Wal-Mart Stores Inc.

NYSE:WMT

Company Conference Presentation

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Call Participants

EXECUTIVES

Brett M. Biggs
Chief Financial Officer and Executive Vice President

ANALYSTS

Robert F. Ohmes
BofA Merrill Lynch, Research Division

Unknown Analyst

Presentation

Robert F. Ohmes
BofA Merrill Lynch, Research Division

Okay, everybody, we're going to get started with our keynote lunch presentation. I -- we are just very pleased to have Brett Biggs with us today, EVP and CFO of Wal-Mart Stores, Inc. Brett has been with Walmart since 2000. He's worked in many different key roles, including EVP and CFO of Walmart International, EVP and CFO of Walmart U.S. division. He's also worked as both the CFO and, I think later, as an SVP of Operations at Sam's Club. He was also SVP of International Strategy and M&A. I don't recall anybody having so many key roles, and now in probably one of the most key roles at the entire company globally.

But I want to highlight Brett -- a few of Brett's other interesting roles before I turn it over to him. He's on the board of MANA, a nonprofit focused on children's malnutrition in Africa. He also serves on the Cancer Challenge board. And I just really appreciate him making time to be at our conference. And I want to thank the rest of the Walmart team for joining as well. So let me turn it over to Brett for some comments before we get into fireside Q&A.

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Yes. Thanks, Robby. Appreciate everybody coming today and your interest in the company. It's an exciting time, certainly, to be at Walmart. You've covered us for a long time, Robby, but a very exciting time to be here. You've heard Doug and many of our other executives, Greg Foran and others, talk about creating a seamless shopping experience and how important that is for our customers and being able to create that at scale. And it's a focus on taking care of our customers today as well as taking care of how we serve our customers in the future.

And I think one of the things that really differentiates us is our ability to transform the company from a position of great financial strength. So if you look at what we talked about at the end of the fourth quarter, last year, we had over $27 billion in operating cash flow. We raised the dividend for the 43rd consecutive year. We returned over $10 billion to our shareholders in the form of dividends and share repurchase. So while we're transforming the company, we can do that from a position of great strength.

If you were to look at our fourth quarter and full year earnings release, you'll continue to see good momentum in the parts of our business. So if you look at Walmart U.S., 6 straight quarters of positive comps, 5 straight quarters of positive traffic. You heard Greg Foran talk a lot about our Clean, Fast, Friendly scores. So the wage investments that we put in last year and this year, we're seeing great improvement. Our Clean, Fast, Friendly scores and our customers notice what we've done with the stores.

And I was in Indianapolis for our year beginning meeting a few weeks ago. And when you're with our associates, you can feel the momentum with them, and you can also see and hear that they feel obligated to the company to return that investment, investment they put in the stores, and that they know that we'll see performance from that. We'll see improved comps, so I feel good about where we are from a store perspective.

International continues to have very strong performance, particularly as you look at places like Canada and Mexico, continue to do very well, good steady performance in international.

Sam's Club. I spent 3 years in Sam's Club. It's all about membership and merchandising. U.S. seeing good membership numbers from Sam's Club in the fourth quarter, which is a good leading indicator for that business, really good improvement in our Plus memberships, which is some of our most loyal members. So I think good momentum there as well.

E-commerce, we had a 13% GMV growth last year. We had a number of our key international markets that we discussed that caused a bit of a headwind for us. But we continue to make really good foundational progress in that business as you look at the fulfillment centers, the 5 fulfillment centers that we opened last year, and what that can do for getting items closer and closer to our customers.

The addition of markets in online grocery, and that we'll continue to do that. Rolling out Walmart Pay, and what we've done so far with Walmart Pay, which is a great example of what we can do as a company to bring various parts of our company together in something that will be great with our customers.
So really in every part of our business, there's good momentum. I think we're making progress with our customers, with our associates. You've covered us for a lot of years. We're never satisfied. We continue to push, and I'm excited about where we're going, and again, being able to do that from a position of financial strength is really, really important, and I think a differentiator for us.

Question and Answer

Robert F. Ohmes
BofA Merrill Lynch, Research Division

And Brett, when you step back from everything you're doing and just sort of try and -- can you give us some insight what your core U.S. customer, how is that customer feeling? Are they feeling better or the same? And then maybe contrast that with your international customer.

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Okay. Yes, if you kind of step back from a macro level, there's a number of certainly what should be tailwinds for the customer: fuel prices, interest rates are low, unemployment's low, at least the stated number of unemployment is low. The customer though, we continue to see 1 trend that was prevalent in 2015, which is customers were paying down more debt, they continue to save money. We're continuing to see that and you've read reports where you continue to see that some into 2016, so I think that's a trend that continues. I think anytime you get an election year and maybe in a year particularly with this election, and I'll probably leave it at that, is that it's on the customers' minds. When you -- as they are listening to the news, reading Twitter, whatever you do and you hear about very low oil prices, negative interest rates, even maybe of customers who don't know exactly what that means to them, there is an element, it's in their psyche a bit, in how they feel and how comfortable they feel. So there's definitely some positives, and I think weighed against some of the other things that are probably a little more subjective. Internationally, as you can imagine, market by market, it's very different. The consumer, particularly our consumer in Canada and Mexico, not only the consumer, but our business is doing very well in those markets. The U.K. has been challenging. Anybody that has -- we've gotten a number of questions this morning around the U.K. A challenging market. I think the consumer's winning in the U.K. There's a number of things that we have going, which I'd love to get into to make that business successful long term. China's a market that we're very committed to. We're very excited about the long-term opportunity in China. It's a bit slow right now. There's a number of dynamics at play out in China. But I think longer term, you'll see a good, healthy consumer in China.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

I get a lot of questions, especially recently, on deflation, especially in the food area. But can you give us the Walmart U.S. perspective on the outlook for deflation or inflation, especially in food?

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Yes. So periods of time, inflation, deflation ebbs, you have to talk about it almost category by category. We've talked quite a bit about meat and dairy being deflationary. Meat's been particularly deflationary over the past period of time. We talked a bit about, in our fourth quarter comps, that deflation played a part in that certainly versus the prior year. And even as we gave guidance for the first quarter, talked about that we continue to see deflation in some categories. You're seeing -- you do see inflation in some parts of the business. Branded pharmacy, for instance, we see some deflation in that category. Electronics is one where we've seen deflation over a period of time. Some of that is just input costs coming down. Some of that is that, particularly in televisions, you haven't seen technology over the last several years that's really driving -- driven something that consumers are clamoring for like you would've seen 7 or 8 years ago with high-definition televisions. You haven't seen quite that. 4K, maybe that's the thing that comes next to drive that. But again, it's kind of category by category.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

And then Walmart obviously made some very well-telegraphed wage investments. Can you sort of remind us how we should think about the impact of the wage investments? But also more about what you're seeing so far on the paywall from those investments and maybe the categories that benefit from -- the most from those.

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Yes, sure. So we have -- it has been very well discussed, I think, the wage investments of $2.7 billion that we put in the stores last year and this year. And even as I tour stores around the country, I can feel a difference. I can see the difference. And I would guess as you shop our stores, you would see the same thing. And it pays off in a number of areas. Clean, Fast, Friendly stores -- scores go up with consumers so they're seeing it as well, that the stores are cleaner. The department managers that we had back, tell the department managers makes a difference as to how you're served when you're on the floor. I think that's made a difference. When you check out, it's faster. I know stores that I go into, when I'm ready to check out, there's people waiting for me to check out, and our customers notice that. Some other things that have, I think, we've seen a benefit, inventory's a lot better. And it's some separate processes around our CAP processes and top stock that Greg Foran's talked about a lot. Inventory's down 2.9% percent year-over-year, which is a big deal, helps with in-stock. From a payoff perspective, again, you're seeing it with consumers. I think when you look at our traffic, it's been positive over 5 quarters. And if you look on a 2-year stacked basis, this last quarter, it was around 2%. I think you're seeing some benefit certainly from traffic. But associates feel better about what they're doing about their jobs. Not only do we put money in the wages. We put a lot of investments as well into training and ensuring that we have a higher quality associate in the Pathways program that we've talked about. And if you talk to our people group or our HR group, they would tell you that they're seeing a better candidate pool than we've seen in the past as we hire into our stores. So there's a lot of places in which you're starting to see payoff for wages.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

Another question I have -- I got recently a lot is how did you put up such a great fourth quarter? Remind us again how you put up such a great fourth quarter from a traffic standpoint but also put up a pretty decent gross margin, I think, versus expectations.

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Yes, traffic, we talked about a little bit. I think there's a number of things that go into traffic. We talked about fuel prices will make a difference into traffic as fuel prices ebb and flow, so we know that's going to be the case as well. Gross margin, you'll see ebb and flow, gross margin rate. You can go from quarter-to-quarter and see ebb and flow on the timing of when you get the benefits, and there's a lot of items that drive cost of goods sold. We're seeing benefits from fuel prices. From a transportation standpoint, you see that in cost of goods. We continue to do a lot of work with our suppliers around cost. So when you see that come in on the cost of goods line and when you see it invested back into the business, it can vary from quarter-to-quarter. And so all of those things had some impact on the fourth quarter margin.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

Can I get you to talk about e-commerce and really maybe separate it into sort of the U.S. e-commerce initiatives versus sort of what -- how we should think about international and what the key things that we should focus on as investors?

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Yes. So other than the U.K., where we've been in our e-commerce business the longest, we've been, had pickup in e-commerce business for 15 years. So a lot of experience in that market. And actually, that market and our experience there has helped quite a bit with the U.S., not only just in learnings but talent that we brought over from the U.K. A number of our people in online grocery came from the U.K., so that's been a nice benefit for us. In some of our other markets, we're a little more nascent in those markets, and we'll continue to make progress with that. We just acquired the rest of our Yihaodian business in China. And we know, over time, that the marrying of those physical assets and digital assets will be very important in a place like China. So in all of those places, we've made progress. From a U.S. perspective, we've made a lot of foundational progress, and I talked about it a little bit in the opening comments. Online grocery's going to be important to our customer because what we want is we want customers to shop at Walmart. And if that means shopping in our stores, that means shopping online, we want them to be Walmart customers. We drive 260 million customers a week through our stores. We're 1 of the top 3 websites, retail websites online, so we get traffic, good traffic, in both stores and online. What we did with fulfillment centers is important in that it allows us again to get goods closer to our customers, shortens delivery times. And it's an important part of what we'll do for the future. Online grocery will be very important in how we serve that customer. We've had really good experience in the markets that we've been in. We know from our tests that we started in Denver last year, that we do pick up incremental customers. In that test, we talked about that we -- about 25% of the customers in online grocery were new customers to Walmart, which is really, really important. And that's one market, and we'll continue to see how that goes as we scale that. But everything we're doing, whether it's around technology, online grocery, fulfillment centers, is about continuing to ensure that our shoppers stay inside the Walmart ecosystem, and then getting new shoppers.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

And then can I get you to talk a little more specifically about the grocery business, the U.S. grocery business? And I know that you guys have called out produce as an area. Where are you in the sort of improving the produce offerings and what kind of response are you seeing?

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Yes. We know here in the grocery business, which we are, the presentation of fresh and what that customer experiences when they walk in the store is critical to the rest of the shopping experience. And that includes customers that later shop online. It matters to your brand what they see when they come in the store. So you've heard Steve Bratspies and Greg Foran talk about the amount of time and attention that we're putting on the fresh business. And we know how important it is, particularly as you think about things like online grocery, becomes very, very important. We're testing a number of things in fresh, changing sightlines, changing the way that we're displaying products, cooling products. And you'll continue to see that as we go throughout the year. Customer response has been really good. I think we've talked about that we're growing market share in produce. We're growing market share in organics. Organics will be something that continues to be very important. There's a number of things that aren't as visible that will be visible or should be visible to you as a customer. One of the things we've done over the last year is that we've taken a day out of the supply chain for fresh product, and that makes a difference not only what it looks like in the stores but also how it ends up and what it's like when it gets to your house. That's the most important thing, in that it's fresh not just the day you get it but it's fresh when you want to eat it and when you want to consume that. Continue to put a lot of investment to training in fresh. As you know, we put fresh -- talked about putting fresh managers back into our markets. So a lot of investment, time and energy being spent around fresh. We know it's critical to our brand.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

Another question I get all the time and you guys get all the time is price investment. You guys have made some -- given some commentary on planned price investments over the next couple of years. Can you just remind us, sort of maybe correct us on how we should think about price investment and when we see it or how it works?

Brett M. Biggs
Chief Financial Officer and Executive Vice President

I haven't gotten that question, even today, as I bet it wouldn't surprise you. It's -- price is not an on/off switch for us. We invest in price all the time. If you go in our stores, you continue to see us invest in price. We're very mindful of price gaps with competitors, and we have a lot of competitors, different types of competitors. So we're very mindful of that. We talked about over the next several years that we'll invest several billion dollars into price, more of that being focused the next couple of years. And we'll be smart about how we invest in price. There's some places we're investing in price that makes more of a difference than it does in others. But we are always investing in price. There's not a time we're not doing that. There are times where we lean into it more, maybe lean into it more in different areas, but price is always going to be a very, very important part of what we do. There are some areas where I think value is as important as price. Fresh, we were just talking about it a minute ago, when it comes to organics and things like that, value matters in some regards as much as price and how you -- and how the customer perceives that product and perceives where you are in the market. So it's something you can imagine we spend a lot of time on and will continue to be a big focus of ours going forward.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

Another question I had and I mentioned it already, but I'm going to ask you in front of everybody else. Your Head of Merchandising for Walmart U.S. was at a competitor conference last week. And I noticed for the first time, he sort of linked together millennials and household formation and, I think, families and convenience all in the same sentence as an opportunity for Walmart. And I don't want to -- he was speaking to it so it's maybe unfair. But is there anything you can tell us? Is there any -- is Walmart feeling a change or feeling momentum from the millennial consumer?

Brett M. Biggs
Chief Financial Officer and Executive Vice President

I mean, we know that we penetrate every part of the market, different generations, different income levels, and we index very well with all of those. You've read reports like I have that say millennials do shop us pretty heavily. And they're also going to be one of the most value-conscious generations that we've seen, and that's important. That plays right into what we do. I mean, we are about value. But we're also about convenience. Over the years, we've talked obviously quite a bit about price, but convenience matters a lot. I think it matters particularly to that millennial generation, and so as we look at things like online grocery, e-commerce and everything we're doing again around serving that customer where they want to be served, they don't have to come in our stores necessarily to be served. I think that will work very well with that generation as it does with other generations.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

I just want to make sure I open it up for any...

Brett M. Biggs
Chief Financial Officer and Executive Vice President

I'm a Gen X-er so I can't quite speak totally to millennials, but I appreciate you thinking -- I'm assuming you thought maybe I was a millennial so I appreciate that.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

I have a few more but I want to give some people...

Brett M. Biggs
Chief Financial Officer and Executive Vice President

I didn't think that'd be funny. Actually, that was...

Unknown Analyst

Just one. I was interested in your macro commentary at the start. Comments about the U.S. consumer still saving and delevering, but it sounds like some momentum. How do I reconcile the difference, U.S. good momentum or U.S. delevering, keeping trends?

Brett M. Biggs
Chief Financial Officer and Executive Vice President

I think it's all of the above. I think there's a number of factors that are tailwinds for the consumer. I think how they spend their money. I mean, they continue to spend money but they are taking care of their balance sheet. So I think there's -- I was talking about it's a bit of a mixed bag, and we've talked about that actually for several quarters. And I think there's some headwinds from a consumer standpoint and some tailwinds. I think you'll just have to take the balance of that.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

Can I get you to talk about Walmart Pay and maybe some more insight, the timing of the rollout and what you expect to happen as it rolls out?

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Yes. I mean, we talked about the rollout being over the rest of the year. I think it's a really -- I said earlier, I think it's a really interesting concept in that we want to do whatever we can to make it easier for our customers to shop, and we believe this could be one part of that. But it's a great example of the different parts of our business coming together, whether it's e-commerce, it's the U.S. business, it's financial services, [indiscernible] ISD or systems group, coming together to do something that is a little bit unique from a retail perspective. And it's another tool that we want to put in the customer's belt to make it easier to shop with us. But I think it'll be really interesting as we continue to roll that out.

Unknown Analyst

I asked this question last year and maybe I asked it the wrong way. I'll try again and phrase it.

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Can you tell me how we answered it last year?

Unknown Analyst

Defensively. I was too offensive. You can see your stock everyday. It's no higher than it was at the start of the year, century. So it's 16 years of lower ROICs that partly was due to the international spending. In your defense, you haven't thrown money at Russia. You haven't -- you got out of Germany. You've done some good things. But now as you go into this e-commerce spending, I just have to know why it will end better than international has progressed on an ROIC basis because I think that's really what's holding back your stock.

Brett M. Biggs
Chief Financial Officer and Executive Vice President

No, it's a fair question. Yes, I do watch the stock certainly, and we get questions about ROIC. As you think about what we want to do for investors long term, want to improve returns, want to improve our stock price, that's part of why our shareholders invest in us. I think it's tough to compare international necessarily with e-commerce. In all respects, no matter what we do, what decisions we made in the past or decisions we make in the future, it is about taking care of our customers and doing what we think is right to serve them today as well as in the future. And in doing that, believe that's serving our shareholder as well. Part of what we wanted to do as we announced the wage investment a year -- a few -- a year ago almost or actually a year ago, and part of the buyback that we announced in October was ensuring that our investors understand that we want to continue to deliver value to them while we are transforming the business. We're in a transformational period as a company. But with the operating cash flow we generate, we think we can do both, which is take care of our shareholders and do what's right for the business short term and long term. We talked about by next year, you'll start seeing our EPS increase. We expect that again in FY '19. And that's why we wanted to give guidance further out, was to give investors an idea of not just 1 year but what this looks like over a 3-year period and for you to understand, our investors understand, that we are focused on the long-term viability and health of the business but also what our short-term results look like.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

Brett, can I get you to talk about the change in your approach to gas stations, maybe doing more in-house? And what's the advantage or disadvantage of that? And could that turn into -- you sort of -- is there -- can you marry that with Walmart Pay and have a loyalty program that's in-house or...

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Yes, we've -- fuel's been a big part of our business for quite a while. We've had -- strictly at Sam's Club, we've had fuel for quite some time in-house, so I'm not sure necessarily it's a change in direction. And we still have a good relationship with Murphy, and they continue to have a number of our fuel stations. Fuel's a differentiator for us. It's certainly a way to show price to customers, I believe, to drive traffic into the stores. There's a number of things that fuel -- important part that fuel plays in our business. And it's something, as we go forward, that we just wanted to have that as a bigger piece of the puzzle for us going forward.

Unknown Analyst

So you mentioned -- you talked a little bit about competition earlier. I'm just wondering if you can expand a little bit on that and how that -- the nature of that composition is changing. I think I would obviously raise it out here. One of the more interesting things that we learned this earnings season was Target sort of guiding very aggressively in terms of their long-term sales growth. And it would seem that the incremental share gain would come from you guys as one part of a broader setting -- set of competitors. So I just -- I wonder how you think about that and how maybe that's -- there's an opportunity for you guys as well as you pursue different strategies.

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Yes. So a lot in that question. Won't speak specifically to any one competitor. But we have a large competitor set, and that goes from grocery stores, dollar stores, discount stores, department stores, online, so a very wide competitive set. And really we pay attention to all of that. As we think about our value proposition and what our customers want from that, we have to consider all of that in that equation. We gave our longer-term sales guidance last October of 3% to 4% over the next 3 years, excluding currency, which if you think about the size of our business and the dollar growth that provides, that is a big number. And I think sometimes with Walmart and others maybe you have to look at percentages as well as total dollar growth. Underlying growth last year for Walmart was around $14 billion, backing out currency. So we continue to generate a lot of growth, and that can be put in a lot of different directions. Competition is not getting less. I think we've always had a view that competition makes us better. I don't think that's any different today. It continues to push us to be better. Around the world, we have competitors, and we have certainly national and global competitors. So nationally, you've got Kohl's or Target or others that are great national competitors but also a lot of great regional competitors. And our business is really store-by-store -- customer by customer, store by store and ensuring that we are competitive against that relevant set of competitors in that market. We think about it from a macro standpoint, but it has definitely micro implications on how we run the business.

Unknown Analyst

How do you see your online percentage of the business growing over the next 3 years in your plan? And how important is improving speed to distribution and having a third-party market to getting there?

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Yes, we haven't talked about specifically goals of percent of sales among our business. We want all parts of the business to grow. Speed is a great word and not just in how we look at third party but across the company. If you hear me talk or you hear Doug talk, speed is an important part of what we want to do. We understand the world is moving very, very quickly. Walmart's always been a company that has -- I think, has moved with great speed, but it's more important today, I think, than it has been in the past. From a third-party perspective, we want to continue to grow that business, and you'll continue to see us do that into the future.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

Can you talk about the closing of the Express stores? And what -- if you go back a few years, people were pretty excited about that. Some people...

Brett M. Biggs
Chief Financial Officer and Executive Vice President

I was in Walmart U.S. when we -- yes, when we started that.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

There's some excitement I remember going a bunch of those. And what did you learn from that? What should we take away from not focusing on that versus what you're going to focus on going forward in the U.S.?

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Yes, there's kind of 2 separate questions and I might hit both of them. One would be I think how we think about our portfolio and then Express stores specifically. We talked about that we went through a very stringent process last year as we looked at -- literally looked at every store in the world, think about each store from a strategic standpoint, whether it's the right format, right geography as well as financially, certainly. When you look at the fact that we closed less than 1% of our revenue base and less than 1% of our square footage base, one, I think that says something about the health of our store portfolio. And that's not to say we don't have some stores that are still challenged, but those stores I feel like we can continue to make them better in the coming years. So I think you're seeing us start to take decisions maybe more quickly. The Express stores specifically, we learned a lot from that, and we always talked about that it was a test. And I know there's a lot of excitement created over that. And we learned a lot from that. We learned about smaller stores, although we have smaller stores in many parts, many countries around the world. Walmart needs to do things with scale. When you look at what we're doing with Neighborhood Markets, and we feel good about Neighborhood Markets, we think that there's a customer that can be served with the Neighborhood Market that maybe necessarily doesn't have to be served with a different format. There are -- I think there are -- there was demand in some of those markets that probably is even bigger than we thought from an Express store standpoint, probably put a bigger store in some of those market. So as we look at how we scale out in the future and how we serve customers with online grocery and other things, I think it's more about what we're seeing with Neighborhood Markets versus necessarily we weren't pleased with Express because we did learn a lot from that.

Unknown Analyst

There's a school of thought that's been out there that keeping Sam's and Walmart together is perhaps not the best thing, basically for the reason that Sam's would be able to buy at better prices from their vendors on their own as vendors wouldn't want to pass along those costs all the way to Walmart. Can you talk a little bit to that in terms of leaving the strategy -- keep leaving them together and perhaps the gross margin dollar opportunity at Sam's is there left to be on their own?

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Sam's is a very important part of our business, and we've talked about, over the past several months, a number of strategic initiatives that we're taking to improve our merchandising there. When you look at a really low SKU business, the Club channel is, you've got to be right with all of those SKUs. I'll give you an example. We probably pulled out some SKUs that were meant for business members that we probably shouldn't have pulled out. You're seeing us put some of those back in and getting traction with the business members. So overall, we feel good about the strategic initiatives that we've taken at Sam's. You asked the question about suppliers, and I can't speak to it directly. But for the most part, it's different products certainly that you're seeing at Sam's Club, sometimes the same vendor but in many times a very different product. And so it's -- there are benefits of having Walmart and Sam's together, certainly. And so I think today, we're very comfortable with where we're at with Sam's. Want to get ourselves better, but we're comfortable with where we're at.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

Can I get you to talk about the pharmacy business a little bit more? 2 questions. When could we see margins in that business get a little better? And also what do you guys foresee? It's been inflationary. Do you see that going away as we move through the year? Or how do you guys think about that?

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Yes. It's a very important -- the health care business, in general, is very important for us and particularly as you look at the boomer generation, aging the boomer generation that will continue, I think, to be a bigger business for us. So you're seeing us -- what we've done with experimenting with clinics. All of that, I think, is part of the offering that we have. There's been a number of changes in the industry of how we're paid, and it's not just us, it's other retailers as well, and so that puts a pressure. We talked about it on our margins, we'd expect that to continue somewhat into the year. The new health care plans have made a difference in how people pay in the mix of payments, and so that's played on that as well. But overall, it's -- it'll continue to be a really good business for us and, I think, continue to be a very strong business.

Unknown Analyst

How do you balance the concept of operating from a position of financial strength with the opportunities that could potentially be available to you by adding some leverage to your balance sheet to boost shareholder returns or pursue other initiatives, especially in light of the fact that your ratings are so much higher than your competitors?

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Yes. It's something we think about, our capital allocation, our balance sheet, our leverage, we think about that, as you can imagine, all the time and finding what the right balance for us as a company and our shareholders going forward. We've had a AA credit rating for as long as I can remember. And even Charles, back in October, talked about that it continues to be important to us but we'll use our balance sheet strategically. If you look at the operating cash flow that we generated last year of $27 billion and the capital we announced for next year, which is around $11 billion, which is down a little bit from the past -- or in the prior year, pay a dividend of $2 a share now, that still leaves quite a bit of cash left over. And you've seen us use that recently for share buybacks. The first thing we want to do is invest in our business. And what we've said by saying our capital next year will be $11 billion is that's the amount we think we need to spend to take care of our stores and our customers today as well as for what we want to do in the future. But we're always looking for ways to make our business better. And so there's just a lot of pieces that go into your question. But we're always looking to do what's best for shareholders longer term.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

How should we think about longer-term gross margin trends and SG&A trends for Walmart? Is it -- should we sort of expect a secularly declining gross margin and a secularly declining SG&A ratio or stabilization? Or, not committing you to it, we get the wage investments and short-term things.

Brett M. Biggs
Chief Financial Officer and Executive Vice President

We've talked about in October kind of a run rate of operating margin that you should be able to expect from the company going forward. And there's any number of way you can get to that. There's a lot of levers between sales and operating income. Price is always going to be really important for us, and price doesn't always mean -- invest in price doesn't always mean lower profit. If you think about the productivity loop with Walmart, which has always been a big part of our operating model actually, lowering prices -- lowering expenses to lower prices to increase your sales is what we've always been known for. Now we've taken the opportunity over the last couple of years to invest heavily into wages. But over time, you should continue to think of Walmart in running that productivity load going forward.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

You've met with, I think, some of the people in the room here today.

Brett M. Biggs
Chief Financial Officer and Executive Vice President

I see a lot of familiar faces.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

Is there -- what do you think is the most -- when you talk to investors, what do you think is the most misunderstood thing when it comes to Walmart?

Brett M. Biggs
Chief Financial Officer and Executive Vice President

Wow, that's a great question. I'm not sure, it's -- it's not a misunderstanding. I think it's if you're an investor, I understand the questions about sales growth and e-commerce growth. The same with shopping experience. It's something that, particularly doing it at scale, is not something that's been done before. And we are trying to create something that really hasn't been done. When I think about -- I mean, I come into this role, I know, at a very exciting time in Walmart's history. But I've been here 16 years, and I've never been more excited about what we can do as a company. I remember I came to the company in 2000. I think our revenues, I may be wrong, were $150 billion or something at the time and people were saying Walmart is never going to grow again. And it did grow a little bit after the year 2000. But when I think about what we can be to the customer and I look at what we're doing around fulfillment centers and online grocery and what we're doing in our stores and the ability to do that with a really, really solid balance sheet and ability to have options and make decisions, I just get really excited about what we can do as a company.

Robert F. Ohmes
BofA Merrill Lynch, Research Division

That's a great answer. And with that, I want to thank Brett and everybody from Walmart for joining us today.

Brett M. Biggs
Chief Financial Officer and Executive Vice President
Thank you. Appreciate it. Thank you.