Thank you. Good morning, and welcome to Walmart's Fourth Quarter Fiscal 2019 Earnings Call. I'm joined by Doug McMillon, Walmart's President and CEO; and Brett Biggs, Executive Vice President and Chief Financial Officer. In a few moments, Doug and Brett will provide their view on the fourth quarter, our outlook for fiscal year 2020 and discuss progress on our strategic initiatives. That will be followed by our question-and-answer session.

Now before I turn the call over to Doug, let me remind you that today's call is being recorded and will include forward-looking statements. These statements are subject to the risks and uncertainties that could cause actual results to differ materially from these statements. These risks and uncertainties include, but are not limited to the factors identified in our earnings release and in our filings with the SEC.

Please review our press release and accompanying slide presentation for cautionary statement regarding forward-looking statements, as well as our entire Safe Harbor statement and non-GAAP reconciliations on our website at stock.walmart.com.

It is now my pleasure to turn the call over to Doug McMillon.

Doug McMillon

Good morning, everyone, and thanks for joining us today. We're encouraged by our performance for the year, because we believe our customers are noticing our improvements but we continue to see many ways we can serve them better.

We're even more convinced they want us and expect us to bring our stores and eCommerce business together, an additionally connected seamless way that make shopping easier. We experienced a favorable economic environment in the U.S. for much of the year and our associates made a lot happen to draw the strength of our results. Brett will go into more detail on our results shortly.

I am particularly encouraged by our sales results in the quarter. In Q4, Walmart U.S. grew comp sales 4.2% excluding fuel, eCommerce sales increased 43% and we gained market share in key categories such as grocery and toys, according to Nielsen and the NPD Group.

Sam's Club finished the year with another strong quarter with comp sales growth of 5.3% excluding fuel and tobacco. And in international, comps were positive in the majority of our markets. Strong top line results allow us to reiterate the FY'20 sales and profit guidance we gave in October, even as we landed FY'19 ahead of where we expected.

We strive to make every day easier for busy families as we increase convenience and save them money and time. Part of our strategy is to build on our existing strengths, such as having a broad assortment including fresh and perishable foods within 10 miles of 90% of the U.S. population.

Our stores and clubs are becoming more digital and we're using technology to change how we work. More customers can now access our brand through multiple channels and it's important that we engage them in different ways. We've learned that those customers who shop with us, both in stores and online, spend about twice as much in total and they spend more in our stores.

Across the business, you can see examples of how we're meeting the changing needs of customers and delivering solutions that are increasing customer engagement. In the U.S. we offer grocery pick up at more than 2100 locations and grocery delivery at nearly 800 locations, which represents about 69% and 36% of the population respectively. Feedback from customers about these services continues to be very positive, which speaks of the capabilities of roughly 37,000 personal shoppers.

In Mexico, we're delighting customers with new experiences such as a secured digital payment option. It's available on their mobile phones and in-store kiosks that offer a broad assortment of products with flexible pickup times. In addition, through our investment in the crowdsourced Delivery Platform Dada-JD Daojia, customers in China get their merchandise in less than an hour of placing the order and it's picked from a network of more than 280 locations.

We continue to build trust which we believe will become even more of a competitive advantage. Around the world, Walmart plays an important role in the communities we serve by using our scale for good. Whether it's our work to promote small businesses and local farmers in places like, India or a larger scale initiatives such as our effort to double our use of renewable energy in U.S. by 2025. Customers can feel good about Walmart. The company that starts everyday with a goal of earning their business.

It's nice to be recognized for the work we're doing to promote shared value. In fact, the company recently received an A minus rating on the CDP's annual environmental scorecard, up from a B rating last year. And we're ranked as the survey's top-performing U.S. based food retailer.

Shared value is an important concept and something that we have fully embraced as we think about how to best allocate our time and capital, deliver strong efficient growth, reduce costs and operate with discipline. Within this construct; customers, associates, communities and shareholders can win.

Now let's move on to highlights from the year for our operating segments. I'll begin with Walmart U.S. where the team had a great year. Comp sales growth of 3.6% for fiscal year 2019 exceeded our expectations. The work that team has done to balance inventory levels within stock rates is impressive. The team leveraged operating expenses overall, even as we invested in wages, training, technology and eCommerce.

Store level productivity is strong, due in part to the training we are providing our associates. As the nature of work continues to change, we're innovating to empower associates to better serve customers as they develop new skills, thriving their jobs and growing their careers. This coming year, we'll add new ways for associates to better manage their schedules and earn greater incentive payouts and will introduce new training options including through advances in technology and the gamification of educational experiences.

Overall I'm pleased with what I see operationally and with our merchandizing. The investments we're making in our people, remodels, and technology are helping to ensure that our stores are easy to navigate, fast, friendly, and fun to shop. Having a great store or site starts with having great merchandise. In our stores, you can see the quality improvements in fresh food and in apparel with our new private brands.

We're also doing well in our seasonal businesses and toys. We are making progress in eCommerce. Our focus remains on earning repeat visits and strengthening our assortment of merchandise. We're expanding our assortment, improving search enhancing our website and executing better on the fundamentals such as product reviews, inventory mirroring, and on-time delivery to accomplish this.

And of course, we remain committed to providing a superior value proposition as we compete aggressively on price across a broad spectrum of products. Sales in eCommerce increased 40% for the year. We will continue to play off and innovate as we shape the future of our omni retail. This includes the expansion of innovative services like online grocery pickup and delivery.

Our previous investments in fulfillment centers and systems, plus our acquisitions are helping us drive strong sales, but we need to make more progress to improve profitability. Our fulfillment shipping costs were improving as we continue to enhance our assortment, repeat visits should increase and contribute to improved profitability.

We might get progress during the year to add more brands and exclusive items through new partnerships with Lord & Taylor, Ellen DeGeneres, Advance Auto, Sofia Vergara, and Fanatics to name a few. These initiatives are contributing to the improvements we see in key metrics like the customer value index, as well as NPS which is now more than 10 points ahead of last year. Many opportunities exist, mainly driven by data and we'll look to leverage our unique assets and capability better, than we do today.

At Sam's Club, the team has taken bold steps to transform the business by focusing on people, products, and working in a more digital way. Excluding fuel and tobacco, comp sales for the year increased 5.7% and eCommerce sales grew 27%. When someone downloads the app, shops on samsclub.com, or uses our Scan & Go, they're more likely to renew. We're encouraged by the trends we see in membership.

As of year-end, we saw improvements in signups and plus penetration and membership count is essentially flat to what it was a year ago despite the closure of nearly 10% of the fleet.

In international, eight of our markets posted positive comp sales for the year, including the four major markets and overall sales increased 2.9% in constant currency. It's been a big year for International as we run the business while shaping the portfolio.

Walmex continues to be strong. The improvements we're making are helping drive traffic and we saw improvements in NPS in each of our formats. Similar to the U.S., we're now leveraging our store base to offer same-day delivery.

We recently expanded the available assortment to offer more than 5,000 general merchandise items to this service. We continue to invest in our stores and in eCommerce to build an omni-channel experience, tailored to customers in this market.

Our business in Canada also continues to perform well. The team's moving quickly to modernize the store base and expand omni-channel capabilities with a focus on gaining greater access to urban markets.

For example, we've entered into new partnerships this year in cities like Toronto and Vancouver to help expand our delivery options in grocery and general merchandise. In the UK, Brexit and the potential implications of a hard Brexit is increasingly on the mind of everyone. No matter the situation, Asda will always work to keep prices as low as possible for its customers. I visited our team in the UK a few weeks ago and I'm really impressed with their performance, their attitudes and the leadership. They're amazing.

In India, we remain optimistic about the eCommerce opportunity given the size of the market. The low penetration of eCommerce and the retail channel and the pace, at which it's growing. In the future, we hope to work with the government for pro-growth policies that can allow this nascent industry and the domestic manufacturers, farmers and suppliers to benefit from it develop and prosper. In terms of the regulatory environment, we were disappointed in the recent change in law and the lack of consultation, but the team has worked to ensure that we're in compliance with the new rules. We are committed to providing sellers with a world-class platform to sell on and customers with a high quality of service. We hope for a collaborative regulatory process going forward, which results in a level playing field.

Turning to China, we continue to see significant growth opportunities. Overall, we've identified provinces that are priority for us and we're improving the value proposition through better quality of fresh items as well as a new store designs and omni-channel initiatives. Uncertainties with trade or other macro factors can make for a more challenging environment, but I like the things we're doing to position ourselves in this important market.

Across international, we're accelerating omni-channel capabilities with the farthest along in China due to the partnership with JD.Com, our relationship with Tencent and the investments we've made in Last Mile delivery. We're also accelerating omni growth in Canada, Mexico, Chile and Japan through partnerships and acquisitions. International team has the talent and scale to deliver sustainable growth for the company and to make a difference in communities across the globe.

In closing, let me say how pleased I am about all that we've accomplished over the last year and how excited I'm about what's still to come. We see the future as a frictionless experience across stores and eCommerce but we have more work to do as customers raise their expectations, competition persist, and the omni retail story continues to evolve. We fully expect the pace of change to accelerate in the next five years versus the last five years with emerging technologies come together to transform retail even further and we're adapting. But we once could only imagine a decade ago will increasingly become reality.

We will embrace new technologies to solve problems for customers in a seamless way and equip associates with tools to make them more productive. Within our ecosystem, we will pursue to grow adjacent businesses to increase customer engagement and will leverage core capabilities to deliver services to other that can generate new revenue streams. Our commitment to the customers is clear. We'll be there when where and how they want to shop. Our distinctive set of assets, financial strength, and innovative culture are delivering the customers new experiences that are uniquely Walmart.

Brett you want to pick it up there.

Brett Biggs

You bet. Thanks Doug. Good morning everybody. I'm excited to talk about our results this morning. Walmart had a really good year and we're pleased with the fourth quarter results as well. We have momentum as we entered the new fiscal year and will continue to execute against our strategic plan which we believe is the winning formula long-term.

I'll start this morning by highlighting some key accomplishments for the full year. Total revenue and constant currency was just over $515 billion and increased $14.8 billion or 3%. Walmart U.S. comp sales grew 3.6%, the highest annual growth rate in 10 years. Walmart U.S. e-commerce sales grew 40% nearly doubling the sales of that business over the past two years.

We made a number of strategic choices to position Walmart International for success including the acquisition of a majority stake in Flipkart and the sale of the majority of our business in Brazil. We made progress on expenses and are particularly proud of the leverage in Walmart U.S. stores. Excluding discrete items from last year, we leverage total company expenses slightly as we expected coming into the year.

Adjusted EPS increased 11% to $4.91, operating cash flow was strong at $27.8 billion, and the company returned $13.5 billion to shareholders through dividends and share repurchases. We're pleased with what we've accomplished, but not satisfied. This year and quarter are further proofs that our financial strength gives us the ability to deliver near-term results while positioning the business for the longer term. We're leveraging our scale, unique assets, and financial strength in ways others can't.

Now, let's move on to the fourth quarter. We delivered strong fourth quarter topline growth; the total constant currency revenue grew 3.1% to $140.5 billion with currency having a negative effect of approximately $1.7 billion.

Walmart U.S. comp sales growth of 4.2% was a bit better than expected as strong holiday results and early release of government assistance benefited sales.

International grew net sales 2.7% in constant currency led by strength at Walmex and Sam's Club had solid comp sales growth of 5.3% excluding fuel and tobacco.

Consolidated gross margins, gross profit margin declined 21 basis points, due primarily to the mix effect from e-commerce growth in India and the U.S. and price investments in certain markets. We had some benefit in the quarter from lapping last year's discrete items.

SG&A leverage and operating income benefited from lapping last year's discrete items, but was partially offset by dilution from Flipkart. Excluding these items, we would have leveraged expenses in the quarter and operating income would have increased slightly on a constant currency basis.

The adjusted tax rate was within our expectations for the year at 24.6%. As a reminder, the adjusted tax rate excludes the effect of the value change in our investment in jd.com, adjustments related to the tax reform, and the change for the divestiture of a majority stake in Walmart Brazil.

For the fourth quarter, the adjusted tax rate was 22.8% and benefited EPS by about $0.04 per share, primarily due to the effect of the numerous federal tax regulations issued late in Q4. Adjusted EPS increased 6% to $1.41 and GAAP EPS was $1.27.

Now let's discuss the quarterly results for each operating segment. Walmart U.S. continued to have greater sales momentum. Comp sales excluding fuel grew 4.2% in the quarter and 6.8% on two-year stack basis. The best result in nine years. We started the quarter with strong Thanksgiving and holiday shopping and finished the quarter with strong winter seasonal sales. Although bases sales were strong, we did experience a benefit to comp sales of about 40 basis points from early SNAP funding.

Clearly, we're operating in a healthy consumer environment, but our integrated omni offering provided the convenience customers were looking for during the holiday season. We had solid traffic and ticket up 0.9% and 3.3% respectively, while eCommerce sales grew 43% and contributed approximately 180 basis points of segment comp.

We're encouraged by the market share gains we saw in key categories according to Nielsen and The NPD Group. Our strong mid-single digit comp growth in grocery led to the best tier stack in nine years. Health and wellness delivered a low single-digit comp sales gain and general merchandise comp sales were up mid-single digit percentage with a strong holiday performance in toys and seasonal categories. Our inventory position is good as we enter the New Year.

In Walmart U.S. eCommerce, we've made good progress on a number of initiatives as Doug mentioned. We are still working to optimize our margin mix so that we can achieve the long-term profit profile we want. The team is working with a great sense of urgency to increase sales in key areas like home and apparel, which will help margin rate as well simultaneously investing in new innovative solutions.

As we outlined in October, we expect our losses in eCommerce to increase this coming year reflecting investments in infrastructure, people, online grocery and store number 8 initiatives. While we've made good progress against our strategy in recent years, we still have great opportunity in front of us. We remain excited about the opportunity in grocery pickup and delivery and plan to double the current number of stores that offer same day grocery delivery in the coming year, while also adding grocery pick up to another 1000 stores.

The boundaries between physical and online retail continue to blur and we're in a great position to capitalize on that. Walmart U.S. gross margin rate declined 27 basis points due primarily to the increasing mix of eCommerce growth pricing strategy and higher transportation expenses. Expense leverage was strong reflecting strong sales increased productivity and overlap from last year's discrete items.

The Walmart U.S. stores team has leveraged expenses for an impressive eight consecutive quarters even after raising the starting wage rate earlier this year. Operating income increased by more than 7% during the quarter. Overall, we're really pleased with the momentum we have in the Walmart U.S. business.

Moving to International. Net sales in constant currency increased 2.7%, but declined 2.3% on a reported basis due to the negative currency effects of approximately $1.7 billion. The deconsolidation of Brazil was a self head wind offset by the inclusion of Flipkart sales for full quarter. Our major markets was saw positive comps from Walmex Canada and the U.K. Results in Mexico were strong again with comp sales growth of 4.6% in the quarter and we continue to grow faster than the market in key traffic driving categories including food and staples according to ANTAD.

In the U.K. Asda's progress on improving the value proposition growing online grocery share and expanding private label penetration contributed to its seventh consecutive quarter of positive comps. In China, we saw slightly negative comp in the quarter as the calendar shift to the Mid-Autumn Festival and a slower economic environment effected sales growth. Without the calendar shift comp sales would have been positive.

As expected, international operating income declined 2.8% in constant currency and 9.9% on reported basis. Factors affecting our fourth quarter comparison include the dilution from Flipkart partially offset by the positive effect from lapping last year's discrete charges. Flipkart's results were in line with our expectations.

Overall, very pleased with the progress being made in Walmart International. Sam's Club delivered solid comp sales growth of 3.3% excluding fuel and 5.3% when excluding fuel and tobacco. The transfer of sales from closed clubs to existing clubs contributed approximately half of the comp growth and eCommerce sales grew 21%.

We're seeing improved membership sign-ups and NPS scores. And in fact, despite closing 10% of our clubs at the end of last year, overall membership counts are about flat year-over-year. Sam's operating income increased primarily due to lapping last year's discrete charges for club closures. Excluding these items, operating income would have been flat. Excluding fuel and up about 9% with fuel.

I'll close today with guidance for fiscal year 2020. As always, we have several assumptions in our guidance, including the economic conditions, currency rates and the tax and regulatory landscape in our largest and most important markets remain generally consistent.

As always, we have not included any potential change in the value of our investment in JD.Com. We're also continuing to monitor the ongoing tariff discussions. As we mentioned in October, we will actively manage pricing and margins as warranted with our customers and shareholders in mind.

Regarding Flipkart, with any change like this, there can be some disruption to the business, but we feel good about our ability to transition with minimal interruption. There'll be some additional costs to comply with the new regulations, but we don't currently believe they will be significant enough to impact total company guidance for the year.

You'll recall we issued fiscal year 2020 guidance last October, while there's been some growing uncertainty in the overall macro-economic and political environment, we're confident in our ability to operate our business and serve customers effectively in most any economic climate.

We finished the year with good momentum. So today we're reiterating the previous guidance provided in October, which speaks to the consistency of our business. I'll highlight a few of the key guidance metrics and you can find a complete listing in this morning's press release.

I'll start with sales guidance. We expect to deliver total net sales growth of at least 3% on a constant-currency basis in FY'20. With the back half of the year a little stronger than the first half, due to some timing and comparison, including the deconsolidation of Brazil and the addition of Flipkart.

Keep in mind, on a reported basis, we've seen increased pressure from currency as noted in our fourth quarter results. If the current spot rates were to continue into next year, there will be currency headwind to reported sales of around $3 billion with most of that impact in the first half of the year.

For Walmart U.S., we still expect comp store growth of 2.5% to 3% despite the more difficult comparisons. We expect the quarterly cadence of comp store growth to be fairly consistent throughout the year, ranging from approximately 2.5% to 3.5% in any given quarter.

Walmart U.S. eCommerce is expected to grow sales around 35% in FY'20 and we expect the quarterly growth to range from around 30% to below 40% range. We still expect the leverage expenses by approximately 20 basis points in FY'20. We'll continue to make progress on being more efficient at lowering cost, especially in Walmart U.S.

stores, where we expect leverage to be even higher than the 20 basis points, due to continuing strong sales and improved productivity.

On a consolidated basis, we expect to slightly lever in Q1 with leverage improving each quarter during the year. Timing of expenses can impact leverage quarter-to-quarter versus our expectations.

Turning to profitability, we continue to expect consolidated operating income dollars to decline by low single digit percentage, primarily due to Flipkart being included for the full year versus the partial year in fiscal 2019. We would expect operating income to increase excluding the Flipkart effects.

We expect EPS to decline by low single digit percentage which assumes an effective tax rate of approximately 26.5% to 27.5%. Keep in mind that increase in the rate relative to FY'19 adjusted tax rate relates to the Flipkart losses having very little tax benefit in the near term which we've mentioned previously.

Excluding the full year EPS dilution expected from Flipkart, we would expect EPS to grow by a low- to mid-single digit percentage. As you would expect, the quarterly year-over-year change in operating income and EPS will be quite varied during the year due primarily to the impact of Flipkart only being in our results in part Q3 and all of Q4 last year.

We currently expect operating income and EPS to decrease by around 10% in Q1 decrease by a low to mid-single digit percentage in Q2 and Q3 and increase in Q4 to achieve our full year guidance. As always, the growth quarter-to-quarter can change due to timing and other factors.

Our priorities for capital allocation remains unchanged. We'll focus first on investing in our business and growth initiatives. We also remain committed to our dividend as evidenced by the increase we announced today. And we continue with our current share repurchase program.

Before I close, I want to share a change in the communication cadence with the analysts and investors. Similar to the past, we will host the question-and-answer session in Northwest Arkansas in June in conjunction with our annual shareholders meeting. However, instead of hosting an investment community meeting in October as we typically have, we plan to have an event in February 2020 in New York in conjunction with our Q4 earnings release. This meeting will be similar to the format we typically had, where you'll hear updates on our performance, guidance and strategy and interact with key leaders but a location that's closer to many of you. As always, we'll continue to assess the optimal approach to communicating with our investors and analysts.

Let me close by saying thank you for your support of our company. I'm as optimistic as I have ever been about what Walmart can become. It's a great company with a long history of transformation and we expect to win.

And with that, I'd be happy to take your questions.

Question-and-Answer Session

Operator

Thank you. We will now be conducting the question-and-answer session. [Operator Instructions] Thank you.

And our first question is coming from the line of Simeon Gutman with Morgan Stanley.

Simeon Gutman

My first question is on expense leverage. You mentioned the 20 basis points, and I think you just clarified in your comments Brett it's total company. So, can we dig a little bit more into what's driving it? And if we back into gross margin, then within the context of your overall guidance that implies gross margins will be down. And so my question is, if gross margin pressure is, let’s say more acute than you expect how much flexibility do you have on the expense line over the course of the year?

Brett Biggs

Thanks, Simeon. We talked a lot over the last few months about -- last few quarters about expense leverage. It comes from a number of different places. We've seen great expense leverage in the U.S., certainly good comp sales helps a lot with that. But as the technology and the training that we've done in the past -- technology put in place and the training we've done in the past several years is really paying dividends in the stores with our associates and how we serve our customers. So, as you saw even in October, some of the technology that's coming something we keep doing with our stores, we expect the productivity in the U.S. stores will continue to be a big part of what we do. When you look at really around the world, we're seeing good results and leverage around the world in different pockets. As you know with leverage, it could be a lot of small things that add up, but we're doing some bigger things as well. I talked recently about the work we're doing in shared services that we're viewing that as more of a real strength of the company. This past year, we hired a Chief Procurement Officer for the first time for goods, not for resale, so we're putting more effort toward using our scale to benefit our leverage.

So, I feel good about the numbers we've put out, and I think there's going to be room for us. The timing of that is always challenging to figure out. You're correct on gross margin, and that's the implication that we have. We're going to continue to invest in price for the customer, which we've done. The mix of the business will continue to change, which changes a bit the nature of our company, and we've always said a couple of things: One is getting our expenses right allows us to do what we need to do from a gross margin perspective to remain competitive and be there for our customers. And so, that's the main think we want to do with expenses. And we have a lot of leverage to pull as a company, and then we can make changes throughout the year. Hope, I answered your question, Simeon.

Simeon Gutman

Yes, yes. So, my follow-up with regards to eCommerce and online. And I think Doug made a comment around profitability and maybe repeat customer purchases, and I think you did as well Brett. So look, it's taking longer than -- it sounds like it's taking longer than you think to get to profitability. I think we know that already, but can you talk about what's been the biggest surprise. Is it, you're making less on the consumables mix than you thought, you're just not seeing enough long tail yet. I think Doug insinuated, we should make progress on the repeat rate, I assume that means it's not as strong as you think. Is it costing you more to run these mega DCs? Any more clarity on what line of progress we need to see the most on to get to that profitability.

Doug McMillon

Yes, Simeon, this is Doug. I think the headline answer is it’s mix, and that mix has got to generate a customer experience that drives repeat business. So if you break it down into pieces, we’ve got this advantage of having the stores and fresh and perishables in the assortment of supercenters close to customers, we're trying to drive that advantage and I believe we've got good traction there.

In parallel, we're trying to build an eCommerce business. In apparel, general merchandise you saw recently a new home launch from us with the brand Modern, for example. Trying to build an apparel home hard lines business that brings customers back and generates a positive contribution margin for the basket.

And there are different components of that basket. There's the pick cost, the shipping cost, and then just the gross margin on the products. And the thing that's taking longer than what I would have guessed is to build that merchandise assortment including the brands that we're trying to add to a place where we got a repeatable healthy mix of business online. So we're pedaling fast trying to make that happen and disappointed that it's taken us long as it has.

Operator

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

Bob Drbul

Hey, good morning, guys. I guess, the first question is on the eCommerce side, can you talk a little but about the success, the quarterly success and your confidence in the 35%? And how much of the toy category helped both in the fourth quarter when you think about the next year guidance on eCommerce?

Doug McMillon

Bob, this is Doug. We're confident in that 35% number for eCommerce, and we'll drive that as I just mentioned earlier with the food and perishable business coming out of the supercenters, and we'll also drive it with the fulfillment center assortment that we're working on. Toys was a help in the fourth quarter. There was an opportunity there and the team did a good job of seizing it in total across stores and online.

Bob Drbul

Okay. And then can you spend a little bit of time, you've given us a lot on the Flipkart performance. But I guess can you talk about the topline of the Flipkart since the regulatory changes and sort of how you're thinking about the business in terms of the trends? You said you're in line with the plan in the fourth quarter, but when you think about where we are today heading into 2019?

Doug McMillon

I can't comment on the future the guidance for Flipkart in the first quarter. I'll just say that the things that have happened have been disappointed in some way, but they haven't shaken our confidence and excitement about what this is going to mean to the company long-term.

And this isn't a story about one quarter or even one year. We hope to have an effective productive dialogue as it relates to future changes that happen. But in terms of how the business has behaved, it's in line with what we thought it would be.

Operator

Thank you. The next question is coming from the line of Peter Benedict with Baird. Please proceed with your question.

Peter Benedict

Hey guys, good morning. First, Doug at that tail end of your comments on your prepared remarks, you mentioned new revenue streams as part of the longer term opportunity for Walmart. So, can you expand on that thought a little bit and perhaps speak to how you envision these potentially playing in the longer term ROI equation for the company. That's my first question.

Doug McMillon

Sure. In fact, I will take you back to the October Analyst Meeting, Peter, we put up a chart that we referred to as an ecosystem chart. And our thought process is that we've got this core merchandising capability that we can continue to strengthen and we can transform in some ways in terms of how we work differently, how we use technology. And build on that with data and other components of our business to grow health and wellness where we've got an opportunity to be more important in that space.

And financial service is another area where we've historically done some things, but there appeared to be more opportunities there for us. And there are some others that were represented on that chart that we're currently working on in a global fashion to create a business model by market that not only resonates with customers, but also delivers return for shareholders.

Peter Benedict

Okay, thanks for that. And then Brett I just -- the U.S. average ticket up 3.3%, another great number there. Can you maybe unpack that a little bit inflation mix? And is there any tariff pass-through that we've seen or that we're going to see as we look out to 2019? Thank you.

Brett Biggs

Hey you bet. Thanks Peter. Yes, in traffic and ticket, you probably heard me say this every quarter, traffic and ticket quarter-to-quarter can go back and forth and certainly we're focused on both and we're focused on the total. Happy with both.

If you look at traffic, it's a two and a half year stack, so we're continuing to see good traffic coming at our stores. This is going to be influenced some by the continuing shift of our business with online grocery. With e-commerce you get a little different mix of basket in there.

And category-by-category, Peter, you're seeing some categories that are deflating. We always have some of that; electronics will be one of those. And we've had some tariffs and there are places in which that does gets passed along and that does impact ticket.

We're not seeing a great deal of inflation. I would call it fairly modest at this point. When you look at what we're doing from a price perspective, I think our customers really aren't seeing much inflation because of what we're doing.

Operator

Thank you. The next question comes from Kelly Bania with BMO Capital Markets. Please proceed with your question.

Kelly Bania

Hi, thanks for taking the questions. Just going back to the operating expense leverage, you talked about some of the training and technology impact on that, but can you give us more color in terms of the rollout and some of the technologies that you highlighted at the Analyst Day what we should expect this year and over the next couple of years?

Doug McMillon

This is Doug, Kelly. I think it's going to take us some time to sort that out and communicate specifically with some of the pieces of equipment that you saw, but it will happen. And we're just going to take our time, roll it from store group to store group. I'm really pleased and excited with how our managers are responding to all these new tools. They're now out in the stores. There is a tremendous amount of enthusiasm for it.

So that is a key part of our plan and we'll update you as things go on. But it will take us some time to put all of the pieces together that we shared with you and some others that we've got coming.

Brett Biggs

And Kelly, this is Brett. We do -- as we said in October, we do feel like that as we see technologies developed and the processes we're coming up with. We do see opportunities to leverage over the next period of time as well.

Kelly Bania

Great. And just a follow-up on the last comment about your customers not maybe seeing that much inflation, just curious if that's really specific to grocery and what you're seeing from your vendors there in terms of price increases, it sounds like your customers are not really seeing that. But maybe can you just elaborate on what you're seeing and what categories you are seeing inflation or deflation?

Doug McMillon

I don't think we should get too specific by category. I think I would just say that the combination of cost pressures that we're feeling with the price reductions that we're making has worked out in a way that the customers are not feeling very much impacted.

Brett Biggs

And our merchants -- it changes every year, but our merchants are always working through something that's inflating, something that's deflating. They're really good at managing mix in various different situations.

Operator

Thank you. The next question is from the line of Karen Short with Barclays. Please proceed with your question.

Karen Short

Hi, thanks. Just looking at U.S. in the fourth quarter, obviously I mean it was a very impressive leverage number. And I guess what I'm asking is, when I look through 2020, I guess, I don't really see anything that changes the cadence on the gross margin decline, if anything, maybe it gets a little bit easier because you lap transport?

And then it seems like you kind of hit your stride on the expense leverage. So is 4Q kind of something we should expect in terms of the composition going forward because of those numbers are finally getting you to that tipping point where you can see past the Flipkart dilution, I guess?

Brett Biggs

I'll speak first specifically to the U.S. because I think that was the main question. We're really seeing the productivity loop back in action in Walmart U.S. where you get the sales and it allows you to do what we want to do in prices, allows you to lower expenses. The productivity loop is alive and well in the U.S. The mix of our business continues to change as you look at eCommerce growing in the U.S., the acquisition of Flipkart and so that does change when you look at the total company.

But as for leverage, I mentioned from a total company perspective, we expect to slightly lever-in Q1 and that just to get progressively better as we get through -- those through the year and we certainly couldn't do that or couldn't make that statement if we didn't feel pretty comfortable with what we're seeing in the U.S..

Again we've assumed this kind of sales growth to get that leverage. Sales growth has helped a lot in getting that leverage. But that's how we see the year playing out.

Karen Short

Okay, that's helpful. And my second question is just on eCommerce. I guess, I was wondering if there was anything about the fourth quarter, I guess that surprised you on eCommerce in terms of either losses, well specifically losses. But I also was just wondering if you could give us an update on a number of SKUs -- total number of SKUs both 1P and then 3P. And then maybe just little a update on the mirroring of SKUs that your -- FCs because it seems to me that that's also one of the things that will help from the losses that is going a little slower than expected?

Doug McMillon

Karen, this is Doug, I think that's right. We're making good progress on mirroring. And our total count is in the 75 million range now. There wasn't anything that I can think of that really surprised us in the fourth quarter as it relates to e-commerce. I would mention that you may remember a year ago we had some fulfillment center challenges and the team did a great job of preparing for peak and executing it this year and the customer experience was a lot better. So I was really pleased to see that.

Operator

Thank you. Our next question comes from the line of Robbie Ohmes with Bank of America Merrill Lynch. Please proceed with your question.

Robbie Ohmes

Thanks. Just another follow-up on e-commerce. So you guys called out doubling delivery again this year. Can you, maybe Doug, remind us how you guys are executing that? Who the key partners are? And maybe how the math is working on that? How do you make that leverageable, is there any scale opportunity there?

Doug McMillon

Sure. Hi Robbie. We're using a combination of last mile solutions. We're using cloud source companies and we have our own platform that's called Spark that we're experimenting with and we're still playing around with some associate deliveries in a small way trying to figure that out. But it's the crowd source delivery platforms they're really helping us achieve scale.

Generally speaking, the delivery cost cover the cost and we right now are operating with something like breakeven mentalities it relates to delivery cost, so customers are bearing that. But they really do like the convenience and I'm excited about figuring all this out. And the combination of great stores that can increasingly function as productive fulfillment centers, which by the way is helping keep pressure on in stocks which is what we saw from the UK years ago, really like that healthy pressure together with pickup, which continues to have a high NPS score and people love it.

Now, with delivery and future enhancements in the future as it relates to the service end of that caused me to be really excited. It looks to me like there's a long runway here where our supercenters can double as fulfillment centers and stores and also generate a great store experience, so it looks promising.

Robbie Ohmes

That sounds great. And just a follow-up question for you. I think in the presentation on China, you called that intensifying competition and I think also just mentioned slower growth overall in China. Can you just maybe fill us in on what you guys are seeing in China with the consumer overall over there?

Doug McMillon

If you just read the headlines, you might imagine things are pretty tough, but that's not really what we're seeing. And if you look at our comp performance, Brett talked about a calendar change, but that aside, things have held up pretty well and the Sam's Clubs continue to be a really strong. I'm excited about the fact we've got more of those in the pipeline and the comp performance in Sam's is great. The supercenters have been performing better and they look better. I think operationally we've improved.

And then we've been playing around with some supermarkets and may find an opportunity there which can play a key role in last mile delivery. This relationship that we mentioned on last mile, they are resulting in incredible customer experiences in terms of both the value for delivery which is still think around of $1 and the speed with which it can get delivered given the density of the market is incredible. So that feels, okay. And I think if you look at the overall relationship considering all the things are happening in China, we're in pretty good shape. So, I'm still, I'm optimistic and recognize the tremendous opportunity that market has and we're constantly trying to think through our position in that market and how we might improve it.

Operator

Thank you. The next question comes from the line of Seth Sigman with Credit Suisse. Please proceed with your question.

Seth Sigman

Thanks very much. Good morning, guys. I want to follow-up on the online grocery conversation. So I think you said that you're going to add another 1,000 stores this year. I'm curious more about how the ramp curve in the new stores maybe changing, as you see growth in consumer interest and awareness of the offering.

And then, the second piece of the question on the topic of mix. I think when you purchase something through the Online Grocery app, you can actually add things outside of just grocery. I'm just curious, are you seeing any major change in mix there in the context of maybe improving profitability over time? Thanks.

Doug McMillon

I think, two dimensions there. One is the customer enthusiasm for those kinds of offers. And it's a loud and clear to us that customers, no surprise, are really busy. And that, if we can find a way to make things more convenient for them with pick up and delivery, they're all over it. So, I think, the ramp there in terms of how our comp stores will behave in addition to the roll out that we're doing for additional stores is going to continue to be strong. We have been adding assortment over time. Some of the happiest customers that I have come across are customers that can place their back-to-school order and a grocery order together and go through pickup and knockout that list of things that you need for your kids as they go back-to-school. So that includes a lot of items that are not food items.

And then, over time, we just keep adding as the stores learn how to pick categories that are different in nature than food. It's a different situation to go and pick light bulbs our go to pick some of these categories that may not have as much shelf capacity as we have in food.

So we have to learn how to adjust our modulars so that you can expand the categories and the items. And I do think that will help mix over time. And we may have seen that already, I haven't been tracking that part of it that closely, but it makes sense that that basket would change shape and the profitability would look better.

Seth Sigman

Okay. Thanks for that. And then just one follow-up question on the inventory growth, up 0.8% on a comp basis in the U.S., I think the first time in the recent memory. Strength of sales, obviously, very clear, but anything else to highlight there that maybe driving that?

Doug McMillon

At first, I would say, the job that Greg and the team have done on the inventory over last few years has been phenomenal. I mean, being a merchant for so much of my career, I have so much respect for the way that they have driven in-stock levels, reduced inventory, reduce deletive inventory for quarter-after-quarter now.

What happened in this case is that we saw the SNAP shift into the end of January. We build food inventories at the end of the quarter to make sure that we were maximizing that opportunity. And there's a little bit of pull forward of inventory in anticipation of what tariffs could mean in a worse case scenario, but we certainly hope and expect that that won't happen. So I'm not worried about inventory level. It's high quality and there's a bit of timing difference there and overall that picture still looks really good.

Operator

The next question is coming from the line of Michael Lasser with UBS. Please proceed with your question.

Michael Lasser

Good morning. Thanks a lot for taking my question. So if we look at the midpoint of your U.S. comp guidance, it's 2.5% to 3% for 2020. It's about 100 basis points below what you achieved in 2019. Should we take that to mean that's what you think the healthy spending environment driven in part by all the tax reform, contributed to your sales in the year-ago period, at about 100 basis points?

Doug McMillon

I think that's exactly right. I think we're just recognizing that this last year had some tailwinds and that this year we won't have.

Brett Biggs

Yeah. Obviously, there is some more challenging comparisons because of what we did this year, but I think what Doug's saying on healthy economic environment, you put a number of things together. I think this is the range that we feel good about going into the year. But still obviously a very, very healthy growth.

Michael Lasser

My follow-up question is on Flipkart. How much is the regulatory environment going to influence your investment posture in that market? So if we see no change and the competition eases up. Are you going to look to maybe moderate your investments in the end market over time?

Brett Biggs

So I think we'll see how the year goes and respond appropriately. But I would remind everybody that Flipkart is already an ecosystem. There's the PhonePe, a payment platform. There's a last mile delivery. There's a Myntra and Jabong businesses in apparel. So it's not just one thing. And it's just not an eCommerce business in the traditional sense, there's a lot of dimension to it. So there just like here we've got a lot of different variables we can play what demands the total. And I think we've forecasted it appropriately and we'll respond as the year goes on.

Doug McMillon

Michael, when you look at, I mean, all the reasons we cited for going into India acquiring Flipkart when you look at the continued eCommerce growth in India, the size of the market, the growing middle class, all those things are still as true today as they were six months ago. So the reasons we're excited about the market are still there.

Operator

The next question comes from the line of Oliver Chen with Cowen & Company. Please proceed with your question.

Oliver Chen

Hi, thank you. Good morning. A lot of our data is showing really great adoption of curbside grocery pickup as well as satisfaction here as well. What are your thoughts on how incrementality is unfolding?

Also as this continues to be a very popular and widespread service, what's the future in terms of packing and taking in labor as you balance, just making sure your in-store experience is very good for those who aren't using curbside and also leveraging what you can with automation and robotics to optimize the total experience?

Doug McMillon

Good questions, Oliver. I think the mix of new customers in online grocery is positive and encouraging to us. It's not just existing customer using the service. So that's an exciting development.

And as it relates to productivity, we're continuing to learn how to pick more efficiently using the apps and the tools that you've seen in the stores plus we've got a few experiments going on with more automation to try and solve for future higher volumes.

You can get to a point and we do cap in some store locations, a place where we have too many pickers in the store and it gets -- they get in the way of our customer shopping and site counter so we got to manage that effectively. And we had a Salem, a project alert. I forgot what we call it. AlphaBot maybe. The announcement that we made last year that's one to keep an eye on. But we're actively sorting out how to increase our in stocks, increase productivity and how the customer experience, continue to improve from an NPS point of view that will be an ongoing stream of work.

Brett Biggs

And we're learning from the stores that were early in the process as they get larger and larger we're able to take those learnings from those stores that have been in the system a little longer to stores that are just coming online.

Oliver Chen

Well, Brett on the topic of curbside, how are you thinking about ROIC and payback and as you make judgments you're rapidly rolling this out and people like it. But I'm curious about your thoughts on the multi-year and the investment versus the long-term share gains as well as customer reception?

Brett Biggs

I do think about ROI a lot. You're correct. I -- when we're together as a team, I am talking about Doug's team, we spend as you can imagine most of our time thinking through the prioritization of the various things that are going on inside the company and as we go through those discussions, we always have the P&L and the balance sheet and ROI in front of us as part of those discussions. And it's our job as the management team to make these things work together over time. The customer acceptance, we're seeing with online grocery in particular is a one where you look at it and say we are going to lean into this. And there maybe things along the line and we delay this or can we stop something else, but we're going to lean into things like this and see when we see them working for the customer and as a team we will ensure that it works out for our shareholders over the mid to long term.

Operator

The next question comes from the line of Scott Mushkin with Wolfe Research. Please proceed with your questions.

Scott Mushkin

Hey, guys. Thanks for taking my questions. So I have one kind of just shop keeping item with the discrete items in the fourth quarter. I'm trying to understand comparability, I think it's 47 point leverage we had in the U.S. business is that including or excluding the discrete items and if it's inclusive, how many basis points were the discrete items?

Doug McMillon

Yeah. Scott, we had mentioned and that we've of course you've just heard it for the first time, we mentioned in the script that we -- that leverage is higher than it would normally be because of those discrete items. Last year, if you back those out, we still levered slightly in the quarter and for the year. But, clearly, fourth quarter was higher than you would normally expect because of those discrete items.

Scott Mushkin

So there was just slight and would U.S. EBIT have grown without the discrete items?

Brett Biggs

I am sorry, what did you say, Scott? I missed the question.

Scott Mushkin

Would U.S. EBIT have grown without the discrete items?

Brett Biggs

It would have been roughly flat.

Scott Mushkin

Roughly flat. Okay. Great. Then my second question is regarding just kind of the strategy in the U.S. I mean, it seems like if I back away a little bit you guys talked about omni-channel pressuring probably little bit more seems like the international business is pressuring a little bit more. If I kind of add those things up, it doesn't seem like there's a lot of wiggle room to invest a lot in price in the U.S. Am I missing that? Or is that how you would frame it as well?

Brett Biggs

Scott, I think we've got enough room. As you know, we've been on a multi-year plan to reduce pricing in the U.S. and we're just continuing that. There are some price investments in Sam's and in some international markets, but I'm comfortable. When you look at our forecast that we've got an appropriately aggressive price investment remaining as we finish-off what we started years ago.

Operator

The next question is from the line of Paul Trussell with Deutsche Bank. Please proceed with your question.

Paul Trussell

Good morning and good quarter. Just wanted to maybe touch on guidance. Certainly, you are reiterating fiscal 2020 just given the moving parts in the business. But maybe just a little more detail around the cadence of the guide. Specifically, I think in 1Q, you mentioned, operating income to be down 10%. Just to what extent is that Flipkart versus currency? Or how should we think about the top line headwinds from SNAP or tax refunds? Just one going kind of cadence and improvement you expect to see over the balance of the year. What does that come from?

Brett Biggs

Yes, Paul this is Brett. So, if you look at the cadence -- primarily what you are seeing in Q1 is going to be related to Flipkart. If you look at the guidance we've given last year and just look at how that would play out over the quarter, you can get pretty quickly to that number.

There's always going to the timing of other parts of the business they go from one quarter to another based on how expenses are flowing, but that's the biggest part of Q1 and Q2 as well because it did not come in our results until partway through Q3. There's always -- we can have things move around between quarters $50 million here $60 million there and it can make a difference in how that number looks from a profitability standpoint, but Flipkart is the biggest part of that next year.

Paul Trussell

Got it. And then as we look toward fiscal 2020, just your outlook on transportation expenses and the headwind there? And what you're seeing also on the wage front?

Doug McMillon

On the wage side, Paul, we've just been moving up market-by-market. Our average now is about $17.50 for an hourly associate in the U.S. and I'm comfortable that we've got appropriate wage investments to get the talent we need baked into the plan.

Transportation costs, I'm not really close to what's happening right now. I would expect based on what's happening with the drivers if we're going to be better shape from a transportation point of view as we go through the year. And it is helpful that gas prices are in the range that they are in and hope that continues to be the case. I think that's one of the things that benefited this last year. So, glad to see them where they are.

Operator

Thank you. Your next question is from the line of Edward Kelly with Wells Fargo. Please proceed with your question.

Edward Kelly

Yes, hi, good morning. I just wanted to ask a follow-up question actually on price investments. So, there has been some early signs I guess that food inflation beginning to couple a bit. And I'm just as curious as to what your thoughts are on allowing inflation to flow through, if they were to continue to strengthen? I guess as you think about that, right, holding the line would require a potential I guess incremental investment above what's planned. Is that something you'd be willing to do? Just help us understand how you think about the dynamic of food price inflation versus universe's price investment and what's budgeted for the year?

Doug McMillon

Before I mention I just want to clarify what I mentioned earlier, $17.50 is actually $17.55 is the average hourly associate number with wages and benefits. As it relates to pricing, I think, as I mentioned earlier, we got an appropriately aggressive plan baked in. And it would depend on what happened with competition and the severity of the price increases. I think we would manage margins as we bring all these variables together. And don't anticipate having a lot more inflation on the food side and on the non-food side, we're continuing to experience deflation in that part of the basket, kind of works out.

Edward Kelly

And then just one follow-up going on online grocery, pickup and delivery. How are you thinking about the end goal here? Is it one to two-hour delivery for our customers? How do you think about the cost to get where you want to go and how it impacts the timeframe around eventually improving e-commerce losses?

Doug McMillon

I think we'll end up in a position where the customer can pick depending on the occasion, how they want to shop. There will be families that come into stores once-a-week or twice-a-month or whatever and they'll also use pickup, they'll also use delivery, and we'll have the ability to serve them in all those ways. There's an interesting opportunity if you could get to a point where customers pick their delivery window in the home or to the door unattended. You can decouple speed of delivery in a way that helps us manage costs, so as the volume goes up and density improves. We'll try to figure out how to drive a basket business it looks more like dense route than a one-hour or a 30-minute race to deliver to somebody's house.

That maybe different for restaurant delivery than it is for grocery delivery. It seems like those use cases are different enough. So we've got some tests going on and real-time learning here to try and do it in a way that customers want it to be done and create that optionality for them. And it's kind of one more mix opportunity for us. We grew up managing merchandise mix and still do and now we're managing a service mix. And the good news is that once customers are in your ecosystem, they'll use you in some way as I mentioned earlier in the prepared remarks, you get the opportunity to expand on that relationship and that's what we're trying to do.

Brett Biggs

Scott, I want to, this is Brett. I want to come back and clear myself. I said that U.S. income, U.S. operating income ex one items was flat. I misspoken that it was up a little bit in the fourth quarter.

Operator

Thank you. Your next question is from the line of Edward Yruma with KeyBanc. Please proceed with your question.

Edward Yruma

Hey, good morning. Thanks for taking my question. I guess two quick ones. First on macro. Obviously less tailwinds this year, but are you starting to see any changes in consumer behavior that would indicate that we're starting to level off or seeing some deterioration. And I guess as a follow-up you're running a dual time strategy with the Jet, I guess how would you score your kind of Jet business and serving those urban millennials? Thank you.

Brett Biggs

Edward, this is Brett, I'll start off. In the consumer, I think it feels pretty good to us. You see all the numbers that we see, wages are still pretty good, unemployment rate's low, gas prices are down year-on-year. So, there's a number of things I think are still working in favor of the consumer. Like you mentioned we're watching it as we always do. We're monitoring it, and making sure that we're in the right place with the customer. I think no matter of the environment, we tend to do pretty well and are able to react and be there for those customers, but we're monitoring it as we always do.

Doug McMillon

The first quarter is always a challenge, because you got an Easter change, there's weather that's a little more impactful than it's volatility. We got the SNAP moving into the first quarter, the tax rebates, I mean different windows of times, sometimes, they are concentrated in a few days, sometimes they are spread out over a week. So it makes it exciting to manage Q1. But underneath all that, I'll agree with what Brett said they're in pretty good shape.

On Jet I'm really pleased with the role that it's playing, attracting new brands. And our focus as we mentioned before is on urban markets. So it's an opportunity to learn and to try new items and different items in some cases that we have at wallmart.com so that's the role it's playing.

Operator

Thank you. The next question is from the line of Charles Grom with Gordon Haskett. Please proceed with your question.

Charles Grom

Hey thanks. Good morning and great quarter here. Just one near-term question, Brett. Do you guys expect that 40 basis points SNAP benefit to reverse in the first quarter? And then long-term question just with regard to digital, when you think about 2019 losses being greater than 2018. Would you expect the 2019 losses to be the peak based on what you know now?

And then as a follow-up to that when you think about mix being issue, when you think about correcting that you guys were pretty active a couple of years ago acquiring more of the digitally native brands. Do you feel like you need to do more of that to sort of fix that issue?

Brett Biggs

Chuck, there's a lot in that question. I'll take the first two and then I'll hand off to Doug. On the SNAP benefits, I mean we are clear you know that, we believe that it did pull forward some into the fourth quarter. Again with all the things that happened in the first quarter, I think we did pull that forward, but there's other things that can potentially make up for that, but that's why we've given the quarterly guidance any quarter it can be kind of 2.5% and 3%, 2.5%-3.5% for the year.

On the eCommerce loss guidance where we've said that we expect losses to be a little more in this next year, we're not going to give guidance past that which I think probably won't surprise you. Doug you want to talk about the...

Doug McMillon

Yes, preserving flexibility there, I think it's important, we have never let a digital transformation at this scale before. So we're figuring this out as we go. But if there's an opportunity to be more aggressive given the total balance of the business, I mean we would be thinking about that.

Adding digital brands we're after assortment, we're after a repetitive customer relationship. And we're looking constantly at various acquisitions. And I think what you've seen from us in the past will continue to some extent. It's impossible to predict the pace of it or the number. So we'll just have to see at the end of the year how it will work out.