transforming the company. We're changing how we work. We're changing the speed at how we work. We're changing how we take decisions but all within the DNA of Walmart. But we have really unique assets. And when you think about the store base we have around the world, the e-commerce business that we have, Online Grocery, the different ways that we can approach the customer, we're in a really good position and have unique assets. And when it comes to those assets, we want every one of those -- every piece, every one of those assets to be -- to work optimally all the time. But it's more important for us how they come together. And I think that the 2.6% comp in Walmart U.S., which includes e-commerce in the Fourth Quarter, was the best signal of that, that the customer likes what we're doing and that we're able to satisfy that, whether it's e-commerce, pick it up at the curb, pick it up in the store, come in our store, we're there for you. We're taking decisions more quickly. You've seen the things that we continue to do from a portfolio standpoint. So we sold our first-party -- shut down our first-party e-commerce business in Brazil. We sold Suburbia earlier in the year, decided to take some actions on some of our Sam's Clubs. But we're taking decisions. And the tax reform was part of that. So as we came towards the end of the year, everybody started learning more about tax reform. We felt like that was an opportunity to take the pace that we're on, the strength that we have to continue to be aggressive with what we do in our business. And we've stepped back with the team and said, we're in a great place. And let's keep taking actions that benefit us long term. And there are short-term implications to that. We get that. We understand short-term expectations of investors. But we felt like that was the right decision for the company. But I'm as optimistic as I've ever been about where we are as a company. And e-commerce is a part of that. And I'll get to your question now. As we came in -- we talked about on our release that we had planned down Fourth Quarter. We ended up hitting -- total sales, we ended up hitting right where we said we would in October, which is about $11.5 billion in total Walmart U.S. e-commerce. We're a little bit lower than we had planned. There were some promotional things that we had done the year before that we felt like wasn't the right thing to do. This year, from an e-commerce perspective, again, when you look at the total, the total's good and strong. So we made that decision. We're a little bit lower because of some operational challenges, mostly on the fulfillment side and nothing that was major. But as we're growing as an e-commerce company, it's not always going to be linear. We're learning. We're fairly new still as an e-commerce company. So we're going to learn as we go through that. And there's going to be some hiccups. And we had a little bit of that in the Fourth Quarter. But overall, we still feel good about the business. As you look at next year -- Online Grocery has been fantastic. We're continuing to get more aggressive with that. We have 1,100 stores today. We expect to have over 2,000 by the end of the year. That's an important part of how we're serving customers online. So I'm excited about what we're doing in e-commerce and, therefore, the guidance we gave.

Q - Michael Lasser {BIO 7266130 <GO>}

So 2 questions on that. Number one, talk a little bit about some of the promotional changes. And two, you talked about some of the fulfillment challenges. So what lessons did you learn from that, that you can now apply moving forward?

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

Yes. On how we approach the business quarter to quarter, again, for us -- I'll go back to kind of an opening comment. For us, it's the total. How do we want to serve that customer? How does that customer want to be served? At times, there may be times where that skews more toward stores, may be times that skews more toward online. Great thing is when you do both of them and get the parts to work together. Again, on the fulfillment side, we're learning every day. We have 9 large fulfillment centers. There's a number of things we're doing differently. So take -- go back from last year, 2-Day Shipping, Pickup Discount. There's just a number of things that we're doing differently. And there's just lessons you're going to learn as you go along the way.

Q - Michael Lasser {BIO 7266130 <GO>}

Sure. I think heading into last year, heading into fiscal 2018, you had promised that e-com was going to grow north of 30%. Marc was a little skeptical. You had some tricks up your sleeve, like rolling out the Pickup Discount, rolling out the 2-Day. Do you feel like there's initiatives that are on the horizon that could be as impactful? Obviously, rolling out online pickup to -- or grocery pickup to 1,000 more stores can be helpful. But are there other? And if you want to share them, it's fine. It's fine.

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

Yes. I probably won't get into a lot of details, if you don't mind. But certainly, there's always things going on. I mean, Marc and his team -- we had a great e-commerce team before they came. Adding Marc and his team is just -- will take that to a different level. So we're always working on things. Some of the things you will see this year, you've already seen some hints of it at the site redesign. So what we did in home a couple of weeks ago, which we've gotten really good customer feedback, you're going to continue to see the site evolve over time. And as I was talking about earlier just being still relatively new to e-commerce, Marc talks about the CVI, customer value index. And it's how do we do everything better in e-commerce. Having it on the site, you can find it. It's priced right. We can get it to you in the right amount of time. We're getting better at that every day. We're getting better at that every quarter. We're getting better at that every year. So there's some benefit you get from just getting better. We have Store No. 8, where we continue to innovate. And Store No. 8 is where we're thinking three years, five years, 10 years, how is the customer going to shop, how are they going to use AR, how are they going to use VR and, within that, how do we want to push that as a company. So there's some things that we're going to want to own and do things ourselves. As a company, we probably did more of that in the past. Whether it's technology or things, we tend to develop everything. I don't think that makes as much sense as it used to. There's places we're going to partner. You saw that with Google. You saw that with Lord & Taylor. And there's places we acquired. You saw that with Bonobos, with Moosejaw and things like that. So there's a lot of different ways that we can come at how to continue to grow in e-commerce. But things like Pickup Discount, 2-Day Free Shipping, we've talked about being more aggressive with online -- with grocery delivery. There's just always things in the works.

Q - Michael Lasser {BIO 7266130 <GO>}

And you haven't talked much about beyond this year. So I want to fully respect that. There are questions about investment resources that will be applied just moving forward. So without giving us a context of how much or is this the peak operating loss or whatever that is, just give us this sense of where you will be investing, particularly within your -- in your digital business. You mentioned 9 fulfillment centers. Do you foresee the vision of having fulfillment centers across the country or the model will just be different than that?

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

I think it will evolve. Whether it's how you sell or how you distribute will depend some on customers, depend some on competitors. And part of what we want to do is continue to maintain flexibility. I told someone earlier today, the annual planning cycle almost doesn't work anymore. I mean, you've got to be really flexible. And the customer's changing. And that's where you got to start: How do they want to shop? There's a lot of different ways to attack that. We have more levers to pull than some of our competitors. I think that gives us a benefit. We can get aggressive on one area and maybe less aggressive in one area. And that goes with price. We made investment in wages. Walmart's always going to be a leader on price. We're going to be competitive on price. It's a huge part of what we do. We're going to be thoughtful about it, though. We have a group, as you would imagine, that all they do is focus on price. And we're going to be really thoughtful. We're going to be strategic. We're going to be targeted. But I think it's benefited us over the last couple of years. So it's just -- there's a number of different ways that -- where we can come to the same answer. We know we want to win long term. We want to win midterm. We want to win short term. There's just a number of different ways to come at that. And we're trying to maintain that flexibility.

Q - Michael Lasser {BIO 7266130 <GO>}

And I think that's an underappreciated point because one of the messages you offered on -- and thank you for having the call, with your Fourth Quarter was, look, there's a lot of different ways we can calibrate this business, which people don't necessarily expect from a retailer that generates $0.5 trillion. And so another example of that was -- the messages that came out of the call was, look, we're going to emphasize Walmart.com a little bit more than we do Jet.

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

I would say differently. I will say -- no, I wouldn't say it differently. I think you said it correctly. I would say we're going to use it differently when we do Walmart.com. It's an important part of what we do. We're learning more about the Walmart.com brand as well as we develop and we see how customers respond to that. We've got a great core customer set. Adding things like the partnership with Lord & Taylor, Bonobos sort of things evolves in how people think about that Walmart.com brand. It evolves how suppliers and other brands think about the Walmart.com brand. But the Jet brand is -- it's still very important. We knew, coming into acquiring Jet, that it was very popular with millennials, higher income, more urban. That's still the case. And if we -- I got asked a question the other day about how do we -- kind of where do you see Jet ending up. And I don't think there is necessarily -- there's not an ending up. This is always a constant evolution. It's a cycle. It's a circle. And we're going to continue to be looking at the Jet brand, Bonobos, Moosejaw, Walmart, what's the best way to use those brands to increase our sales and make us more profitable over time. That's what we want to do.

Q - Michael Lasser {BIO 7266130 <GO>}

And are you finding that the Walmart.com brand can actually tap into some of those millennials and customers who may have -- it may not have tapped into. But as you add these brands, as you reposition, it's just doing a more effective job at that?

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

Yes. It's kind of interesting, though. The Walmart brand, the Walmart customer, if you took the U.S. demographics, the Walmart customer lays over that really nicely. And Walmart's very popular with millennials to begin with. And particularly, as millennials have kids and want to save money, Walmart's a great place to do that as you're buying baby supplies and other things like that. So there's definitely -- there has been potential with millennials. There will continue to be more opportunities.

Q - Michael Lasser {BIO 7266130 <GO>}

Okay. Some of the questions we're getting from the audience revolve around price and price investment. And I'm not going to necessarily ask you to give us your strategy on where you go from price from here because I don't think you'll tell us but...

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

Well it's nice that you realize that.

Q - Michael Lasser {BIO 7266130 <GO>}

Yes. I've been trained well by your friends over here. But do you see the competition using price as a tool to try and gain share, especially in light of the savings that everyone's getting from having a lower tax rate?

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

Sure. We have great competitors, different competitors in different spaces, different geographies. And I think price -- convenience matters a lot to customers probably today, even more than it did 10 years ago. But price is always going to matter. And the great thing for us is that's part of our DNA to begin with. We know how to do that. We're thoughtful about it. We're strategic about it. And I'll turn the price question back to costs as well. You've heard me talk a lot about costs. And our cost structure today is higher than we'd like it to be long term. And we've made decisions around e-commerce and technology and wages and stores and things where we've taken decisions, where SG&A is around 21% today. We bent that curve a little bit last year. We've said we want to lever again this year. But continuing to get focused on that cost base gives us more feel of how to invest in the future. I think from a margin rate perspective, gross margin rate perspective, over time, to some degree, some of that will be dictated by customers, some of that will be dictated by competition. As a company, we want to ensure we're in the right place to be able to thrive in any kind of environment that we see. And a big part of that is getting that cost base where we want it to be. And we made some investments this year. We made some investments a couple of years ago. But in the broader context, I like what we're doing from an expense standpoint.

Q - Michael Lasser {BIO 7266130 <GO>}

It's interesting you say that because one of the themes that we've heard as we've talked about the pricing question over the course of the last few days with a variety of retailers is are you going to pass along some of the rising wage costs, rising transportation costs and just the cost of doing business going up in the form of higher prices. And the universal answer has been, look, we're going to have to find productivity improvements to offset those indirect costs going up. So it sounds like you agree with that.

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

Yes. I think that's generally correct. I mean, again, all these pieces have to fit together in a way that, for investors, that it makes sense what we're doing. So it's all -- it's part of the equation, for sure.

Q - Michael Lasser {BIO 7266130 <GO>}

Then this topic is very new but is very relevant, on the topic of protectionism and tariffs. And there's thought that maybe some prices will go up as they -- as the increases find their way to finished goods. What's your take on how the market's going to respond to that? I know it's very early. But do you have any initial thoughts or how Walmart's trying to -- contingency plans.

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

I mean, it's really early. It's incredibly short on details at this point. Earlier -- last year, we were talking about border adjustment tax and tax reform. And we were certainly against that. And I'm glad that, that wasn't a part of where we ended up on tax reform. We're monitoring it, just like you and everybody else are. Again, I think our size and our ability to pull different types of levers. And we have different ways to come at the customer, I think, still benefits us versus competitors probably in almost any scenario.

Q - Michael Lasser {BIO 7266130 <GO>}

Yes. A year ago, besides border adjustment tax, we were talking a lot about the hard discounters and the impact they were going to have on the pricing environment. It seemed, at least, that some of the rhetoric back then has not materialized in the way that we thought it would, probably in part because of some of the actions that Walmart's taken. Is that a fair statement?

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

I don't know how to make the link. I mean, we certainly were prepared for the entry of Lidl. They're a fantastic competitor. Aldi's been a great competitor in the U.S. for a long time. So we've known how to compete against the discounters and did in the U.K. We learned some lessons in the U.K. So I wouldn't -- I don't know how to make that direct link. But we're going to be competitive. And we're always going to be tough.

Q - Michael Lasser {BIO 7266130 <GO>}

And I want to dig in a little bit to what you just mentioned about Walmart had some opportunity to improve its cost structure. The perception is that Walmart's pretty lean. Where do you see the big buckets of savings and potential savings? And how do you get at those moving forward?

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

I came to the company 18 years ago. And I think I'd been with the company about a week. And we had this thing called the supplies roundup. And I was like, what is the supplies roundup? And it's like, well, you're going to look through your desk and everything for all the supplies you have laying around, where we get it under one central place. So we can make sure that we have it and we don't need to order more supplies. It's like, where have I come to? This is a really different take on expenses.

Q - Michael Lasser {BIO 7266130 <GO>}

Can I go back to where I was?

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

But a few months in, you start realizing, if I had a business, that's what I'd be doing. I mean, we were maniacal about expenses. And we haven't lost that. I think we've lost some of the edge on that. Over the last year, you can feel it coming back. Earlier in the year, we talked about that we started a more formalized process around zero-based budgeting. And that's just a tool to do what we want to do. But the conversations inside the company have changed. The way we're thinking about working has changed. I'll give you some examples. We mentioned, in October, just reducing the amount of -- the length of a receipt tape, what that can be. And that example is caught -- it's just caught traction inside the company even, where people are like, that's amazing. What else is sitting out there? And I feel like people now are having fun more with, wow, look at what I saved. The stores are getting excited about it. But changing the way we work, we still have more manual processes than we should. And so some of the additional investment in technology is going to be how do we automate more of that. We have a big shared services group that reports up through me. And we, in the past, have taken more of a standard-type approach to shared services. And we want to take a broader view of shared services. What are the things that truly could be shared services globally? But at least, inside the U.S., you saw that some with the way we did back in processing about a year ago. That was a part of the broadening of shared services, goods not for resale. When you have 4,500 stores in the U.S., we don't do as good a job as we should about leveraging the purchasing power of certain types of services and things. There's so many things. And with Walmart, if you can do something that seems fairly small but you start multiplying it, there are big numbers sitting there. And so I'm optimistic. Some of them are quicker than others. Some take -- we talk about change in processing system that takes longer. But I'm excited about what we can do.

Q - Michael Lasser {BIO 7266130 <GO>}

You told me an awesome story about Walmart. Collectively, I think you had 20,000 hotel room nights in Atlanta that...

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

Yes. So part of what we want to do is (air budget). We have good data. But sometimes, getting to the minutia of the data is more challenging than maybe it should be. And as we went through the zero-based budgeting process and started to gather some of the facts about the company, we -- yes, it was actually more than 20,000 nights that we had in Atlanta. And so it sort of starts to make you wonder, well, it's a direct flight from Northeast Arkansas. Why are we having 20,000? And the interesting things you find out are you have a person who's working on a store opening. And they're staying in Atlanta for a long time. So it causes you to think, well, why do we have those many dates? Should we have an apartment in Atlanta? Should we -- but it causes you to step back in the company and go, "Okay, I knew travel was going up. Now I know exactly why travel's going up." And I know, by person, where travel's going up. And it's not a way to get someone in trouble. It's just to say, "Hi. could we do this differently?" And there's just all kinds of examples. And people have gotten excited about that access to the data. And we can make different decisions.

Q - Michael Lasser {BIO 7266130 <GO>}

And it's interesting -- we got a question. One of the areas of competition in the future is going to be how well does each consumer company know its customer. And data will be critical to that journey. Where do you think Walmart fits in, in the need to have data, synthesize data about its customers and use data? And how do you get better at it?

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

Extremely important. People -- we get asked questions a lot about loyalty programs. And we have a Sam's Club membership as part of that model. And we have another that really had a loyalty program per se in the U.S. But customization, that's the key. And so you've seen quite a bit of emphasis from us on Walmart Pay and our Walmart app, getting people to more frequently use our app. And getting that sticky with customers is really important, things like Easy Reorder online that we started last year. So now, when I come back to Walmart's site, it knows everything -- not only by order online but about the store. And so now, when I go online, I know what I bought in the last six months. I just go click, click, click. Totally different experience than it was a year ago. So Marc and his team, things like Store 8, the stores as well, are really, really focused on customization of that experience. And we'll get better. We're early. And that's what makes me excited about it. It's because we are early.

Q - Michael Lasser {BIO 7266130 <GO>}

And do you see that improving at an accelerating pace?

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

It has to. Yes. I mean, the customer wants it. So it has to improve at an accelerated pace.

Q - Michael Lasser {BIO 7266130 <GO>}

We're getting a couple of questions on the supplier inventory world. Can you talk about your inventory reductions? Maybe you cut too far in certain categories, how vendors responded. And how should we think about inventory reduction looking out over the next 3 to five years?

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

Really, really pleased with the inventory performance, particularly in the U.S.. But international made a nice -- made some nice progress this year as well. The amount of working capital improvement, payables and inventory over the last three years has been phenomenal. It's made a difference in how we operate as a company. Greg Foran and I have this conversation a lot. He still goes in stores, where he's like, well, we've got room to go on inventory. I still saw too much in the back room. Part of that's getting the supply chain right. And you've seen we're working with suppliers differently on don't be late, don't be early, be on time. And that helps with our flow and our ordering capabilities. So with data and with partnerships with suppliers, we're getting better at moving inventory. The merchants, category by category, are certainly looking at my in-stock at the right amount. In-stocks continue to improve. We're in way better shape than we were three years ago. And inventory, coming down. It seems -- when you first learn retail, it seems counterintuitive. It seems like if you want to be more in-stock, you would have more inventory. And actually, it's quite the opposite. You want to have the inventory where your associates can find it. Technology's been a part of that. So Greg would tell you there's still more room to go on inventory. I think there is. I think duplicating what we've done over the last three years would be a bit challenging. But there's definitely still room to go.

Q - Michael Lasser {BIO 7266130 <GO>}

And how about the supplier relationship? Vendors. And especially some of the Walmart's biggest vendors, are not having an easy time of it. Did this influence Walmart's ability to maybe support some of the initiatives that it wants to do, either through price investments or having the right inventory at the right time? We also got a question on private brands versus large brands. It all fits together.

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

It fits together. I go back to the comment I made in the introduction of when you're driving the kind of growth we're driving, that's really important for suppliers. Important for us, we tend to be -- their biggest customer, many times, are our biggest suppliers in certain areas. So there's certainly a symbiotic relationship there. The partnership with suppliers is incredibly important. But the ability to get the innovation and the price that we need for our customers is also very important. And given the growth we're driving, we want to ensure that we're getting the best deal for us and the best deal for our customers. So it's always a work in progress. Private label is -- there's much more energy around private label than there was a few years ago. I was at our -- we had our year-beginning meeting with our store managers in Houston a couple of weeks ago. And just -- we have a merchandise floor that's basically set up in a convention center. And just every category you went around to, there was this innovation and energy around private label. We're a house of brands. I believe we will always be a house of brands. And in the past, I think we used private label more as, well, there's just an innovation I'm missing or there's a price point I'm missing, let's fill that hole. Whereas today, I see more innovation on our side, certainly more synergy, more focus. So Sam's Club will be a great example with

Member's Mark, where we had more than 10 brands in Sam's five years, six years ago, when I was at Sam's, towards 1 today with Member's Mark. And it's a huge brand. Great Value is a huge brand. Equate's a huge brand. And you've got to have great quality. One of the things we learned in the U.K. and competing with hard discounters, in particular, is you cannot compete with opening price point. It's not the way to go at it. But if you can have a really good mid-price point and quality, really good quality, think Equate, Great Value, you can really compete. I think customers in the U.S. are becoming more acquainted with private label, more accepting of private label. I'd be surprised if we get to the levels you see in Europe. But they're more accepting in that. And so I think we're taking that more as a way to say, let's give our customers a choice, give them something different. So it's a great part of our offering.

Q - Michael Lasser {BIO 7266130 <GO>}

So give us some sense of the level of energy. You talked about the merchandising setup in this meeting now. How would that have looked maybe a year ago to give us an order of magnitude of the effort and resource that Walmart's putting behind it?

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

It was interesting. I'll go back three years ago. You'd see some private label. And it was good. And we just had a lot smaller team then. Last year, we had a whole section set up. So one section of private label. So you really got a sense of how much private label we were doing. And it was in makeup and it was in protein, apparel. It was all brought together. So it was really powerful. What I sensed this year is that -- so I'll go into an area of the floor. And I know a lot of the merchants, obviously. And they say, "Hi. let me show you some stuff." And there's always a great branded television. And those are fun to see. They say, "Let me show you this thing that we're about to roll out," which I can't talk about theme product. I can't talk about theme product. And they say, "Hi. you guys, come taste this. This is great. You're going to like it." So I guess I just said it's a food product, right.

Q - Michael Lasser {BIO 7266130 <GO>}

We hope it's a food product.

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

Yes, yes. But the quality, hey, look at our packaging. This is what we've done. There was just a lot of energy from the merchants where they're really proud of it.

Q - Michael Lasser {BIO 7266130 <GO>}

And I think we can also get some sense of this from the recent announcement about some of the brands you're launching, (apparel) and ...

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

As I got pulled around the floor, there are some things in food, there are some things in apparel, there are some things in -- I mean, there's just -- it's just across the board. And it's exciting. But at the same time, it's trying to -- you're working with your suppliers that have great products on the branded side as well. And a lot of times, we're just filling in a gap where maybe they don't want to be -- or they just got to work together with the suppliers.

Q - Michael Lasser {BIO 7266130 <GO>}

Yes. There's a few questions. And I think central to the investment debate on Walmart is how does the profitability of this business, especially on a rate perspective, look over time. So recognizing that you're constrained by what's been already put in the public forum, how should we think about the puts and takes? And how can we get comfort that, as a massive retailer facing some rising costs, if only the cost of doing business is going up, then you can see stable profitability over time?

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

Yes. And if you go back to October, we had said that coming into this year, when I gave guidance then, that we had expected our operating margins to be fairly flat, which would imply the operating income going up a little bit if you did the math. So it goes back to decisions we made around tax reform to say we just -- the strength we have and where we're at and we need to keep doing this. And so we gave guidance as good as we could and as transparent as we could that operating margin would come down a little bit. Now operating margin can go down and dollars go up, concerned about rate but really concerned about dollars. And if you think about the old productivity loop. And we still believe in that wholeheartedly, is your rate could come down a little bit. But if you generate more sales dollars, that allows you then to lower prices, to better leverage your expenses. That productivity loop has not stopped inside of Walmart. And in the last two years, I'd say it's accelerated. So even when we gave guidance in October, we gave guidance a year ago, we said there may be a point in time where we decide to do something a little bit different. And that's how I would classify this year as we decided to do something a little bit different and the dynamics of the environment changed a bit with tax reform. Long term, we understand. And we spent a lot of time talking about ROI. It's really important to us. And as you would expect, our executive team, as we meet, spends a lot of time talking about the trade-offs of this initiative versus this initiative, what's the long-term benefit. There are some investments you're going to make that are just not going to have the payoff right away. They're not going to be in the same year and they may not be in the second year. But long term, we feel like if we don't do this, we'll be in a position we don't want to be in. And so the amount of conversation we have about now versus two years from now, three years from now, five years from now is extensive. But ROI is always at the forefront of those discussions.

Q - Michael Lasser {BIO 7266130 <GO>}

And one of the things you mentioned with -- at that time, in the Fourth Quarter, is that you expect the peak margin -- peak gross margin decline to have been that Fourth Quarter and it will get...

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

On an annual basis. Gross margin, quarter to quarter, is -- it's tough for you guys to analyze. And there's a lot of things that go into that gross margin. There's 20 lines that I have in my head that go into gross margin. And quarter to quarter, those can look different.

Q - Michael Lasser {BIO 7266130 <GO>}

What will be the big puts and takes as we think over the course of this year?

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

I mean, price is always going to be a big part of what happens with gross margin. Transportation costs, they were up a little bit. Some of that is -- fuel costs were up a bit. But sales were good. And so that has a bit of pressure. There's other things -- shrink hits gross margin, the mix of your categories hits gross margin. So there's just a lot of different things. And you can sense by the guidance we gave on operating income and the way we talked about leverage that we expect gross margin to be down a little bit this year. But if we keep getting the leverage and able to get the operating leverage that I think we can and should over a period of time, it gives us the opportunity to keep pressure where we want it but still deliver a bottom line that investors can be happy with.

Q - Michael Lasser {BIO 7266130 <GO>}

And you mentioned that, really, the focus of the organization is on the current investment. And one of the vivid examples of that was the decisions to pare back on the Sam's Club store base. Can you talk about the decision? And we have seen better results from Sam's, at least relative to what they've been posting over the last few years. So what do you see as the biggest drivers of that recent improvement?

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

I told Steve to keep that up when it gets over to Sam's Club. It was 10% of our fleet. So it wasn't a dramatic part of our fleet. There were good things that were starting to happen a couple of years ago. I think John Furner coming in and Gisel in operations and Ashley in merchandising are taking decisions, taking quicker decisions, acting with urgency. And the first thing you do -- what you do in a membership is you start with a member, what member, how we're trying to target them, are we focused on that. I think they've really gotten focused around the member that they want to have. Club closures, store closures are really -- they're difficult. They're difficult from an associate standpoint. We don't -- certainly don't like that. And some of them were financially based, where population has moved away from a club. And you have a market where you have a certain number of clubs and you know you can hit the same volume with one less club. So those kind of decisions were made. Every club was looked at. And we talked about, even two years ago, as we've looked at our portfolio globally, even last 2 or three years, I mean, every store gets looked at. And it gets looked at all the time to make sure it's fulfilling the strategy that we want to have. We're not emotional about investments. We are emotional about associates but not the investments per se. And I think you'll see us close stores from time to time. We do internationally. We do in the U.S. And it's going to be a continuing evolution of just how we evolve as a company. We'll open a few, we'll close a few and keep evolving.

Q - Michael Lasser {BIO 7266130 <GO>}

And what -- aside from the store closures, we have seen better results from Sam's. What are -- what have been the critical drivers so we can understand that it's sustainable moving forward?

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

Yes. I do believe it's sustainable. Again, it's getting that focus on membership, with things like paring down to 2 memberships, making membership easy to understand. Now having free delivery for Plus Members, for e-com purchases, bringing the synergy together in the Box, Scan & Go. I haven't checked out in a Sam's in a long time. I mean, I do. I pay.

Q - Michael Lasser {BIO 7266130 <GO>}

Well maybe people are getting nervous with their...

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

With the Scan & Go app, I do pay. But it's just quick. It's easy. And so I think they've actually been on the front edge as a company of what we want to be as a company from a technology standpoint. And so I think the improvement's there. I expect that to continue.

Q - Michael Lasser {BIO 7266130 <GO>}

Why couldn't you roll out Scan & Go in the supercenters -- the Walmart business?

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

Well we haven't rolled it out. But we have -- we do have it in some stores. So the store where I shop. And I'm looking at Kary. Kary, how many stores we have Scan & Go in today? It's more than a handful. But -- what's that? Several dozen, okay. Several dozen stores. And it's -- customers love it. Some of the new -- the 2 really new supercenters that we put in, one in Orlando and one in Houston, the use of that is incredibly high. I've used it. The Walmart environment's a little different because you have weighted produce. You have other things that make the customer maybe a little more leery of Scan & Go. They want to make sure they've caught everything. They're afraid of, "Oh, I didn't scan that." There's -- you have 20 items instead of maybe 4 or 5 at Sam's Club. But they're really starting to get it. And we have handhelds you can use, or you can just use your phone. I use my phone and it's great. So I would -- those kind of things are going to continue to be a big part of what we do.

Q - Michael Lasser {BIO 7266130 <GO>}

And the question obviously comes up about Amazon and what it's doing. But technology and the technology that you're deploying to your stores will be a critical way that Walmart can compete in this ever-so-evolving world where Amazon's having an impact on...

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

Absolutely. If you look at newly remodeled stores, you'll see much more use of Scan & Go but self-checkout, particularly. You'll see fewer manned lanes or lanes with a cashier. But some customers want that. They want that interaction. They may be intimidated by the technology of self-checkout. So we'll continue to do both. But it's certainly heading toward that way. And quite a bit of our inventory reduction, I would lay at the feet of technology that's helped us get there and just making it easier on associates.

Q - Michael Lasser {BIO 7266130 <GO>}

In the last minute or so that we have, I want to talk a little bit about the International business, which doesn't get as much attention. But should we expect any major shift in the strategy you have, making some tweaks to the portfolio? But how should we think about maybe some bigger moves?

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

Yes. I have a new CEO. I've known her for a long time from Asda. She's been with the company more than 20 years, just a great executive, did a nice job in the U.S. The way we talk about International. And I don't see how we talk about it changing, really, is very focused on the North American core. So Mexico, Canada, Central America. Walmex is just one of the best retailers in the world, period. Probably doesn't get the attention it deserves because it's part of such a large company. So we like what we're doing in North America. China and India certainly have the opportunity to be very big growth markets for us when you figure more than 1/3 of the world's population lives in those 2 countries. Those can continue to be big opportunities for us in the future. Then the other countries play a role. We have some countries that are doing incredibly well. And as long as they play a role in the portfolio and they're return-accretive and they're talent-accretive, they can play a part.

Q - Michael Lasser {BIO 7266130 <GO>}

In Asia, you've pursued a bit more of e-commerce-central type strategy, especially with some partnerships with JD. Is that -- should we expect that, that's going to continue to be the approach? And anything you've learned there that you can now deploy to the U.S.?

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

Yes. I mean, how you approach China is how the China consumer wants to be approached. It's a very young culture. I think there are play -- there are things about China retail that are more evolved than U.S., certainly, on the e-commerce side. And so we do learn how e-commerce shopping could evolve over time in the U.S. and particularly how ecosystems are developing. When you look at the ecosystems with Baidu or Alibaba or Tencent. And us with JD, those matter. Those are becoming an important part. Amazon, certainly, in the U.S. And we're developing that ecosystem with -- and to some degree, we think we've done some of the hard parts because we have a lot of stores. And those stores can be so beneficial to us in the future. But when you think about what we're doing with financial services, with our stores, with e-commerce, with Online Grocery, with our app, those ecosystems will be a big part of the future.

Q - Michael Lasser {BIO 7266130 <GO>}

Well please join me in thanking Doug and Brett for what was a really fun and informative discussion.

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

Thank you.