

# Raymond James 41st Annual Institutional Investors Conference

## Company Participants

- Brett Biggs, Executive Vice President & Chief Financial Officer

## Other Participants

- Robert Griffin, Analyst, Raymond James

## Presentation

### Robert Griffin {BIO 18794001 <GO>}

Good morning everybody. Thank you for being here. I'm Bobby Griffin, one of the Consumer Analyst at Raymond James.

This morning, we are very pleased to introduce Brett Biggs, Executive Vice President and Chief Financial Officer of Walmart. Also I want to introduce the rest of the team that's in attendance. We have Chris Nicholas, CFO of Walmart International; Steve Schmitt, CFO of U.S. eCommerce; Dan Binder, Vice President of Investor Relations; and Kary Brunner, Senior Director of Investor Relations.

Before we get started, I'll just quickly remind investors that they can find Walmart's full Safe Harbor statement on the Investor Relation website.

And with that, we'll go ahead and begin. So first, Brett, thank you for your attendance and your long support to the conference. We very much appreciate it.

### Brett Biggs {BIO 17414705 <GO>}

Thank you. It's good to come somewhere warm. Always good timing.

### Robert Griffin {BIO 18794001 <GO>}

Yeah. So, maybe first from an outside perspective, it has been one of most notable changes over the last three years has been the speed at which Walmart is operating at now. The company is clearly playing offense today across multiple categories and geographies. So can you maybe expand upon some of the changes that took place in organizations that enable that and how to maintain that Walmart culture balance with the speed that's going on?

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**Brett Biggs** {BIO 17414705 <GO>}

Yeah, and good morning, everybody. Thanks for your interest in Walmart. As the customer continues to evolve and you look at the evolution over the last ten years, last five years, last three years, as a company really you don't have a choice, but to change and evolve with that. And Walmart has been good at that. If you look over the years, we've led in that, we went into groceries, we went into the supercenter, went into international, but we've always I think been pretty much on the front foot of what's going on.

When it came to eCommerce, to be candid, we said this, we were a little slow to react to eCommerce and what needed to happen. But as we've evolved, particularly over the last five years, I've been with the company 20 years, the ability now to take the assets that we have which are so valuable around the world, the stores that we have, almost 12,000 stores globally, and combine that with which -- with what is now a really large eCommerce business, we think is the winning formula, and being able to combine that and really be the omnichannel choice for customers. This is what we want to do.

So, it's taken a lot of different things. It's taken a structuring differently and you see us bringing together even more the stores business and the eCommerce business with announcements we've made over the last weeks and years. We're bringing those together more, but it's taken a change, not a change in culture, but a change in how we approach the customer to get us to play more offense. But it feels good to play offense, and that's as you've said, that's what we're doing.

**Robert Griffin** {BIO 18794001 <GO>}

So it's maybe pivot a little bit to the current environment in 2020, a lot of news going on. So if you could maybe touch on what you're seeing around inflation, commodity costs, transportation, then maybe the food business? And then, lastly would you touch on the health of the U.S. consumer, you know you guys just recently reported your holiday quarter, we'll go into some of that.

**Brett Biggs** {BIO 17414705 <GO>}

Yeah. So, I'll start with your questions on inflation/deflation. We haven't seen a lot in that area. You have certain categories that inflate and deflate over various periods of time. But in whole, not a lot of -- some of that's due to us in the investments that we've made in pricing over the last several years, we've really been a force of not having I think inflation in the economy, because of the things that we've done.

Certainly I'm looking at reading the same things you are and -- with coronavirus and certainly we're concerned about associates and customers and making sure we're doing the right thing there. When you look at kind of the underlying economy, it still feels good to us and we said that a couple of weeks ago at our Analyst Meeting, inflation is low, interest rates are very low. Wages are good; fuel prices are low. So all

of that pretends to being -- having a pretty good economy, particularly here in the U.S. And so I think overall the consumer feels pretty good.

**Robert Griffin** {BIO 18794001 <GO>}

So, not surprising there's a lot of focus on -- from investors on online grocery pickup its contribution to eCommerce. So, I understand we probably want to put pure numbers around it, but how does the penetration along those grocery pickup looking at second and third year? What you see out of those stores as the comps to come?

**Brett Biggs** {BIO 17414705 <GO>}

You're right that we won't put numbers out there. So good call on that one. As we have stores now into the third year I'm trying -- almost fourth year now under the very early stores that went into online grocery. We still like what we see, when you have an evolution of a growth curve that you typically see with anything new, but those stores could continue to do really well. There's a reason we rolled it out to well over 3,000 stores and we'll continue to roll that out some this year. But the customer loves it.

It's one of those things I was going back to even looking at notes of things we talked about four years ago. We really weren't talking about online grocery at all. This has gone from something we really weren't doing to something that's a fairly sizable part of our business today. So we'll continue to lean into online grocery. We like what we see and the customer loves it.

**Robert Griffin** {BIO 18794001 <GO>}

What do you see from the store when -- you know the stores still get the lift, does the region get the lift? Is it a different basket size? Maybe also pivot a little when delivery is kind of more new than the pickup. So what type of lift when delivery is added to it?

**Brett Biggs** {BIO 17414705 <GO>}

Yeah. It gets a little tougher to read as you get into second, third year, and we also have so many new initiatives going on the stores. It is a little bit challenging to read. We're getting more and more items into the basket and that will be important over the next year or two years as we get more and more general merchandise into that basket. The basket overall is more than two times what we see in the store. So people do stock up when they do this. But as we get -- continue to get more general merchandise products into the basket, we'll continue to do that.

The margin mix is better in that basket, and we've talked about couple of weeks ago at our analyst meeting the merger of our blue app or think about our walmart.com app and our Orange app, the grocery app pulling those together as we will this year will also help the customer, I think, think about us in a little bit different way, make it a little easier for them.

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**Robert Griffin** {BIO 18794001 <GO>}

Yes. So, yes, maybe since we're on eCommerce from a high-level standpoint, you talked about some of the main drivers to improve the profitability of the business. You guys have done a great job growing the top line, and you're starting to make progress on the gross margin, leveraging year-over-year expenses. So maybe talk about some of the big buckets that could move the needle there?

**Brett Biggs** {BIO 17414705 <GO>}

Yeah, it's really everything we've been talking about for the last couple of years that we needed to see take place to be able to have the losses, as we said they would this next year, level out or will be down a little bit. So sales line has been good. We've had really nice growth 35% -- 37% last year, 35% last quarter. So really good growth there.

And if you kind of worked your way down the P&L from a gross margin perspective, which is really important, and think about contribution margin, which is the most important thing to some degree in eCommerce, we brought different brands online, we've added thousands of brands over the last couple of years. It helps with the margin mix. We're having -- we have a better business in apparel and home than we had a couple of years ago. So we have -- we're really good and ahead of the assortment, consumables and food and other things like that. So when you drive the traffic with that, and you can get customers then to buy home and apparel, you mix up the basket differently and that helps a lot with the margin mix and eventually with contribution margin.

Variable cost per order from a fulfillment standpoint is getting better. We're starting to leverage fixed expenses better than we did a couple of years ago that comes with growth. So when you take all of that, the ability to have fewer losses in that businesses is happening and it's happening for all the reasons that we thought it would.

**Robert Griffin** {BIO 18794001 <GO>}

How does advertising revenue and maybe the mix of 1P, 3P play into one of those drivers?

**Brett Biggs** {BIO 17414705 <GO>}

Yes. So, the vast majority of our business has been 1P. Marketplace is a growing part of our business. And what we've announced with Walmart fulfillment services, you'll see 3P become a bigger part of our business. It's important to the customer to have those tail categories out there. And over time, we'll find out what the right balance of 1P, 3P. We'll see what the customer wants, and we'll be flexible with that.

There'll be ways that we will drive revenue differently. As you mentioned, advertising revenue will be one of those things. I mean it's another one where we want to find

the balance of driving revenue, but ensuring that the customer experience isn't good. We want to make sure when they come to our site that they feel like the items that we're recommending for them are the items that should be given to them. And so that that's import.

And -- but we want to find it. We don't want the site being cluttered, we don't want the experience being cluttered, we want to ensure that we're doing the right thing for the customer. And it's -- like most things, it's a balance.

**Robert Griffin** {BIO 18794001 <GO>}

So you mentioned Walmart from fulfillment services, brand new. We've got a little strobe light action going on here to really get the mood...

**Brett Biggs** {BIO 17414705 <GO>}

Yeah. It's -- yeah, I admit that it's a little distracting, but I'm trying to work through.

**Robert Griffin** {BIO 18794001 <GO>}

Just to liven things up here at the institutional [ph] conference.

**Brett Biggs** {BIO 17414705 <GO>}

Yeah. I don't know if there was something new at your conference, Bobby, or...

**Robert Griffin** {BIO 18794001 <GO>}

We'll get some music coming on in a second.

**Brett Biggs** {BIO 17414705 <GO>}

I left up that thing, and things are all changing. Yeah.

**Robert Griffin** {BIO 18794001 <GO>}

But you mentioned Walmart from fulfillment services, maybe talk about that development kind of what spurred that? And how to help build the 3P business? And what those offerings were before?

**Brett Biggs** {BIO 17414705 <GO>}

Yeah, it's a new way to serve another type of customer in effect of the sellers that sell in our marketplace. And so the ability to give them things that are helpful to them. Logistics is something that's been the backbone of our company for so long. We know how to move product. And so it's a pretty natural outgrowth of what we do as a company. And if we can make it easier for sellers and give them an option in a

different place to come, we want to be -- we want to be that option. We know they're looking for options and we think we can be there for them.

**Robert Griffin** {BIO 18794001 <GO>}

So one of the themes from the recent Investor Day was innovation and our continued innovation. It seems like a big innovation around the Walmart app combining the two apps. So maybe can we talk about what's happening there? How that will -- how the customer will see that transition between the regular Walmart app and grocery and the time frame for that to happen this year?

**Brett Biggs** {BIO 17414705 <GO>}

Yeah, we said it will be this year. We haven't gotten more specific than that. But again just how do you make it simpler for customers, having them come in one door, come in another door, we prefer to just have them coming in one door. So for a while, you'll still have those two doors, but it will lead to one door, but we don't want that one door for them to come in, because we think we can help them shop differently. We'll be able to mix up the basket, I think, differently than we're seeing today. So there'll be benefits to us as a company and to you as shareholders, but also more importantly to the customer and just, again making it simpler. Everybody today with as busy they are, they just need simplicity. And we're trying to make sure that we're doing that better than we used to.

**Robert Griffin** {BIO 18794001 <GO>}

It will be a slow roll-out into different regions, or the two apps will be one -- the other for a while, how the customer see on their phone?

**Brett Biggs** {BIO 17414705 <GO>}

It will come together pretty much at the same time for everybody, but there'll be some roll out that I'll just probably not get into right now.

**Robert Griffin** {BIO 18794001 <GO>}

All right. That works. And we appreciate. So recently there has been a lot of commentary news about combining the buying teams and online and moving online closer with the stores, but there's actually been a lot of work done over the last couple of years. So maybe before we dive into the recent news, maybe take us back, talk about some of the integrations taking place already, the benefits you're getting from that integration and some details around that?

**Brett Biggs** {BIO 17414705 <GO>}

The eCommerce group was kept fairly separately -- fairly separate for quite a while. And the reason was to allow it to grow. We needed that business to grow. When you have a big business, but it's inside of a really, really big business, the tendency is for

the really big business to not give enough attention to the growing business and we want to make sure that didn't happen, and I think that didn't happen. But now that we've gotten as large as we have, it makes sense to start bringing some of these things together.

And we've done it where it makes sense to do so, small things that happen. We brought together our financial group even just recently with the stores and eCommerce. So you've had some back-end things going on. How we customer service and some of the things we're starting to come together wouldn't have been as visible. To the customer, just supply chain was the next one that happened last year. And I think the benefits of that are important. And it's -- the real benefit comes from all of us working together to solve the customer problem, not how do I get products from the DC to the store, the DC to the home. It's how do I get it to the customer.

And having one group focused on that, I can see the difference as we have meetings about supply chain or things. I can see the difference in how we're thinking about things. Over time, can you have a supply chain that is power-driven because that's what's going to be to the stores for forever stores and clubs. And then in each has distribution system, which is different, but are there ways to get synergies out of that? We will be the only ones, candidly, I think that will be able to do that, because we're the only ones that really have the scale of brick-and-mortar, and e-commerce to bring that together.

The merchandising announcements recently -- there's some of that going on a little bit behind the scenes as we've had some categories coming together. But I think this is a statement to the company now and to our customer and our shareholders that we are bringing this together in a way that that makes sense. We're going to do it thoughtfully. There's some categories that will be more quickly than others, but this is where the company is going, and the structure many times follows the strategy, and I think that's the path we've taken.

**Robert Griffin** {BIO 18794001 <GO>}

Is the right way to think about it that you know on the core items that are offered both online and the store, you will have one buying team, and then maybe on the long tail items that are only online. You saw some unique eCommerce buying team?

**Brett Biggs** {BIO 17414705 <GO>}

Yeah, we'll still have that for I think a long time that there'll be some categories that you won't buy and scale or that are 3P and your helping sellers do that. So yeah, I think for sure that will happen.

**Robert Griffin** {BIO 18794001 <GO>}

So, maybe let's pivot to the international segment. And over the last few years, Walmart International strategy has really involved. I mean today there's certainly

select countries you want to be in, win in, have a big presence in, it's some that you've taken steps to maybe reduce your presence. So, maybe can we talk a little bit about what the national strategy is today, some of the current initiatives around it and how you view the world and decide which markets you will be in the wing?

**Brett Biggs** {BIO 17414705 <GO>}

So we've an international segment and it's a big business. We've talked about a couple of weeks ago that its fifth largest retailer in the world. We have -- we have a business in Walmex in Mexico that has a market cap that's roughly similar to target. The people just forget about the scale of the business, but it's -- I think, it's a benefit to look at it as a segment, because we do take things and we have learnings from around the world that we use within that segment. But you really have to look at it country by country.

And when you look at the businesses we have, we have some incredible business. Walmex is an incredible business. Canada has been very successful, assets has been successful over the years. Sorry I'm losing microphone, just a little bit there. So all that's been I think well documented. We've talked about that. And then there are smaller markets though where we've had -- we've had really good business, but they're just smaller markets, but we're going to continue to lean into Walmex which includes Central America.

We're going to continue to lean into Canada. China has been a great business for us, particularly Sam's Club, we're having good eCommerce growth in China, and we made a big bet a couple of years ago in India with Flipkart and PhonePe, but we really like what we're seeing in that business. I was over there just a few weeks ago, and really talented team really thoughtful planning processes. They're very focused on top line, but cash flow as well, just really entrepreneurial, love the team that we have over at Flipkart and PhonePe.

And then where it doesn't make sense for us to be long-term. You've seen us take some actions. We've sold our banking assets in Chile and Canada. We sold up most of our Brazilian business. And so we've made decisions. And as a company, we're going to continue to make decisions. We're going to lean in in places that you've been talking to me about online grocery and India and China and Walmex, and there is times we're going to need to lean out of things, and I think we make those decisions more quickly than we used to, and in a more disciplined way than we used to.

**Robert Griffin** {BIO 18794001 <GO>}

Flipkart, obviously, a big bet we were talking about a little bit earlier, but how the team really has the top line focus but also the cash flow focus, the cost focus that really is kind of what you see at the core home office as well. Just maybe highlight a little how the culture is kind of similar in ways around that?

**Brett Biggs** {BIO 17414705 <GO>}



Yeah, it's -- I've been top Flipkart several times. I said I was just there a few weeks ago. And sometimes as the CFO, you don't know if you're maybe the one getting the cash flow discussion, and maybe no one else is. And that happen sometimes. But as I've talked to other people that have gone there, you can tell it's -- just it's part of how they think, and they really do think top line and bottom line, which is why despite the growth, we talked about the losses we will have there this year will be similar to what we saw last year. There's a good discipline, but there is a great entrepreneurial spirit there, very young company, young culture. They're aggressive. But as you walk through their strategy and I spent really a whole day with their different teams, walking through their strategies, it's just very, very thoughtful. It's aggressive. But it's -- we've got to make sure we do this in a smart way, the way that we think about compliance, as the way they think about compliance. And I really, really couldn't be happier with the team that we have there.

And there's certainly things we're going to learn from them. And as I said with the team from PhonePe and what they're doing in India with financial services and other things. There's a lot of things that we can learn from them and not just in financial services, but how they think about the customer is really holistic and they move with pace which we need as a company as well.

**Robert Griffin** {BIO 18794001 <GO>}

So maybe let's pivot a little bit to Sam's Club, a lot of changes have happened in Sam's Club over the last two years around brands, technology. So maybe talk about where Sam's is today, kind of in that evolution and in some of the big change has gotten traffic moving in the right direction, membership moving in the right direction.

And then secondly, are we at the point where maybe we could see Sam's Club unit start to grow again?

**Brett Biggs** {BIO 17414705 <GO>}

Yeah. Sam's has been a real -- real success story really, really over the -- my entire career I spent three years at Sam's. Doug spent time at Sam's. It's one of the best parts of our business. I love my time there, and they've been a real leader in technology for us as a company. And so what they've done with Scan & Go, and with some of things they have been around membership, they're solving customer problems, they're talking processes that used to take members ten minutes and now take 30 seconds. They've done a great job with that and John Furner was a big part of that.

Sam's portfolio in the U.S. and now cap is doing a really nice job there. As far as units, I think we feel good about the units that we have in place today. It's not to say we wouldn't open more Sam's Clubs at some point or it's not to say we wouldn't open more supercenters as well, but we're not opening as many stores as we were as we're just serving customers in a different way. So I think we feel pretty good about the unit count today and wouldn't anticipate that changing materially over time.

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**Robert Griffin** {BIO 18794001 <GO>}

Okay. So one of our favorite topics, I know yours is the productivity loop and SG&A leverage we've talked about almost every time we get to together. So maybe can you talk about where we...

**Brett Biggs** {BIO 17414705 <GO>}

I started smiling when you asked that question. I like that -- I like the productivity loop, yeah for sure.

**Robert Griffin** {BIO 18794001 <GO>}

Yes, one of the last ones. So maybe talk about where the company is today in the Walmart productivity loop? And then when we all got together few years ago, you talked about kind of your expectations? So as a second part, talk about maybe where it was better than some expectations still got some work to do?

**Brett Biggs** {BIO 17414705 <GO>}

Yeah, I'm proud of what we've done around SG&A, and I'm proud of how we've done it. So if you look at what we are now versus three years ago, we've taken the 60 basis points or 70 basis points out of SG&A. Comp sales helped a lot in that equation. So I'm really pleased with the comp sales we've had and that's helped a lot. But we made -- we've made nice progress on expenses [ph]. Yeah, I may go to handheld. This keeps going out. I'm going to turn this off, and then I'm going to go to the handheld.

**Robert Griffin** {BIO 18794001 <GO>}

That's what I talked about. Thank you.

**Brett Biggs** {BIO 17414705 <GO>}

Does that work? All right. Sorry to everybody on the webcast for that rattling around, but I think this will work better. What I'm most pleased about is that we never lost the cost culture. I have people say you lost the cost culture. We didn't. We -- expenses went up for a lot of good reasons, but it wasn't as strong as it needed to be. And today as we have meetings as I go around the world, I feel that cost culture again. But I feel in a different way.

We were always -- go back to the history, we're always pretty good at cutting expenses. And anybody can do that and you can say Bobby, you take 10% out, Kary, you take 10% out. And that's -- it's fairly easy to do that, but it's really short-term and those costs tend to come back. The way that we're managing expenses today through innovation, technology, changes in processes, thinking about doing business differently, I feel good about the sustainability of what we've seen and that's why as soon as we get comp sales where they've -- where we've guided to

getting that 20 basis points of leverage each year feels like something that we can do.

And when you look at the business next year if we hit our numbers would be like 20.6% roughly SG&A versus where we were at almost 21.5% when we peaked. That's a massive difference on \$500 billion business, and it allows us to be as aggressive as we feel like we need to be from a gross margin perspective and we can keep operating margins near where they're at today.

It creates a much different set of options for the company, much different levers that we can pull versus our competitors. And it just sets us up differently. We keep this progress growing and we get to 20%, less than 20%. This is just a really different business that we can run in particularly if we're doing things in a way that makes it sustainable, and I think we can.

**Robert Griffin** {BIO 18794001 <GO>}

And from a competitive standpoint, it puts a lot of pressure, it gives you the great pricing ability to price.

**Brett Biggs** {BIO 17414705 <GO>}

It does and it's given us the ability over the last several years to invest in things that we needed to invest in, and whether it's eCommerce or technology or price or wages for associates, it's just giving us so many options that would have been tougher had we not done that.

**Robert Griffin** {BIO 18794001 <GO>}

Maybe let's pivot to Walmart help obviously very still early on recent couple of units but maybe if we could talk about what the thinking was around that? What the kind of goal would be to bring the services to the consumer and kind of the broad high-level type view of that right now?

**Brett Biggs** {BIO 17414705 <GO>}

Yeah. I got a chance to go to our facility in Dallas, Georgia, which is a little bit northwest of Atlanta, three, four weeks ago, and was really impressed with what I saw. It was fun. I mean going in with again somebody who has been with the company 20 years to see us do something that's -- it's a very tangential to what we do, but it's serving customers in a really different way. And when I think about the mission to save money, live better, that really encompasses save money live better.

And there is things like healthcare where our scale, we can make a difference. There is -- when I go to the clinic and I visited with customers, with patients, with staff, the doctor, and they are excited about what this is. They're excited by the way that patients, customers are responding to this because you can go in and get a teeth

cleaning for really good price, and you don't have to wait, and people maybe that weren't getting that done because they didn't have insurance.

That's cool to be able to do as a company, we're not going to roll out 1,000 of them, like I saw on Dallas, Georgia still little expensive and there's things that we need to work on from a business model standpoint. But we will have a few more in the ground as the year goes along and we're going to learn a ton. But I'm really excited about what that can mean for customers and I think we're one of the very few companies that can help.

**Robert Griffin** {BIO 18794001 <GO>}

What type of response and kind of commentary early on, are you getting from the providers, the nurses, the doctors, the dentists and...

**Brett Biggs** {BIO 17414705 <GO>}

Yeah. The doctor I visited within Dallas, you could tell loved it. He gets to treat patients and spend more time with patients not spend as much time doing paperwork and other things that the doctors don't want to do. That means most doctors to come doctors to help people and heal people. And you could tell that he was excited about that. And so it was fun to see, see how he responded in this case to what we're doing.

**Robert Griffin** {BIO 18794001 <GO>}

I think we have about two minutes left. So we'll end on ESG. And some big focus become even a bigger focus, but some investors -- might not realize the work Walmart has already done around ESG, and kind of the ongoing push. So maybe highlight some of the initiatives, some of the progress the company has made and we can wrap up with that?

**Brett Biggs** {BIO 17414705 <GO>}

Yeah. We're really ahead on ESG, and go back to when -- when lease Scott really kicked in sustainability in 2005. As a company we were challenged reputationally in a lot of different ways. And this was the way for us to change in some ways how people thought about us. Now with what's going on with climate change, and again, the scale that we have, what we've been able to do is fantastic.

If you look at Project Gigaton, which is a project to take a 1 billion metric tons -- I have to remember every time 1 billion metric tons of greenhouse gas emissions out of the environment and suppliers are really on board with us and helping us do this. The fact that almost 30% of our energy now globally is sustainable energy, renewable energy, which is pretty amazing given our scale, the fact that in the U.S. 80% of what we produce as waste doesn't go to a landfill anymore and that continues to grow is pretty amazing.

So I'm excited about the things that we're doing. I think we've only gotten started, and the great thing is, in almost every case, it's good for business. We help the environment, we save money, we save the customer money, it's a win-win-win. And so I'm really proud of what we're doing and I think that our customers and our associates feel good about what we're doing as well.

**Robert Griffin** {BIO 18794001 <GO>}

Great. Well, I think we're right on time. Once again, appreciate you being here.

**Brett Biggs** {BIO 17414705 <GO>}

Yeah. Thanks, Bobby. I appreciate it.

**Robert Griffin** {BIO 18794001 <GO>}

Yeah, absolutely. We'll move to the breakout.

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