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Walmart, Inc. (WMT)

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CORPORATE PARTICIPANTS

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

OTHER PARTICIPANTS

Ben Bienvenu

Analyst, Stephens, Inc.

MANAGEMENT DISCUSSION SECTION

Ben Bienvenu

Analyst, Stephens, Inc.

All right. Thanks, everybody. I think we'll go ahead and kick things off. I'm Ben Bienvenu with Stephens. I cover the grocery and convenience store industry. Thrilled to have with us here today Walmart, the company doesn't need much of an introduction, but the largest retailer on the planet. And happy to have from Walmart, Brett Biggs, CFO. Thanks for being here.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

My pleasure.

Ben Bienvenu

Analyst, Stephens, Inc.

Brett, I think you might make a quick Safe Harbor statement and then we'll kick things off.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

So, I think on the webcast, we have a Safe Harbor slide. So, as you think about – consider your investments in Walmart and consider everything that you see out there about the company, I might be making forward-looking statements. And so, my attorneys make sure that I say this as we get started with this. But good to be here and there's been a long history between Stephens and Walmart back to our initial public offering. So, it's always good to do things with Stephens.

Ben Bienvenu

Analyst, Stephens, Inc.

Yeah. Thank you.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Thanks.

QUESTION AND ANSWER SECTION

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Probably, four, five years ago, Walmart kicked off a pretty significant turnaround plan to reinvigorate growth. We're well past the turnaround. But I think if we look back to that last chapter of Walmart's history characterized by investment and growth, particularly in the US, revitalizing US same-store sales growth, if we look to kind of the next chapter, what do you think that chapter of your store will be characterized by?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

That's pretty much what we're working on every day which is how do we – and I'd go back even to the 1970s, 1980s, 1990s, 2000s, I think that's what Walmart's always done is, is what are we doing the next three years, four years, five years. We're not really good at giving ourselves credit sometimes for having a good quarter or having a good year, and we're looking forward.

I think it'll be derivatives of things that we're doing right now. I mean, when you get back to retail, it's fairly simple. It's price, it's assortment, it's customer experience, it's – and convenience is a big part of that story now, and we'll be focused on all of those things going forward. And I think convenience gets to be a bigger part of that equation, and you've seen us invest a lot in the last several years in omnichannel. So, [ph] when you (00:02:15) think about online grocery, now the tests we're doing in InHome Delivery, it's all about how do I keep that customer shopping with Walmart, how do I ensure that they can shop with us in any way they'd like to, whether that be putting [ph] them (00:02:30) in the trunk of their car, being in the store, to their home. We want to be there for all those occasions and then, financially, doing it in a way that makes sense for investors both in the short term and long term.

Technology will drive even more of the change in the next five years than it has the last five years. We've done a number of things from a store productivity standpoint. But there is so much cool technology that we see coming, whether it's in supply chain, but things in the stores potentially with VR and AR that will be, I think, fun for customers, helpful for customers in how they shop our stores. We have 275 million customers a week that come to our stores. And so, that's going to be a big part of our business for a long time.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Maybe as a follow-up to that, we had a somewhat recent announcement of Greg Foran moving on and John Furner taking over. What should we know about how John thinks about building on the track record of success that Walmart [ph] is in (00:03:26)?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah. Greg is a legend in retail and I've been privileged to be his partner for the last four years in this role. He's fantastic and will be missed certainly at Walmart.

I've known John for a number of years. I really got to know him when I was CFO at Sam's Club, and he was an operator in the field and one day, we were out together. I really – I just kind of got to know him a little bit, and he started asking me questions and these are very – and we had conversations [ph] that are really broad-based. So, it (00:03:57) was much different than just an operating discussion and [ph] I'm going back and someone is (00:03:59) saying, who is this guy John Furner, he's really impressive. And so, now he's going to lead the US business. He knows the company well, he and Doug know each other well. When you look at the success of the Walmart US business, you're coming new to that business and you're going to definitely try to continue to do what's working in that business. John, [ph] though comes with (00:04:22) really good tech background, very smart, very quick to take decisions, great with people, so he'll have his own spin on how we approach customers, how we approach technology, I think, in particular in the business, but he'll certainly be looking to keep a lot of the plays running that we're running right now in US.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

One of that play is grocery pickup, it's hugely a successful initiative. My wife and I personally use it.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

We do, too.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

[indiscernible] (00:04:56) [ph] three-year old (00:04:56)...

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah. For sure.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Yeah.

[indiscernible] (00:04:57)

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

[indiscernible] (00:04:58) [ph] calling a lot of customer right there (00:04:59). Yeah.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

So, where are we in the maturation of that program, pretty far along, how much more contribution do you think that can bring to Walmart US? And then, when you look at the other slate of initiatives that are out there that

you're working on, when you rank order them, what else kind of looks like that next thing that could be really meaningful?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah. Online grocery kind of started back – kind of going back how many years – a long time ago in ASDA, almost 20 years ago at ASDA, and then five or six years ago on the West Coast, there was a trial and what we're doing today looks a lot different than that, but that's where it really started and then there were tests in Denver of different ways of picking up grocery in kiosks and other things that we could do and this is one of the ones that just stood out that was working. And the thing that I'm proud of the company with an online grocery is, I would say there are times in our history where we've been a little methodical, maybe too methodical, as we felt that didn't work, maybe we've been a little too cautious, let's test it a little more, let's – and it was a little slow. With online grocery, we saw something that we knew financially could make sense. It didn't have every i dotted and every t crossed. But we said the customer loves this. We were hearing from moms that they really loved it. And we said, this has got to be a winner, we're going to win in grocery and we rolled it out. And so, now we're in 3,100 stores, still a lot of room to grow.

When you get to – so when you think you've hit a saturation point in a store, there's still things you can do though with the way you're picking. Do you open up more lanes? Do you change the way potentially what times customers are coming to free up more capacity? So, there's a lot of things you can keep doing to keep giving yourself capacity for online grocery. There are other things that are derivatives of that, InHome. The InHome program, which is now in three cities, is a bit a derivative of online grocery. And it's really early, but it's one of these things again where you know customers love this. There're so many things you can do off of InHome Delivery that you make that connection with the customer. You get them in your ecosystem that I think there'll be whether that's the thing that works. There will be a lot of things that we learn out of that, that will help us going forward. But we're – I think we've been pretty clear we're going to win in grocery and having 5,500 locations in the US is a really big advantage in winning in grocery.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Traffic strong, comp – store traffic has been a big piece of the strong US comp story. Particularly in the last [ph] two years, it's (00:07:34) really been a more meaningful contributor. What's central to that and how much room do you think is left on ticket as the driver of growth?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yes. I think analysts look a little more at the split between traffic and ticket. We just – that comp number.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Yeah.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

We'll take it either way.

Ben Bienvenu

Analyst, Stephens, Inc.

[ph] Either way (00:07:51), yeah

Q

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

We'll take it either way. This quarter was really balanced, traffic up 1.3%, ticket up 1.9%. Really hasn't been much inflation to speak of. So, this has been units. I mean, really an increase in units in the stores. We've been a big part actually of not having inflation, I believe, in the country, has come from us and what we've done in price particularly in food.

But continuing to build the basket is something that we want to do. Online grocery for instance has a higher basket than we see in the store. That's been some of what's been driving ticket in the US business, is a little bit of the mix shift from in-store to online grocery. But I like the balance, I like the fact that we can grow units and still have more customers than we had two years ago, three years ago, four years ago. That's pretty unique in retail right now.

A

Ben Bienvenu

Analyst, Stephens, Inc.

Yeah. And after years of investment, you guys went out and made a big decision, freezing wages for associates, benefits, training, really kind of set the tone for the industry, that really kicked off a lot of the growth that you guys are now enjoying. And now, you're starting to leverage SG&A a little bit, which is always nice to see.

Q

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. Nice, yeah.

A

Ben Bienvenu

Analyst, Stephens, Inc.

What are the key components of that and what are some of the external factors that you guys think about as obstacles to continuing to deliver that?

Q

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

It was almost exactly four years ago that we came out and said that we were going to make these investments. It was going to take operating income down. The stock did not react well to us doing that. But I think we knew what was needed to get the business in the right shape and we've – from that point, I believe we've done what we said we would do and are benefiting from that, our customers and associates are benefiting from that.

A

This will be [ph] same when (00:09:37) we hit the numbers we expect. This will be the second year that we've levered, second year in a row after a fairly significant time of deleveraging expenses for good reasons, e-commerce, technology, all the things that we invested in. Being able to leverage more than 20 basis points of share which I think we will – sales help a lot, having that 3% type comp in the US helps a lot on leverage.

But we're approaching expenses in a really different way than we have in the past. A lot of companies – and I think we've been guilty of in the past about cutting expenses. Those tend to find their way back if you don't change how you're working, how you process things, how your culture manages that.

And it wasn't that we lost our cost culture, but it was not as prevalent as it was when I came into the company almost 20 years ago. So, I think culture is part of it, that feels like it's back. We're attacking expenses in a different way, more in a product mindset, a more agile fashion, thinking about how we structure in a way that makes sense for the long term.

We're also doing things differently. For instance, we have a group now of goods not for resale. It's one group that sits in my organization. And globally, we'll buy \$40-plus-billion of goods that are not resold in our stores. So, bags, services, supplies. It's an enormous amount of money.

And you would think we'd be great at managing something like that, but – and we were. In about 50 different parts of the company, we were really great. But in centralizing it, we were not great. And so, we made a commitment a couple of years ago, brought in – [ph] or (00:11:12) a year-and-a-half ago, brought in a Chief Procurement Officer that sits underneath me, and we've brought the groups together and we're just making progress in a really different way than we had before.

And I feel again people coming and talking about, hey, I was able to save \$20 million on this, and celebrating that and [ph] thinking (00:11:33) about what we can do for customers with that \$20 million. And that's what I remember feeling when I came into the company.

So, it feels really good and it feels sustainable.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Yeah. And on the gross margin front, you guys have really committed to investing in price, spreading those differentials between you and your competitors, [ph] that's in (00:11:54) e-commerce growth and that business is growing nicely. Is there a point at which we should think about gross margins kind of reaching a natural equilibrium or is that a line item that's maybe just perpetually under pressure? How should we think about that?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah, the way, the way I think about gross margin is, it can be under pressure. I think, to some degree, customers and the market will determine a bit where your gross margin goes. We've been – we have invested aggressively in price. We're very mindful though of price gaps and how we're [ph] going (00:12:28) versus competitors. We're strategic about it. We're thoughtful about it. So, it's not a never ending cycle just to do it. I mean, we have a purpose in what we're doing here, and I think it's been a big part of why we're winning.

Expenses though is where I always go with the gross margin conversation which is, the reason we want to get more aggressive with expenses is that I control that to some degree more than I do gross margin in some respects. If I can get that expense leverage where I want it and 21% is where we're at, that's not the number – we don't want to be at 21%. Get it where we want it, our ability to use gross margin and to manage gross margin in a way that's different than our competitors, massive advantage. And so, our belief is that we get leverage where we want it, then it gives you the option of do I need to put more in price? I can if I need to. Do I need to mix the business [ph] out (00:13:23) differently? I can if I want to. Do we want to let more flow to the bottom line? We can if we want to. But it's just – the expense leverage is what gives you optionality.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Yeah. On the capital spending front, you [ph] all (00:13:37) made kind of a flurry of acquisitions in 2016, 2017. Where does M&A fit into your capital spend, obviously, Flipkart, big acquisition

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Big one.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

... [ph] you have guys started to make (00:13:48). How should we think about M&A going forward?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

When we think about capital from a broader perspective, the first thing I want to do is invest in the business. And so, the last couple of years, three years, we've spent kind of in the \$10 billion, \$11 billion range on capital and we're going to invest there as much as it makes sense to invest. That's a great blessing having \$27 billion, \$28 billion of operating cash flow every year, gives you choices and \$11 billion capital is what we felt like has been kind of in the range of where we can spend it in a way that makes sense. Very committed to our dividend and that's been around \$6 billion over time.

If there are places where we can accelerate, accelerate something that's where we're going to think about M&A. Can you acquire talent that you need? Can you acquire expertise that you need? I came into the company leading M&A. That was my role when I came in and at that time, we were looking kind of around the world for physical retail assets. That's not really what M&A looks like as much today. It's very different. You're looking for capabilities. You're looking for accelerators. You're looking for things that you'd like to do, but it'll take you a lot longer to do [ph] them, it'll (00:15:04) be more expensive if you go, do and then just go, acquire it. So, I would expect that M&A will continue to be a big part of what we do from a growth standpoint going forward.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Yeah.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Maybe not big as Flipkart, but still important.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Walmart Health centers kind of...

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah. [ph] It's (00:15:24) really cool.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

That's cool.

Brett M. Biggs
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

How much of that is test and learn versus a really committed push into the market and what prompted that?

Brett M. Biggs
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

We have a big healthcare business. We've always had a big pharmacy business and go back even I'm [indiscernible] (00:15:43) 10 or 11 years ago when we went to \$4 generics. We completely changed the healthcare industry with that one move, because we're so big and have so much scale. And healthcare, as we talk to our customers, healthcare is a place, where we have permission from customers to be in that business. And given the scale of who we are, we can make a big difference in something that really needs changed in the US. Healthcare needs a lot of change in the US. And we can make an impact on that.

The healthcare clinic in in Dallas, Georgia, just northwest of Atlanta, is a way for us to kind of see a lot of things we've been talking about in one place. So, we've trialed clinics before, we've trialed diagnostic labs, we've done a bunch of different things, but this is – this has a community feel to it as well. It's like being part of the community, being able to give people affordable healthcare. People potentially don't have insurance, give them affordable healthcare, they can see a dentist, they can have preventative medical treatments instead of going – when it's an emergency, which is much more expensive on the system.

Are we going to roll these out all of a sudden? No. We've got a second one in the works. This is one though, it's more than test and learn, because we know that this is a place we can have a massive difference on how people live. [ph] When (00:17:05) we think save money, live better, we can do both with what we can do in healthcare. And so, we plan to be a big player going forward in what happens in healthcare.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

[ph] Next agenda (00:17:14). Walmart US gets the lion's share of the focus from the investment community understandably. That's a big piece of the business. And it's been...

Brett M. Biggs
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Most of your report was Walmart US [indiscernible] (00:17:25)

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Yeah.

[indiscernible] (00:17:25)

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

[indiscernible] (00:17:26) Yeah.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

But Sam's Club has had great results...

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

[ph] Really good (00:17:31).

Ben Bienvenu

Analyst, Stephens, Inc.

Q

...over that same timeframe. International has made improvements as well. What is the playbook like for those two segments versus the US, maybe comparing and contrasting?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah. [ph] We kind of – the last time that Sam's is the smallest (00:17:45) \$60 billion business in the world, because it's a really big business. It didn't quite get as much attention, because it sits inside such a big company. But it's been a part of who we are as a company, has Sam's name on it, which matters to a lot of us. I spent time at Sam's, Doug spent time at Sam's. What I loved about this quarter is the membership growth that we're seeing. And remember, we closed a number of clubs, a couple of years ago and we have now more members than we did even before we closed those clubs.

So, membership growth is growing. The way they've got the financial model structure, gross margin expenses, how they're using membership income is really how the club business should work. I mean, it's really healthy business. Nice growth, excluding fuel and tobacco, and we've been pulling some out of the tobacco business and so that's been intentional. But I'll – they've led the company in some ways in technology, some of the things they've done with [ph] Agile (00:18:45) teams, what they've done with Scan & Go have I've led the company in some ways from that perspective. So, I'm really excited about what's going on at Sam's.

International, there're some markets that have performed really well. Walmex is another one, Walmex gets not near enough credit for the business they are. They are one of the finest retailers in the world when you look at being multi-format, the growth that they have every year, it's an amazing business, generates a ton of cash flow.

The UK has been challenged with Brexit and the [ph] consumer is (00:19:15) struggling there with what's going to be long term in the UK. And so, that's been a bit of a challenging market. We're really excited about opportunities in China and India. There's only two countries in the world with 1.3 billion people and that's two of them. So, we're in both of those markets. We have great growth opportunities there. And so, it's – international has different pieces that together makes sense. So, good opportunities for both businesses.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Maybe shifting gears to e-commerce a little bit. Help us think about the balance that you guys try to strike between spending to support growth in e-commerce versus managing profitability and kind of how do you decide about ultimately what's the right level of growth is for that business?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah, it's evolving. And I think just like the rest of our business, we're learning, we're seeing how customers react to different things. We probably tend to look at it more as one business than analysts and others that follows and tend to look at e-commerce versus Walmart US. And you're seeing us make changes that continue to bring those businesses closer together. What we've done with Greg Smith now leading all of the logistics functions. I brought our finance groups together. There's other things we're doing to bring those businesses closer together.

It's a very different business model. And so, as a team and after we acquired Jet.com which got that business larger, we've learned together as we've gone through this and we understand the levers I think very clearly in how you operate that business. But it's not just that business on a standalone basis, it's how does that business feed the stores, how do the stores feed that business. This omni-channel business that we're putting together, that's the key.

And so, certainly, we know by channel sales growth, profit and loss, we know all that by channel. But it's how do you mix it out in a way that makes sense and how we make sense of it is what I spend a lot of my time on. It's what our executive team spent a lot of their time on. All the things that we want to do as a company, we can do anything [ph] we can't (00:21:28) do everything. That's kind of how we talk about it.

We've got to prioritize and I think we do a better job in that we used to do. There's things we got to stop, I think we do better job at that than we used to, and it's got to work financially. And we, as a group, have to determine what that means. We have to – we listen to analysts in how you guys think about our business and where you think we should be financially, and our investors. So, it's getting all that together but setting up this business that 20 and 30 years from now is not surviving but it's thriving.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Yeah.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

And it's finding that balance and ensuring that we're setting up the teams three and four and five generations from now.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

You guys frankly have culture of test and learn, pushing the boundaries, trying to learn more about your business and your customers. I think of Walmart InHome as an interesting initiative that you guys are in test mode for now. Obviously, undisputed success and a broader rollout and adoption is a – the clear dividing line for an initiative that you all might test, but I think I'm sure even if the initiative isn't more broadly rolled out, there's smaller successes

that you guys can claim from tests that you've put out into the market. So, how do you guys think about at deciding what to go out with on new tests, and you're clearly not afraid to fail or fail quickly I think as you all like to say?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah. Again, InHome was a really natural follow-on to online grocery, and it was funny when we – well, I think when we first announced the first test on InHome and I do follow Twitter and it's funny to go out on things like Twitter and watch the reaction because people like and when just that, so, is that concept I've let someone into my house to put groceries in my refrigerator and you say, no, I'm not going to do it, not – ain't happening. It does happen. People like it. You let people into your house all the time, you just don't think about it.

I mean, who would have thought 15 years ago you'll be carrying phones that do what they do today. So, the natural evolution of where customers are going to go, they're not – there's some customers that are not going to spend the time going to the store. They're just not. And so, if you can serve that need, not only get it to their home, put it in the refrigerator where they don't even have to worry about it, then the next evolution can be what if they don't ever have to think about even ordering.

That's where this kind of thing is going and we've got to be on the front-end of those kind of things. We're the largest grocer in the world. We're going to continue to be the largest grocer in the world. But we have to continue to push where the customer wants to go and we're by far the most advantaged in doing that. But if this exact thing we're trying, won't work exactly how we're trying to, we know that. But we're learning a ton and we have a lot of people in the organization they're learning and saying, hey, well, this didn't work, but hey, let's go try that and again, having the balance sheet that we have allows us to go do that within reason.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Yeah. On your fulfillment center base, for your e-commerce business in particular, you all made some pretty significant investments a few years ago. Where does that asset base sit today? Do you have further investments that you need to make or do you have...

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

[ph] Which part, sir (00:24:56)?

Ben Bienvenu

Analyst, Stephens, Inc.

Q

On the e-commerce fulfillment [ph] side (00:24:57)?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Oh, yeah. Yeah. I think that's another one that will continue to evolve, bringing together the supply chain between the stores and e-commerce, I think it's a really good evolution of what we want to do. There are different supply chains at times, e-commerce is a little more of an – [ph] you just network the stores or (00:25:17) more of a pallet-driven network. But when you can see it all on one page though, it's still customer orders and I need to get it to them. And there's just different ways you can do that. And putting those thoughts together helps and make sure that you're using your capacity efficiently.

If we were just to go build out stores network, e-commerce network and always separately, there will be inefficiencies that we don't want to afford as a company. But we'll continue to add to that network, and the business is going to keep growing. If you look at even a 3% to 4% growth for this company, you're talking about \$17 billion to \$20 billion of growth every year. So, that's going to take a few more fulfillment centers and distribution centers at some point. But there's great technology that's coming that we're leading. We will always be a leader in technology for supply chain. That's going to – we'll still continue to evolve, how you can use space, how you move products and how you can do it in a more efficient way. And there's still some really cool stuff coming.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Yeah. With that growth in the e-commerce business, you've become quickly a very relevant e-commerce player in the market. Help us think about what is the talent recruitment process like for that business and what does Walmart do to try and stand out and be an attractive employer for tech employees?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

We've always – we've had e-commerce business and we're able to get good talent when you look back even before the Jet acquisition, some really talented people in our e-commerce business and leading that business. The acquisition of Jet for a lot of reasons was a transition. It was a tipping point. And talent was one of those to where all of a sudden, whether it was people that wanted to work in that – in the tech industry, e-commerce industry or potential tech partners, companies, venture funds, they just looked at us differently. It felt like almost overnight with the Jet acquisition that, okay, these guys are really serious about being in tech and being in e-commerce. And so, that helped. It helps attract a different person that now knows you are serious about it. You're going to commit significant funds to this business.

We have e-commerce – excuse me, tech locations all over the world now, in New York, in Austin, in Dallas, in Sunnyvale, in Bangalore and so there's a lot of different places, Bentonville of course. So, a lot of places that people can work and where we can attract people from different areas. So, it's not just one location. But I would say, today people take us very seriously as a technology company and we're able to recruit in that way.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

This is a little bit of an abstract question, but if you look at the modern retailer today and particularly one like yourselves where you're such a prominent grocery retailer, how do you think about what the market tells you is the right balance of brick-and-mortar physical assets versus e-commerce assets and kind of omni-channel more broadly?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

We're listening all the time as to what that mix should be. I mean, we've dramatically slowed down store growth. If you go back to, let's say, five years ago and we were spending \$14 billion, \$15 billion a year, maybe five or six years ago, more than half of that was in new stores. This year, we'll be in that \$11 billion range, less than 20% is new stores. So, really different – most of those were outside the US. So, we've somewhat made the decision that we can sweat our physical assets more than we have been, and certainly now with online grocery, we can sweat those assets in a really different way. And that some customers, they don't want it delivered to the home, some

are don't want it delivered in-home, some are going to pick up in store or pick it up outside the store, we've got all of those opportunities. And really, it's a matter of ensuring that you can have the capacity to do all of those. You've got to offer it first and offer it in a way that makes sense for the customer financially for us.

But then, how can you always make sure you have the right capacity to be able to flex that the way that the customers want it. It's one of the reasons why, when it comes to delivery, we have a number of different ways as we deliver. We have delivery partners. We have our associates who deliver. We have our own company called Spark, it's a crowd source delivery company. And I think that's probably where we'll be for a while, which is what's make sure we have the right capacity and flexibility to do what customers want.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Along those lines, on the asset footprint, you guys have scaled back new store growth, at what point in time do you think you start to think about growing the brick-and-mortar footprint again, if at all?

Brett M. Biggs
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

I think it's hard to say. It's hard to look out entirely 5 and 10 years and say where things will be. I think it's more likely we add additional space that's for customer pickup, for storage, for logistics, for transportation than we would adding new stores, but the world is changing really quickly. I don't think you can, could or should rule out anything. Is there a format someday that we're going to look at and say, okay, yeah, that's a really interesting format, maybe we should do that. I think it's possible. I think it's not as likely as the other types of spaces that I've mentioned.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Share repurchase is an important part of your capital allocation commitment to your shareholders and you've made significant commitments to buy back stock. How do you think about balancing that with other investments that you want to make in the business? How valuation-sensitive are you? Obviously, valuation today of Walmart stocks different than it was four, five years ago. And – so, how do you think about furthering those commitments and would it makes sense to maybe defer capital spend elsewhere?

Brett M. Biggs
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah, I'll go back to the way, answer it a little bit on the capital allocation question. So, if you just do the math and over the last few years, we've averaged, let's say, \$28 billion of operating cash flow and you got \$6 billion dividends, [ph] \$11 billion of (00:31:28) CapEx. It's kind of sitting there with \$10 billion or \$11 billion. That's after all of that. So, you think like it was the best way to allocate that capital.

Again, if we have really good return projects that we can invest in the business, we are going to go do that first or make an acquisition that could do that, we will do that first. The investments we've made in our shares over the past several years have been good. They've been really good and I like owning more of our company than we did five years ago. We certainly look at valuation as we make these decisions on share repurchase, feel good about the value of the company. And it's all of those things that go into that decision.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

When you all make the decision to put capital to work on an investment that maybe is ROIC dilutive, can you help us understand the mindset of management team and the board? If it's not an immediately attractive ROIC profile, what are you all looking to get out of that investment that maybe doesn't make sense on, with pen and paper you don't want ROIC?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Let's just say ROIC negative.

A

Ben Bienvenu

Analyst, Stephens, Inc.

Yeah.

Q

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Assuming not for very long. Okay, yeah, ROIC dilutive, okay. The types of capital that we're spending, we're spending today is different. It's different than opening up supercenters. When you invest in technology, e-commerce supply chain remodels, it's a different profile and I think you've to be really mindful of how you're investing capital and we talk to our board a lot about that. There are things – supercenters had a really a fairly predictable return profile. The things we're doing today, some of them return more quickly, some return a little less quickly. And you've got to find that balance of matching up things and maybe it could take a little longer to return. You need some things to return more quickly and that's where we spent a lot of our time as we can't do everything that's returning a long time from now.

A

We've got to have things that balance that out because I think investors deservedly so have a return profile in mind for our company and we need to make sure that we can make that work over a long period of time. Now, there's times, we did this four years ago, we came to investors and said, look, we've got to invest in some things that are going to have a longer return profile and as an investor what you should always expect is that we'll be real time with you in how we're thinking about that. But, we do as best we can and try and balance out those two things.

Ben Bienvenu

Analyst, Stephens, Inc.

We're caught up on the holiday season, all important Black Friday.

Q

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

[ph] No. But it feels like hitting (00:34:13) a lot of the country now.

A

Ben Bienvenu

Analyst, Stephens, Inc.

Yeah. Those are in.

Q

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah.

A

Ben Bienvenu

Analyst, Stephens, Inc.

Q

I want to get a sense of, last year, there was some unique opportunities, the toy category in particular where you guys made some pretty significant investments in inventory, you wanted to be ready to capture that opportunity. Is there anything we should be thinking about this year that's unique and how do you think about how your inventory is positioned as you head into the holiday season?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah. So, what's great about inventory, particularly in the US, we were up around 2% and on a 3.5% sales growth I feel really good about, about where we're at from an inventory perspective. Food continues to lead the way for us, and it's going to continue to be a big driver for us for a long time and it's a leader during the holidays as well. People tend to eat a lot during Thanksgiving and Christmas. I'm sure nobody here [ph] does at all, (00:35:02) very disciplined. But, that's a good business for us. General merchandise, having the situations where people can shop the other side of the box is really important to the business. So, there's always toys. This year, it's Star Wars, Frozen – you have a young child, so...

Ben Bienvenu

Analyst, Stephens, Inc.

Q

...all Frozen.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Frozen, there we go. Okay. So, you got Frozen and your – definitely and your...

Ben Bienvenu

Analyst, Stephens, Inc.

Q

...and the [ph] wheelhouse (00:35:29).

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

...and the [ph] wheelhouse (00:35:30) for this year. So, there's always things like that. But it's – again, it really gets back to retail basics even during the holidays; have interesting items, have great price points, have it in stock, have it easy for customers to get. We're able to do next day delivery now, which is you can shop later and later and later for Christmas. We have compressed holiday season this year. So, I think that's going to be even more important. Pickup in store, all of that's going to be more important that's been in the past. We're excited about the holidays. I think it will be a great season to shop at Walmart.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Yeah. Keeping on inventory and working capital more broadly, I think understandably the comp acceleration has been a big focal point for the success that you guys have had, but the working capital management has been unbelievable. I think, every time I've seen you over the last two years, I asked you a question on inventory and working capital, but you're just generating a lot more free cash with your working capital management. Where are we today on the opportunity for inventory? Maybe similarly, receivables, payables, what's that look like?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

All – each one of the segments has done an amazing job and really Greg Foran and his team lead that. And the great thing about the inventory side of that was, your instinct is that if I want to sell more, I just need to have more inventory, and actually it's the exact opposite. If you have more inventory – you need to have the right inventory in the right place. The more inventory leads to outs, it leads to shrink, it leads associates who can't find it, they're frustrated. All kinds of costs associated with having too much inventory.

So, Greg's ability to pull inventory down actually helped with the operating efficiencies. So, it's a double win. There's still room to go. I mean, if Greg – I'm sure if John was sitting here, he would say the same thing. There's still places where we may be over-SKU-ed in something or we still have too much inventory in the backroom. We're working on that from a supply chain standpoint. So, still room to go.

On the payable side, candidly given the growth that we were having and the size of our business, we just weren't – we weren't in the position we should have been from a payable standpoint. And so, we were pretty focused on that for two or three years. Again, there's still room to go. But over three years, we pulled out about \$11 billion in working capital. You can't do that every year. But we've – there's still room to go I think on some of these initiatives. We're very focused on it.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Out there?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Maybe the last few minutes, we can see if there're questions in the audience, anybody want to ask something?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

[ph] Mr. Stevens? (00:38:10)

Q

Two things, Brett. You [indiscernible] (00:38:13) something today about some of warehouse square footage [indiscernible] (00:38:17).

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

On the store, yeah, it's our store square footage.

Q

No. Your distribution centers, your DC.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Right.

A

Q

And I just think that's an unbelievable number. I think [ph] they heard, would probably like to hear that (00:38:31), but also you said something maybe a couple of weeks ago about how – that you manage the team, [ph] you grew up in Walmart, how open you all are and especially (00:38:38-00:38:45) [indiscernible] (00:38:46)?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. So, we were talking about just the square footage that we have around the globe in total, which would be stores as well. It's well over a 1 billion square feet of space. So, there's a lot you can do with that. [indiscernible] (00:39:03) over 600 million in the US. So, it's – I think that we believe that's an asset. I think there are people questioning that years ago whether that was an asset. We believe that is a really important asset. It's interesting growing up in – I realize now I've grown up in Walmart. I've been here almost 20 years, I still sometimes [ph] feel (00:39:22) like I just came the company, but I'm fairly long tenured with Walmart. John has been there 25, Doug has been there 29, I think. And the most interesting thing I've found about Doug is typically, you see a person like Doug that's grown up in a company and they somewhat are going to run the play they've always grown up with inside that company. And he's so open to change and not only open, expecting of change other than the culture. The culture, the DNA – the culture evolves, but the DNA of the culture and what we stand for was how we treat people and how we take care of customers and how we strive for excellence and integrity, none of that's ever going to [ph] change. I mean, I feel confident (00:40:06) will never change at Walmart.

But outside of that, Doug – and the board as well creates an atmosphere that says go, change things, go, try things, go, test things, because not changing is just where you don't end up in a good position and that environment has – it's a really fun environment. There's so many things that I'll go, talk to Doug or [ph] whereas (00:40:40) an executive management team will talk about that's really cool initiative and we'll sit there and say, let's go, do it. I mean, you got to know what the financials are and you've got to be thoughtful about it, but let's go, do this, this makes sense, it makes sense for the customer. And it's just – it's a great environment right now. It's a lot of fun. We're changing a lot of things and it's working, we're winning and that's when it really feels fun.

Ben Bienvenu

Analyst, Stephens, Inc.

Maybe one more question.

Q

Q

Just a question on e-commerce, do you feel like that your [ph] network and your business growth in developing (00:41:16) markets provides you with a speed advantage or a cost advantage when you think about e-commerce [indiscernible] (00:41:24).

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah. And just in case, people [ph] can't (00:41:30) hear on the webcast, it's just about e-commerce and – is being local and advantaged. We certainly believe it is. I think how we use that local presence over time will evolve and we'll be thoughtful about it. There're some places where it will be a huge advantage. Delivery is one of those, being able to pick in stores is – I mean, we're really close to the customer. We're within 10 miles of 90% of the US population. If you're in Nashville, you'll feel that. If you're in Little Rock, you're going to feel that. So, we believe that's a huge advantage that we still haven't scaled in a way today that we can. And so, like I said, I like that physical space that we have.

Ben Bienvenu

Analyst, Stephens, Inc.

Q

Okay, yeah.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

You've got one more?

Q

Yeah.

Q

[ph] We've heard other retailers (00:42:20) talk about transport costs going into next year being an opportunity for them. Have you all spoken about that and the opportunity [indiscernible] (00:42:27)?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah. The question was about transport costs. It was a real headwind last year. We called it out several times, several quarters, last year [ph] have been (00:42:35) headwind, more of a tailwind this year. We're a little bit insulated kind of from either side of that because of the amount of our goods that are moved by our own fleet. But driver shortages last year and third party were somewhat headwind as they're – they have been a tailwind this year, including with fuel costs. So, I would – you never – these things can change really quickly. But it – we're still seeing that as we head into the back part of the year.

Ben Bienvenu

Analyst, Stephens, Inc.

Brett, thanks for your time today.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah, my pleasure.

Ben Bienvenu

Analyst, Stephens, Inc.

[indiscernible] (00:43:05)

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. Thank you. Thanks, everyone. Appreciate it.

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