Evercore ISI Retail Summit

Company Participants

- Brett M. Biggs, Executive VP & CFO

Other Participants

- Gregory Scott Melich, Senior MD of Evercore ISI, Evercore Inc.
- Unidentified Participant, Analyst, Unknown

Presentation

Gregory Scott Melich {BIO 22796815 <GO>}

So hi, everyone. It's great to be back in the room for our next fireside chat. And it's a great pleasure to have Brett Biggs, EVP and CFO of Walmart. Walmart has clearly been a leader in going into multichannel retail and as a shameless plug of our launch piece last week called the Golden Age of Multichannel. I can't think of anyone better to have than Walmart and Brett representing Walmart here with us today. So everyone, thanks for listening. I think the webinar is live. I get the thumbs up, if that's the case.

And with that, I'm going to hand it off to Brett for some introductory comments. And then we'll start the Q&A.

Brett M. Biggs {BIO 17414705 <GO>}

All right. Great. Thanks, Greg. We've known each other a long time.

Gregory Scott Melich {BIO 22796815 <GO>}

Yes. You can probably think it's too long at this point. But...

Brett M. Biggs {BIO 17414705 <GO>}

So we've got -- I know we've got a forward-looking statement, I think, we're going to show here, may not. There it is. I get in trouble with attorneys if I don't put this up. So --

Gregory Scott Melich {BIO 22796815 <GO>}

Brett, I need new glasses to read this.

Brett M. Biggs {BIO 17414705 <GO>}

Yes. I know. It's possible I may make forward-looking statements during this conversation. So as you think about investing in Walmart, make sure you've looked at everything that we've said and go to our website and take a look at our materials there. So I think I've covered that.

Gregory Scott Melich {BIO 22796815 <GO>}

All right. So we'll get onto this -- so let's get into the fun stuff.

Brett M. Biggs {BIO 17414705 <GO>}

Onto the fun stuff.

Questions And Answers

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

So last night, we heard from Hubert Joly at Best Buy. And we had Bill Lennie this morning with Home Depot. And we're -- I think that there's one theme. It's just how the consumer is changing so fast and how it's not just about your online sales anymore and it's not just about your in-store sales. The consumer really expects multichannel. And they're not going to ask for it. They are only going to go where that's there. So I guess, I'd love to hear in your words if -- what has Walmart really done over the last 5 or 10 years to position themselves to win in this environment, because you guys were ahead of the curve and are getting there, clearly.

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

Yes. It's -- I've been with the company 19 years and maybe as long as I've known you, I'm not sure. It's -- the amount of change over that period of time certainly is enormous. When I came into the company, we were, I think, $160 billion in revenue. And everybody thought Walmart couldn't grow anymore. And now we're more than 3x that size. But for the first 10 years of my career, it was really about rolling out supercenters. Probably even first 15 years of my time with the company, it was rolling out supercenters. And that was a part of the best retail format in the history of the world, because with supercenter that made sense to do that. I think at times that made us probably a little -- in hindsight a little slower than we would have liked to have been, getting to this omni-channel customer and -- but now it's here. You can see it. I think in the last 3 to four years, we've caught up in a lot of ways. And the great thing for us is, what's now become I think increasingly apparent is a store base that's going to be a big, big part of this omni-channel experience and a big part for the customer, where I think there was doubt from folks 5 or six years ago, what about the supercenters? Are they really going to be important? I think, today, it's pretty obvious those supercenters are going to be very important in that strategy. We've got them. We've got over 5,000 stores in the U.S. that are already there. They are running efficiently. And so in some ways, I think, we've done the hard part, which is put stores in the ground. And where we've evolved over the last several years certainly is on the eCommerce side. But as you said, it's not -- you can't be a brick-and-mortar company and an eCommerce company. You've got to be an omni company. And what we've done around Online Grocery, what we've done about store pickup are things in some ways that only we can do at scale, given the assets that we have. That's why I'm so excited. And I think, in the company, we're so excited about what the future looks like, because you can look at today and say, we're $514 billion company. But the growth that I see next 5, 10 years, it looks different certainly in the last 5 or 10 years. But there is a lot of excitement about what we can do. And we've got the assets, we've got the financial firepower to do it. And we've got the will inside the company to do it, got the will with the board to do it. And today, we just move with great pace to go get things done.

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

Maybe it was a sell-side analyst -- I'm not going to name myself. But at some point, maybe we said the supercenter was dead or that it didn't work anymore. It wasn't -- people weren't shopping the whole store. It was too big. It sounds like you've reached the stage now where it's not necessarily a disadvantage anymore to have 3,600 stores in the ground that are that large. Maybe talk to that a little bit is what's changed in those last few years that you can really leverage it?

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

There's always been an element of convenience. Convenience is a big word that everybody uses. Today, it's incredibly important with customers. Price will always be important. But convenience is very important. There is an element of convenience at supercenter. You have 120,000 at least items in a supercenter that I can go pick up today and pick up right now. There is 90% of the U.S. that lives within 10 miles of one of our stores. So the ability to go into our stores or pick up something online on your way home is really easy. It's part of what people do anyway. We're already part of the community. So I think that's a big piece of it. There's an element of convenience. And, I think, it will be there for a long, long time with the supercenter. The ability to get something today in that 120,000 SKUs fulfills an enormous amount of what people need. That's why they developed. When you look over time, there will continue to be products that move more online. I think stores will have a long, long life with certain types of products. That also gives us space, which I don't -- which I think is a positive in that there's ways for us to continue to be the center of those communities that we're in, in those neighborhoods that we're in. There'll be room for services, which gives you potential for other income streams. But really just another way to keep in people's lives. We have the ability to do that whether it's financial services, health care and other things that can utilize the space inside those stores. So over the last 10 years, as we're building supercenters, generally, they've become a little smaller than they were what we were building 10 years ago. But I think that space is going to be incredibly valuable for a long, long time.

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

So maybe juxtaposition a bit, if you think about the main competitor, at least the way we look at it, Amazon's GMV is up to about 7% of U.S. retail. You guys are 10% or 11%, depend how you want to define the market. Advantage you got the space. When you were leveraging supercenters before, you've got the traffic. But then there was a point where you couldn't monetize that traffic. That's -- I want to say it was maybe 10, 12 years ago. Now it seems like -- or I guess, the question is you got the traffic back.

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

Yes, yes, traffic...

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

So if you put on your CFO hat, when can we monetize that traffic? Amazon certainly looks like they've decided to monetize traffic in the last 18 months given the way their margins have exploded through, not the traditional 1P sales. But 3P subscription services advertising. How do you think about, as a CFO, making sure we monetize some of this traffic resurgence?

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

Yes, some of it you've seen. We've made investments over the last, certainly, 3 or four years both on the eCommerce side as well as the store side, to ensure that longer term we can get more productive. In those -- in the supercenters, our associates have better tools than they had 2 or three years ago to better serve our customers. And it allows us to be more efficient within those stores. You've seen us take opportunities to -- we've trialed some things in health care. We have a big financial services business. You've seen us -- you heard us talk more recently about things like ad revenue. That's utilizing the space more on the website actually than utilizing the space inside the stores. But I think we are starting to utilize that. I think there is still ways in which we haven't fully demonstrated what we can do. We're testing a lot of things. We're trialing a lot of things. And you've seen with, potentially -- in particular with Online Grocery, where we -- I was looking at a transcript that I did three years ago at a conference. And we weren't even talking about Online Grocery really three years ago. Today, it's becoming a really big part of what we do. So when we find something that's working, we will lean into it really quickly and put the investment behind it. And we have the financial resources to put the investment behind it.

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

So maybe let's go right to there. We got there eventually. So where are we now today with click-and-collect in terms of number of stores? Does your online customer who I think spends at least double probably the average basket, I'm guessing here -- how does click-and-collect look in that? And how do you really continue to scale and leverage that the way it's really enabled? It seems like it's been a real enabler to reaccelerate eCommerce.

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

And it's been an enabler -- it's been a real halo with our customer. When we started rolling this out -- we're up to a couple thousand stores now, we'll be around 3,000 by the end of the year. When we started to rolling this out, I noticed more comments, whether it was on Twitter or Facebook or in social media around, from customers going this is the greatest thing I've ever seen. And we would get these testimonials then from customers, like, wait, we really have something here with Online Grocery that's hit a chord with that customer. And so, it's grown very rapidly. And we've leaned into that. Now when you lean into things like that, these are the things you say, hey, let's put that on hold. We've got to make -- get this right. And so we've put a lot of emphasis into that. And it's caused the customer to look at us in different way. We've talked about before, maybe even with you, where -- part of what you got to do is make sure is that search goes through someone's head of where am I going to shop? That Walmart gets to the top of that search. And we were always there in the stores certainly. But now with stores, with eCommerce and all the new brands we've put on eCommerce, the partnerships we've done in eCommerce, with Online Grocery, with delivery, we are definitely getting higher and higher on that list with the customers of I get what I need at Walmart. And Online Grocery, I think, has been a real kick for that.

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

So online has been growing 40%, let's say. I can't remember if you guys -- I mean, Online Grocery has been half the growth, give or take.

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

It's a significant part of the growth.

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

Significant part. So what's next after that? In other words, now that you've get people sort of hooked on coming back to Walmart, just to get the grocery shop. But then, like, wow, what's the key enabler? Is it when they have downloaded the app and now it's just that much easier to add 5 more things to the basket? Or is it frequency, which is where you're seeing that customer engaged?

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

It's been a number of things. Once you get on the app, it's very easy to use. There were -- I want to say it was about a year ago, we put in Easy Reorder, which is once you've set up an order, it's very easy, just go click, click, click. That's the same items I want. And I do that. I watch even how my wife shops. In 5 minutes, she got an Online Grocery order ready and goes and picks it up. She goes in our stores still. But not as often as she used to because of Online Grocery. But -- and what you'll see with Online Grocery over time too is we're going to expand that basket. So one of the next legs with that is in every -- probably every time you look at our app, you'll see more items on the site than you would have seen before. And over time, our ability to better mix out that basket from a margin perspective is a real benefit. There's a lot of our competitors that are doing Online Grocery. But we'll be able to mix that basket out much differently than our competitors. And that will be a big advantage. Over time, you'll see us continue, I think, to get more and more involved with that customer in their home. You've seen things that we've tested with Google. You've seen a partnership we did with August Lock on having people go into the homes. We're testing some of that, again, today. We're going to get more and more involved in that customer's life to where they don't even have to think about shopping with Walmart. They're just shopping. And we're keeping them in stock.

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

That's maybe another segue to sort of looking at strategy more broadly. You've done a lot of efforts to shift the global portfolio. Could you update us there in terms of where you are in that process? And are we thinking about which markets to focus on or not and sort of an update on Asda. And what's going on, on that side?

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

Sure. So we've been pretty clear that our -- all the pieces of our international portfolio are important. We're very focused on North America. So they includes Canada and Walmex. And sometimes, Walmex doesn't get the credit it deserves. It's been an amazing success story for the company in the last 20 years, definitely in the last five years and probably one of the best retailers in the world. So I'll put a plug in for Walmex because they are just a great business. China and India will be a very important part of what we do going forward. There's very few places in the world you find 1.3 billion people. And you find that in both of those markets. And we made a big move in India last year and are excited about the opportunities there and what we can do in that market. To Asda specifically, there's not a lot I can say. As you can appreciate, we don't agree with the provisional conclusions that came out from the CMA. Still going through that process. We owned Asda. We own Asda today. And the business is actually performing well. Management team has done well. And we'll just -- we'll keep running it. Keep helping the U.K. customer.

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

You're doing a good job.

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

Best you can.

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

Maybe on that front, with India and then follow-up on China and maybe tariffs, we'll go down that path a little bit. You bought Flipkart. We're now sort of a year into that. Given some of the legal changes in India, what do you wish you've done different, if anything? And where we go from here? I know you talked originally about potentially IPO'ing that business at some point in the future. Does some of the changes there change your thought process on that front?

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

So we've been in India for more than 10 years. And so we've seen regulation changes in India before. Like any other country, you're going to see regulation changes from time to time. What we want is predictability in a market and a level-playing field. That's what we look for in any market that we go into. So that's important. Nothing has changed in our minds about India. The opportunity is there. When you see the increase in online penetration, mobile usage, middle income, all of that was true a year ago. It's still true today. So we feel really good about the opportunity in India. We really were excited and are very excited about the ecosystem that Flipkart had developed. And when you look at companies, ourselves, Alibaba, Amazon, others around the world, they've really developed that ecosystem with their customers. And Flipkart was a great example, one that's really already been put together when you look at logistics and what they're doing in apparel and online and payments, which is a very interesting piece of the business. That was already put together. And we felt like that we can build upon that. So we're excited about what we can do in India. China is a very different market than India. We're continuing to have really good success on the store side, particularly Sam's Club. Sam's Club has done really well in China. It's a great format for us there. The income levels fit very nicely in what we want to do with Sam's Club. Smaller formats over time, maybe something that would be, be interesting there. And of course, the eCommerce business and the partnership that we have with JD. And there's a number of things that we're working on with them. We've taken an interest in JD Daojia, which is the delivery business, which is a big part of what happens in China, as you know. There's a lot of things that we're doing that we're partnering, we're owning some things and just a lot of opportunity in those 2 markets.

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

So that's -- in the markets, there are -- maybe that's a transition to the tariffs. So I'll use the Evercore ISI estimate that about $50 billion of your COGS come directly or indirectly from China. Don't confirm or deny it, you can if you want.

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

I won't.

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

I know you won't. So feel free to just jump right there. But within that grand context, I would say you guys -- so last year, we went from this -- we had the first $50 billion, then next $200 billion. And then had 10%. And we had this discussion last night with Hubert a little bit. It seems like a couple of those leading companies, like yourselves and Best Buy, were quite successful and explained so what this could do to the U.S. consumer, how it could put some real pressure on the consumer from an inflationary standpoint. Could you just sort of update us from that front as to what you've been able to do to help mitigate that impact on the customer? And going forward, where you think the path out of this is? And where do you think -- from your planning purposes, where do you think you're going to end up?

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

I mean we'll confirm. Over 2/3 of our purchases are made in the U.S. So I will confirm it for you. And then we -- the rest of it will be purchased from markets, including China. And particularly when you look around the world, most of our sourcing is done locally because of the big food businesses that we have in those markets. We have been pretty vocal about how we feel about making sure our customers get the best prices. And we want fair trade and we want free trade. We want both of those things. And so, we've had opportunities to say we think we should on those topics. We've been pretty clear that there's -- and you've asked this question a number of times. There's different ways you can manage through that. And our merchants are on top of it. If you look at where you're sourcing, you look at the cost structure of your suppliers and other things you can help them with, to help with those challenges, how do you mix the box differently. And it's very category specific, as you know, as you think about tariffs. So it's tough to have about just kind of a broad conversation about that. Having said that, if we -- if all of the tariffs that have been discussed over the last six months, if they went into place, prices will go up. They're going to go up for everybody. And I think the administration knows that. Where we go from here, I don't know. It seems to change from time to time. You hear the same things I do about what's going on from a tariff perspective. But we want the lowest cost and price we can get for our customers. That's important to us. And we'll -- I think, we'll always be in a better position than some to make sure that's the case. But there's a level of tariffs by which you can't offset.

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

And we're maybe not there yet. But we could be given some of the things that we're throwing out. Is that a fair summary?

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

It seems to change from time to time. So -- and how we get our way out of this is -- to other people, I would say.

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

Okay. Sounds good. Fingers crossed on that. So maybe something that we have another view that's important is the U.S. consumer. So we've spent a lot of time parsing through how the tax cuts, we think, helps retail sales, maybe 50 bps last year. And this year it will be less. So we think retail sales will decelerate modestly to around 4% growth. How have you seen it between the government shutdown earlier, the movement in the SNAP payments coming earlier and now tax refunds, they should be positive. But so far they haven't been. So I just wanted to hear. Real-time, are you seeing a larger paycheck cycle than you did a year or 2 ago? Or is the consumer -- your consumer feeling good right now? Or is there pressures there that we're not fully aware of?

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

Yes. We talked about in -- when we released Fourth Quarter, we had a pull forward in sales into January from the early release of benefits. But overall, the consumer still feels pretty good to us, looks pretty good to us. When you look at -- fuel prices are still in pretty good shape. Interest rates are low. Unemployment is good. Wage growth has been pretty good, particularly, I think, lower income in the last year or so. All of that pretty favorable for -- particularly for the U.S. economy. We still see some paycheck cycle. It's not quite as distinct as it used to be. For one reason, states have changed in many cases how they allocate that. It isn't always in the first of month or the end of the month. It's a little more rapidly spread out through the month. So we don't see that quite as much as we used to. But you still see a little bit of that. Tax refunds, I've been with the company 19 years. I've seen every flow, I think, of tax refunds you can see during that. For us, it's always in the First Quarter and no matter how it happens. So we -- it doesn't tend to impact how we see the quarter. But month-to-month it varies quite a bit. I've seen every different pattern, I think, you can see on that.

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

Have you seen this pattern yet?

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

What's that?

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

Have you seen this pattern where it should be positive but it's not for some reason?

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

I think it does reflect each one of them is -- it's its own unique pattern. But overall, I think, you've seen the same numbers I do. I don't think tax refund dollars are significantly different than they've been. And customers tend to still spend that money when they get it.

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

Yes. So maybe transitioning to a little bit more of the operations of business. Again, put on the CFO hat. You had this nice resurgence of traffic and the customers giving you credit for, I think, really engaging the omni-channel. It has come at a cost where margins, I think, what used to be almost 8%, now they're 5.5%. So help us understand that margin trajectory. I think in your guidance for this year, it effectively assumes flattish. If you think sort of longer term, is that -- have we done enough investments of that? And how will we actually see the turn? And what actually -- will it ever turn if we think about margins over time?

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

Yes. We -- when you think about the productivity loop that we always talk about, rate matters, the dollars matter more. So if I could lower or needed to lower rate in a way that would grow comp sales to a point to where I can grow those dollars more and more, there's typically a trade-off you're willing to make the way that we look at the world. As you said, margin rates have come down. Most of that has been gross margin. But expenses have gone up as well. We're around 21% SG&A. We were around 20% a few years ago. And that's been investments in wages, have been investments in eCommerce, have been investments in technology, all of which I would say we're glad we made. And it's helping with comp. It's helping with traffic. And so, we are getting -- starting to see the payback from those investments. You've seen us talk more about expenses recently. And the reason that is, is we'll continue to make investments as a company. If we can get our expense percentage in line with where we want it to be, it gives us more flexibility versus our competitors to make decisions from a margin perspective. I believe gross margin, over time, to some degree, gets determined by competitors -- and the market and the customer to some degree will determine what your gross margins can be. We have some -- certainly some flexibility on how we invest in price, how we mix up product, all of that. So we can manage that. If you get your expenses in line, it's a different level of ammunition, potentially than some of your customers have to make decisions. And so, that's why we've gotten more focused on expenses over the last two years. But we're attacking expenses in a really different way. In the past, it would have been pretty typical. Let's cut here, here and here, this peanut butter type approach to expenses. We're taking a much more automated approach. So how do we automate? How do we change a process in a way that's sustainable? Because if you go, make those cuts in a peanut butter approach, they don't work. They're not sustainable. And they come back. Sometimes, they come back more than they were -- you get more back than you cut. And that happens. The way we're trying to attack expenses now is very different. I brought in somebody under my team a little under two years ago to lead this cost transformation. And while it's really -- I mean it's really embedded in each one of the businesses. But centrally looking at making sure we really can get our data in a way that gives us a better way to make decisions. How do you get coordination among the company? How do you get more visibility to the executive committee to say, okay, we're saving $20 million here, let's get that $20 million up the executive committee. So they know where to spend this. So if I save $20 million in a certain part of the company, we don't necessarily need to spend that $20 million back in that same part of the company. We may want to spend that somewhere else. And today, because of what we've done, we have better visibility to be able to make some of those decisions. So I feel better about the sustainability of it.

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

And as you roll that up, is it fair to say that in the world we're living now and as omni-channel continues to grow, that more investment would come in the P&L as opposed to traditional CapEx or working capital? Maybe that's the transition we think about the pieces. Or am I little too far?

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

Well CapEx is lower than it was 3 or four years ago. 3 or four years ago, it would have been $13 billion, even $14 billion, $15 billion of CapEx. Now at around $11 billion. So it has come down CapEx -- type of CapEx has changed dramatically with much -- many fewer new stores. So some of it -- it's probably a little more P&L focus. And even on the CapEx side, I think you tend to usually -- I get question about depreciation, is you have shorter-lived assets and so that does impact depreciation more quickly than it does in the past. So there's some of that as well.

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

So I think, maybe going forward, we tend to focus on -- the market tends to focus on the next quarter or this year. And I'll say, your EBIT margin's coming down. But it feels that your CapEx has come down at the same time. So maybe asked another way is that how do you feel about the ability to keep generating $15 billion, $20 billion of free cash flow?

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

That's where you go with cash flow, right?

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

Yes.

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

Yes. The last 3 or four years, we've taken out over $10 billion of working capital, which has helped certainly with that number on the operating cash flow side. I don't know if the opportunity to drive that much in the next few years is there. But we're continuing to drive pretty good progress on working capital. Our CapEx has been pretty steady over the last few years. And so, I think, a steady number on that free cash flow line feels good. I don't know exactly -- I wouldn't come out and say what that number is. So it depends some on working capital.

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

So the $11 billion feels good. What is the mix now versus 5 or 10 years ago as you were just...

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

Yes, dramatically different, even three years ago. I want to go back to FY '15. We were spending over 70%, I think, on new stores. Roughly 2/3 on new stores and clubs. Today, it will be less than 20%, new stores and clubs. So much more on technology, much more on supply chain, eCommerce. But also on the remodels. We're spending more and more on remodels. And I wouldn't -- and not in the classical way you think about remodels. It's certainly going to make sure the stores are in good shape. But the focus on customer-facing initiatives, how do we use the stores differently, how do you allocate more space to pick up things like that as we go and remodel the store. It's much more customer facing, I think, than just how you would typically think about a remodel.

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

Well I guess the -- it all becomes intertwined, right, because if you're investing in eCommerce and eCommerce is multichannel, then a remodel that click-and-collect, like where do you put it?

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

You've got to increase Wi-Fi in stores. You've got to make sure you're doing it, because when you walk around a store, you see people -- how many people are on their phones doing different things. You need the Wi-Fi bandwidth to make sure they can come in and enjoy themselves while you are in the stores -- while they are in your stores.

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

Do you think that balance now is sub-20% on sort of classic new stores, is the right sort of selling level or where do you -- if we're going to see it fade to 10% or is it...

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

Most of new store growth we have today would be in Mexico and China to some degree. When I say Mexico, Central America included. So it's smaller stores for one. And most of those markets other than Sam's Club is in China. I do think it could end up being a little bit lower than that. We're basically not opening new stores in the U.S. for the most part. And that's where most of the capital was going.

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

Got it. So if we think about the priority of using the free cash flow. So that's the fun part. Could you sort of rank the hierarchy of needs? And so how you and the board and management are thinking about allocating that?

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

I'll start back on operating cash flow, if I can, as that -- the last is on CapEx. Wherever we think we can get a return on investment over a period of time that makes sense, we're going to do that first. We're going to invest in the business. So whatever that number -- we think that number needs to be that we can get a return on, that's where we're going to start. We're very committed to our dividend, 46 straight years of increases. Now as we retire a few shares, actually that number in the dollar basis doesn't go up. It actually stays about flat. I still feel good about our share repurchase program. And that's kind of how you go from operating cash flow down to free cash flow. I still feel good about our company. I feel good about the value of the company.

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

On the acquisition front, you've obviously got a lot.

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

Couple of big ones.

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

A lot to digest just recently, the largest in history last year. So do we -- if something made sense, would you do that again or are you willing to let leverage go up? I mean, you guys have always run a very conservative balance sheet. I mean, do you have a debt-to-EBITDAR target or any sort of other metric that we should think about that you're trying to run the business around?

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

We look at all of those things. We've been very committed to our AA credit. It served us -- have served us well over the years for sure in the way that we borrowed even to fund the Flipkart deal, which showed the great strength of our balance sheet. We're going to do what's right for the business long term. And I think in those decisions, you balance the benefit of what you would be buying versus any detriment you would take from a downgrade in your credit rating. But it's -- we feel good about that AA rating. But we're going to do what's right for the business long term.

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

Maybe I'll tie it together with one last strategic question. I want to make sure the audience has a few. If we think about how that capital has been allocated and there's been that shift that we've had. And we've done the M&A. If you think about some of the actions others have taken in the last few years, I'm thinking Amazon in particular, would you consider acquisitions even in the home market of a traditional retailer? Is that something that maybe the -- legally we thought would never be allowed. But Amazon was allowed to buy Whole Foods. So maybe that is allowed or is it just -- it's just not even a priority given all the other things you could do with your capital?

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

Yes. I don't think you ever say never. But we feel good about the store base that we have in the U.S. What you've seen us spend more time on and more resources on recently, put Flipkart aside because that was another country. But in the U.S. specifically been more capabilities, Even Jet to some degree was -- as a website, there's a lot of capabilities, technology involved in that. You've seen us partner. When you start -- Greg, when you start following the company, we bought 100% of everything. That's what we did. We like to own everything. And today, we're much more open, a few minority ownerships, partnerships. And as you think about where we go in the future, there's always -- we have to sit back and say, what I want to own, what's really important that we own? Where can I partner? Where can I take a minority interest? And to some degree, it's how can I speed up what I'm doing? What's the best way to speed up what we're doing?

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

So it's really capability. It doesn't need a huge -- a big balance sheet. It's basically we're doing something, we see we need it. But we can get there faster if we add this on...

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

I think it looks more like that. I said never say never on what we wouldn't or would do. But capability is probably a better way to look at it going forward.

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

Yes. That's great. So we'll make sure we leave some time for questions for the audience. I'm sure we'll have found that there is a microphone to walk around. That will be great. And if -- so, Mike, you're there. Anybody raise their -- so this -- when we webinar, sometimes people are real shy. So we have one question.

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

Usually the first one is the tough one.

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

Yes.

Q - Unidentified Participant

The investment in the grocery pickup. In the first go around, are you giving yourself enough capacity to sell general merchandise?

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

From a storage capacity standpoint?

Q - Unidentified Participant

From a storage capacity, what you're doing to the storage now? Do you have to make another round of CapEx in order to get the mix to more general merchandise?

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

It is interesting when you -- typically when you start out something -- and the good thing for this is that it's exceeded our expectations. So there are some places, particularly in the initial stores, where we've had to go back and retrofit some things to be able to do -- not only do what you're talking about. But handle the capacity of what we're doing. But it's not incredibly capital-intensive to go do that. The good thing is we have a lot of space. And in some -- and a lot of stores, it's not that difficult to move space around, move a wall here or there. So I wouldn't anticipate a great deal of capital because of that.

Q - Unidentified Participant

Is it an operational hurdle then in general merchandising the basket?

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

Yes, I wouldn't call it a hurdle. But it is more about how you pick the product. And for instance, one would be apparel. To make sure you're -- what you're showing online and what's actually in the store, size and color, apparel is a little more tricky than some. But most of what we do is lightbulbs, screwdriver, golf balls. It's not that difficult to pick. You just have to go to different parts of the stores. But we're putting in -- we've been putting in a lot of technology and we'll continue to do that to make that picking...

(technical difficulty)

That's one of the things you want to do from a profitability standpoint on picking. It's just making it more and more efficient for the personal shopper to do that.

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

Does that end up adding more labor to the stores or basically there's so much productivity going on now that it's just a reallocation of -- I mean I'm just...

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

It's more of a reallocation. We've taken -- because of technology we've put in the back end, you've seen some of that. And in the front-end, we have fewer people in the back-end and fewer people in the front-end. If you go into a Walmart store today versus 3 or four years ago, you will see more people on the floor. You will notice this. And so, to some degree, it has been reallocation.

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

Interesting. But they are in the middle picking stuff or...

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

Well some picking but some helping customers as well.

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

Right, helping customers. And the self-checkout trend -- have we gone as far as we can go with that or is that...

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

It's hard to say. I don't think so. When I look at what's going on at -- particularly at Scan & Go at Sam's Club, that continues to ramp up. So customers like it. They like -- the balance is trying to figure out what the right mix is. For each store, it's really different in how customers use this. So making sure you have enough lanes. If they don't want to use self-checkout then they can get to the lanes. And those lane lines then don't become too long because it forces all the complicated baskets or the bigger baskets into the lanes. You just got to make sure you got the staff right. Each store is really unique.

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

Maybe I'll just keep following up on that. The Scan & Go reminded me of Amazon Go. So there maybe sort of a push in that direction. What have you guys done on the front of that type of store and tested and piloted it? Like, where do you think where it works and where it doesn't, given your experience there?

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

We have a test store that we have right now with Sam's Club, actually in Dallas. I was in Dallas yesterday. So we've been doing some of this as well. Think limited is really limited assortment, low traffic stores, certainly easier to do something like that, to drive the amount of traffic that we drive in the store. I think you continue to see more and more move towards that, towards customers can come in and get what they want. The higher the SKU count goes, the more -- and the more you have variable weight products and things like that, the more challenging that...

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

It breaks down, right.

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

It's more challenging. Scan & Go is a perfect fit with what you do at Sam's Club, limited SKU environment. I love it. I go and SNAP 2, 3 items out of the club. Supercenter, we had -- at Scan & Go, we're still doing some things like that. And people ask, have we quit doing Scan & Go? No, you try things, you learn, you adjust. At some point, you'll see something like that at Walmart as well.

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

Great. Anything -- Mike, why don't you -- you look like you wanted to ask one?

Q - Unidentified Participant

So just from a margin rate perspective, Brett, maybe you could talk about some of the key kind of driving variables there and just the way that we ought to think about those things that could either cause EBIT margin to go up or down, especially in the core U.S. business?

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

Yes, sure. Gross margin rates -- it's a really difficult discussion at a macro level because it's so category specific and there's so many pieces of that. You have transportation expenses, which have been challenging over the last year. It feels like that's starting to settle down a little bit. I'll go back to how I answer the question on expenses a little bit, probably which is, if we can get our expenses to where I think we should get them, it gives you more room on the gross margin line to do what you need to do. We're very thoughtful about price investment. We feel good -- in general, we feel good about our price gaps. We didn't feel as good about them three years ago. We've invested a lot. And we feel pretty good about price gaps. So we're going to make sure we're very strategic and thoughtful about that. You can invest in price and just keep investing in price. We want to make sure we have the right price for our customers. But we're going to be really thoughtful about that. That is smart for our investors as well. But getting expenses in line to be able to do what we feel like we should and need to do from a competitive perspective on the gross margin line is really important. The mix of business between traditional eCommerce-type categories and what you do in the store makes a difference, although I think those margin mixes will evolve over time. In eCommerce, you've seen us doing more in the store, in home and apparel. Home and apparel have really good margins generally. And so try to mix it out differently that way. And you've seen companies we've acquired as well as the brands we've tried to get on our sites have been more in the home and apparel lines. So there's just a lot of different things that we can do. And the great thing about our box is having 120,000 SKUs, we have a lot of different ways to mix out that box and the site. When I say the box, the site as well. But some competitors, I think, don't have the ability to do that because they just don't have the assortment we have. Does that make sense?

Q - Unidentified Participant

Yes.

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

Okay, Brett, thanks very much. As you think about the longer-term model and the balance between, kind of, SG&A leverage and gross margin, just holistically when you think about the business, what are you kind of -- what line are you managing to? It seems almost like there's a lot of opportunity for yourselves to manage to the top line by reinvesting any sort of SG&A leverage over a longer multi-year period to kind of continue the momentum that you've seen and the share gains that you've seen?

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

It's a balance. We -- the executive committee. So Doug and his direct reports, most of what we spend our time on are making strategic choices, where do we invest, the P&L as well as CapEx? When we have those discussions, the P&L and the balance sheet are sitting right there along with ROI and other things as we try to discuss that. And you've got to look short term as well as long term. Top line growth is really important. And it just drives efficiencies in your business and it drives stickiness with the customer that we need long term. That is a true sense of the health of the business. But we have to do it in a way that's smart. Where we find things that are working, like Online Grocery, we really, really need to lean in. And you'll see us lean in more quickly than we have in the past. You'll see us scale things more quickly. I think you'll also see us stopping things more quickly than we used to. When something is not working, we'll stop it quicker than we used to because we need those dollars to fund what we really want to invest. The challenge with the company a size of Walmart is you can be investing $30 million here, $40 million here, $50 million here, $60 million here and you can really add up over time. And I think we've gotten better about -- because of all we have done with cost transformation, look at those pockets and say, we're not doing that anymore. It's not important. But we are going to do this. This is going to grow top line. We can do some other things that will help us on the bottom line. And we know, particularly -- I know in my role, we've got to balance this in a way that when we come out and give you guidance for a year, that it makes sense to you. You understand what we're doing and that the balance is right.

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

I think that's the right note to end on. So Brett, I really appreciate you finally joining us here. We'll see the store later. And we'll see all those magic in action. Thanks a lot, thanks for coming.

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

Thank you.