Company Name: Wal-Mart
Company Ticker: WMT US
Date: 2017-08-17
Event Description: Q2 2018 Earnings Call - Follow-up

Market Cap: 239,215.11
Current PX: 80.08
YTD Change($): +10.96
YTD Change(%): +15.856

Bloomberg Estimates - EPS
Current Quarter: 0.972
Current Year: 4.386
Bloomberg Estimates - Sales
Current Quarter: 120654.000
Current Year: 495379.520

Q2 2018 Earnings Call - Follow-up

Company Participants

- Steve Schmitt
- Kary Brunner
- Pauline Mohler
- Miguel Garcia

Other Participants

- Robert Drbul
- Michael Louis Lasser
- Charles Grom
- Daniel Thomas Binder
- Simeon Ari Gutman
- Kate McShane
- Karen Short
- Matthew J. Fassler
- Oliver Chen
- Peter S. Benedict
- Benjamin Bienvenu
- Scot Ciccarelli
- Budd Bugatch
- Michael Otway
- Robert F. Ohmes
- Edward J. Yruma
- Joseph Isaac Feldman
- Paul Trussell
- Patrick G. McKeever
- Christopher Horvers
- Bob Summers

MANAGEMENT DISCUSSION SECTION

Steve Schmitt

Q2 Highlights

Opening Remarks

- So I'm sure you've seen our earnings materials from this morning, and I wanted to highlight a couple of things
- First, we had a solid second quarter and H1 the year, with top line momentum in the business

Comp Sales Growth

- Adjusted EPS was $1.08 in Q2
- U.S. comp sales growth was 1.8%, including 1.3% traffic growth
- Our U.S. eCommerce again performed very well on the top line, as GMV grew 67% and sales increased 60%, which includes our acquisitions
- And our Sam's Club comp sales without fuel, grew 1.2%
- Our International delivered very strong underlying results

Adjusted EPS

- So, from a guidance standpoint, we've updated our full-year adjusted EPS guidance to $4.30 to $4.40, which includes a range of $0.90 to $0.98 for Q3
- Our previous guidance was EPS of $4.20 to $4.40 for the full year
- And for Q3, 13-week period ending 10/27/2017, we expect Walmart U.S. comp sales growth between 1.5% and 2% ex-fuel

Closing Remarks

So, a couple of reminders before we kick the over to Q&A

I want to let everyone know that registration will begin next week for our Investment Community Meeting, which will be held here in Northwest Arkansas on October 9 and 10, and we really look forward to seeing you here

And that we'll release our third quarter earnings on November 16

And at this point, we'd be happy to take your questions

QUESTION AND ANSWER SECTION

<Q - Robert Drbul>: I just had some questions on e-commerce side. Can you talk about how much the acquisitions contributed to the SKUs and the growth? And was it a bigger contribution than it was in Q1?

And I was wondering if you could just address what initiatives are having the largest impact on the e-commerce side; free two-day shipping, pick up in-store, buy online pick up in-store, online grocery? So, wondering if you could just address where you're seeing successes there. Thanks very much.

<A - Steve Schmitt>: Thanks, Bob, for your questions. So, [ph] taking a bit of a (03:45) time. So, I think the first question you asked was around the acquisitions impact on SKU growth. Really not a tremendous amount of growth from the acquisitions, or from an SKU standpoint, the increase is due to marketplace acceleration on Walmart.com.

In terms of where we're growing in e-commerce, actually pretty similar to what we saw in Q1 with the addition of Pickup Discount. So, really our free shipping, two-day product on $35 minimum purchases was certainly a catalyst. We have Easy Reorder, which is a feature relatively new to Walmart.com. Certainly have online grocery that's continuing to perform well. And those are really the drivers of the e-comm and certainly have the acquisitions that contribute to the overall growth.

I think the other part of your question was what percent the acquisitions drove of the overall growth. We said that the Walmart.com, the organic growth was the majority of our growth and we're really not going to break it out any different than that at this point.

<Q - Michael Louis Lasser>: Since we last spoke, obviously there's been a big development in the marketplace between Amazon buying Whole Foods. So, do some of those changes influence how you're thinking about the pace of investments in your digital strategy, particularly in the food category? So, do you see this as a more protracted investment cycle than maybe what you initially thought, given some of the intensifying competition?

<A - Steve Schmitt>: Well, Amazon is really good. We certainly have respect for them, and we have experience competing with Whole Foods. We continue to execute our strategy, improving our stores, making progress with the customer, doing things that really take the advantage of our scale, particularly online grocery. We're now in over 900 locations. So, Pickup Discount that we think is something that Walmart can do very differently than anyone else. Two-day free shipping on millions of products we talked about. So, we're going to continue to executing our strategy. We have momentum in the business. We're going to continue to execute our plans. We're confident in our strategy, and we're going to continue down that path.

<Q - Michael Louis Lasser>: And my follow-up question Steve is, your domestic gross margin was down 5BPS. You're investing in price. You're investing in fulfillment. Can you give us a little bit more texture on what the drivers of the 5 basis point decline were, and how much were those pressures offset by some of the changes to the merchandising relationships with vendors that you've been able to achieve over the last few years?

<A - Steve Schmitt>: And, Kary, why don't you take that [indiscernible] (06:42) U.S. business specifically?

<A - Kary Brunner>: Sure. Yes. You really hit on the key drivers, Michael. Our merchants continue to do a really good job with driving EDLC through cost of goods, and we're getting a benefit to margin there. And then, you mentioned the offset, the price investment continues, just executing along the strategy that we outlined couple of years ago. Customers continue to respond really well to that. And then, as our e-commerce business grows, there is some pressure on margin as a result of that as well. So those are the key drivers of margin decline this quarter.

<Q - Charles Grom>: On the 30BPS of inflation, just wondering if you could talk about the composition of that by category? And when we think about H2, does your guidance incorporate a commensurate 30 basis point benefit or slightly higher?

<A - Kary Brunner>: I'll take that one. It's Kary. Chuck, when you look at our inflationary environment this quarter, really it comes down to increased inflation in meat. That was probably the biggest flip from last quarter. It was deflationary last quarter, this quarter was inflationary. And then produce there was a flip from deflationary environment to inflationary as well. So, probably all [indiscernible] (08:07) categories, those were the most significant drivers. And as it relates to our Q3 guidance, we gave our comp guidance and that would include as one of the assumptions, whatever inflation or deflation we expect.

<Q - Charles Grom>: Okay. And then just my second question. Just clearly a good number on the top line. Wondering if the – how the comp trended throughout the quarter. Because clearly you guided to the 1.5% to 2% back in May, but wanted to see if trends did decelerate at all during July and wanted to see if you wanted to share any early reads on back-to-school.

<A - Steve Schmitt>: Hey, Chuck. It's Steve. We're not going to dissect to Q2, but I think with our guidance we feel pretty good about the business and the momentum that we have. I think back-to-school is still early. So, probably too early to talk about what's happening there, but we feel good about our proposition and our prices.

<Q - Daniel Thomas Binder>: I had a couple of questions on e-commerce. First, 67mm SKUs, it's been climbing pretty rapidly. I think last May or June it was only 10mm. Just curious high-level where you think that SKU count is going. And at this point, I'm not sure if you're willing to share, but how much of your e-commerce business is being done through the marketplace?

And then, the final question around that is the integration of the acquisitions you've been making there. If you could just give us a sense of what the end goal is with those acquisitions. I know it's product and category expertise, but do you plan to integrate them into the Walmart business? How long? What will that involve? Do you imagine selling that product on Walmart.com at some point [indiscernible] (09:56) would be helpful.

<A - Steve Schmitt>: Sure, Dan. So, let me maybe take the SKU count first. So thanks for talking about the numbers and the acceleration we've seen in the count. It has been pretty remarkable SKU count growth and the acceleration in the marketplace has really driven that. So, we're happy to bring our customers more of an assortment to really complement what we're doing on a first-party basis, both online and the combination of online and in-store.

So, how big that gets, I think it's – we'll see. We've seen nice acceleration. We don't know what the magic number is at this point; I think, to be quite frank. But we're happy to see the customers finding more of what they want online, whether it's first-party or third-party on a marketplace.

The acquisitions do come into that. And I think, we talked earlier about the acquisitions really aren't driving the SKU count on Walmart.com today, but they are bringing category expertise that we can leverage throughout the Walmart system, not only in the acquired businesses, but through a much broader platform through Walmart.com and others. We're getting great people. We're getting synergies that we can use Walmart's scale to apply to these businesses and make them more efficient, we believe, in some areas. So, that's really what the acquisitions do.

And in terms of where we are in that integration, I mean, integrations are hard, they always take time, but we're proud of the progress on some of the systems integration that we have, and I think that's – is that about it? Or did I miss something?

<Q - Daniel Thomas Binder>: The question around just third-party marketplace, how much of the e-commerce business today is being driven by that?

<A - Steve Schmitt>: Yeah, Dan, we don't break out that specifically. But we're certainly happy with the SKU count increases and the customers finding more of what they want, which certainly helps the business.

<Q - Simeon Ari Gutman>: So, it looks like EBIT margin has been on an improving trend, and I want to clarify; it looks like, based on Q3 guidance, and then, one can infer for Q4, that EBIT margins look like they're going to be under a little more pressure, and in other words, reverse that trend. I don't know if that's right or fair because there were some impairment with Sam's, and I don't know if we're taking that out properly. So, curious if you can just speak to the implied EBIT margin direction within the guidance? And then if it is getting a little worse, is it further pressure on price or mix shift? Or is it just more difficult to control SG&A?

<A - Steve Schmitt>: Hey, good morning, Simeon. Thanks for your question. We're not going to get into a lot of specifics on any EBIT margin guidance. I think, we gave overall guidance for the quarter and for the year, which you know. We're not going to get into the individual elements, and I can't think of anything in particular really to call out for you there. So, I don't think I'm going to be able to help you much on that question. All of our assumptions are built into our overall guidance.

<Q - Simeon Ari Gutman>: Okay. And maybe just a follow up, mechanical one. So, you cycled Jet, the inclusion at least, the acquisition closed late September. So, it looks like you'll cycle that, and therefore, you'll – the GMV will – there'll be some mechanical impact to GMV in Q3. But to clarify, Jet won't come into the comp base until Q4, right? And therefore, it's not inclusive of the guidance for Q3?

<A - Steve Schmitt>: Oh. Thanks for asking that question. So, you'll actually see about a month of Jet coming to the comp in Q3, but keep in mind it's one month on a pretty big base of business. But you will have three months' worth in Q4, and you're right, once we cycle the Jet acquisition, mechanically, that does have an impact on overall growth.

<Q - Kate McShane>: My question was on inventory and where you are in the management of inventory. Is there any way you can quantify what percentage of categories sold has been through your inventory management review? And how much more do you have to go?

<A - Steve Schmitt>: Yes. We've made a lot of progress on inventory. If you look at comp store inventory this quarter, down nearly 4% again, and really, there's a lot of efficiency and productivity being built into the business, and it's really benefiting overall inventory management.

If you think about the tools that we've put into our business: better technology, better processes, our associates are being trained, we're trying to find the most efficient way to manage inventory from back room, getting it out to the floor, to the customers.

And, I think what's really important to know is that, while we've brought comp store inventory down, our in-stock levels have remained at very high levels. And so, the customers are pleased that they're finding the products that they need, and all the while, we're improving the efficiency of our store business. So, pretty pleased with the progress there.

<Q - Karen Short>: Yes. Just one clarification, and then a question. On the inflation comments, the 30BPS, I just want to clarify, that's y-over-y and at retail?

<A - Steve Schmitt>: That's correct.

<Q - Karen Short>: Okay. And then on…

<A - Kary Brunner>: In food.

<Q - Karen Short>: …operating – leveraging – Sorry.

<A - Kary Brunner>: In food, yeah.

<Q - Karen Short>: And then on leveraging operating expenses, you've maintained that comment in the prepared remarks. So, I'm just curious. It looks like that's a pretty high bar for H2, I mean in order to get leverage for the full year. Maybe a little color on what the drivers of being able to attain leverage for the full year are?

<A - Steve Schmitt>: Yeah. I think it's another area, Karen, we're not going to go into the specifics of it, but you did call out, you did catch in Brett's remarks that we made that comment I think all the way back in October, and we continue to have the goal of doing that for the year, it's leveraging expenses on an overall basis for the year, but not getting into any of the specific areas where that might happen.

<Q - Matthew J. Fassler>: My first question relates to your comments on entertainment, which you said was under some pressure. I know that there was, I guess Q2 a new video game release, [indiscernible] (16:48) for a couple of players in the marketplace. Can you just give us some color around what you saw in entertainment?

<A - Steve Schmitt>: Yes. Sure, Matt. We too had strong performance with that – with the Nintendo Switch, and so we're pretty pleased with that performance there. And our T.V. business continues to be very solid and performed well. We are seeing some headwinds in areas like media and gaming. And you can see that, it's really something that we experienced over a period of time, and we're working to change that. We did improve from our Q1 performance, but still some headwinds in entertainment.

<Q - Matthew J. Fassler>: Got it. And then, by the way a very quick follow-up. On some of the adjustments to the P&L related to the sale in International, et cetera. Can you give us a dollar number or kind of pre-tax or operating profit dollar hit to International? And also just tell us what the pro forma tax rate was that would get us to the [ph] dollar hit (17:53)?

<A - Pauline Mohler>: So, Matt…

<A - Steve Schmitt>: It's Pauline.

<A - Pauline Mohler>: This is Pauline. Just as you look at that because there is the reconciliation that's at the end of the press release. I think if you are having a hard time with the numbers, the number for NCI is based off of a [ph] weak $0.04 (18:14), so just keep that in mind if you're not able to reconcile that out.

[Multiple speakers] (18:22)

<Q - Oliver Chen>: We had a question related to the online grocery and online pickup from grocery. What are the next hurdles there? And what are you seeing with customer satisfaction rates and kind of the catalyst that we should think about as this category and landscape continues to intensify?

Also, we've been getting questions on Walmart Academy. So, if you could brief us on the interplay between Academy and how it will impact your numbers or service levels or inventory management over time, that would be helpful? Thank you.

<A - Steve Schmitt>: Thanks, Oliver. Maybe I'll take the first piece with online grocery. Look, we continue to be really happy with the online grocery program, we continue to expand it, we're up to 900, over 900 stores that offer the service now, on its way to about 1,100 by the end of the year. The net promoter scores are really strong. It really is a differentiated offering that we know our customers love and we continue to expand it because we know it's a hit for customers.

We also continue to expand the assortment that they can order utilizing online grocery. So, convenient for customers, they really like it. It works for us. It gives us a nice halo to the overall business from an NPS standpoint, and we'll continue to look to roll that out.

And, Kary, maybe you want to take the second part of the question?

<A - Kary Brunner>: Sure. On academies, we're really excited about academies and how our associates are feeling more – better equipped and more engaged and – to really run the departments that they're responsible for.

We're shooting to have about 200 open by the end of the year across the country, and that'll give us capabilities of training I think ongoing basis around 140,000, 150,000 associates. We're at about 175 that are operating today. And so overall, I think the associates that are coming out of it are really energized and just doing a better job on retail fundamentals, as well as serving customers, which is as you know, very important to our overall strategy.

<Q - Oliver Chen>: Okay. And on the food question in online, can you accelerate that faster, the 1,100 number? Like what are some of the puts and takes in thinking about the speed of the roll-out and how it makes sense and to evolve that as quickly as possible, given that you're very happy with it?

<A - Steve Schmitt>: Well, we want to do it in a thoughtful manner. I think the expansion rate that we have today is actually pretty aggressive, and the amount of work and training to make sure we give the customers the right experience, not just online grocery, but a good online grocery experience when we roll it out. So, we're happy with that, but we'll certainly be looking to do more going forward. But overall, we're pretty pleased.

<Q - Peter S. Benedict>: Oh, hey, guys. Just two questions. First, just on Scan & Go, I know it's been a big success at Sam's Club and it sounds like you're rolling it increasingly to Walmart. Just, I don't know, can you talk about, maybe how quickly you can roll that into the Walmart stores? Maybe what you're seeing in terms of the response of the Walmart customer to that technology relative to what you saw at Sam's Club?

<A - Steve Schmitt>: Hey, Peter. Thanks for the question. We're certainly happy with what we're seeing at Sam's Club. It's been a big hit with the members there and continues to be. So, we're looking to see how applicable that might be to the Walmart business. We're testing it, it's early days, and probably too early to comment any further on that. We're testing, learning, and we'll see where it goes.

Operator

Thank you. Our next question is from Ben Bienvenu of Stephens. We have a follow-up from – can you just give me one moment?

<A - Steve Schmitt>: Okay. We cut Peter off? Sorry, Pete.

<Q - Peter S. Benedict>: Just one on JD.com. We'll change the topic here, the local delivery platform. Just talk about how that's being executed, what your relationship, what you guys kind of really are trying to get from that? And I guess, how could that be leveraged, and when could that be leveraged into markets outside of China?

<A - Steve Schmitt>: Yeah. So what we're doing is continuing to expand that relationship. And then you've probably seen some of the press releases that we continue to put Walmart.com, [ph] Sams.com (23:17) on – really prominently featured on flagship-type stores. We're expanding the delivery program. I think 25% of our stores now offer one-hour delivery through that relationship in JD Daojia. So, we'll see. I mean, China is fast-moving, and we're going to be fast-moving in China, too. So, we're going to change if the customer requires, and we're happy to have a partnership [ph] with them (23:41).

<Q - Benjamin Bienvenu>: So in the UK, you called out positive comps in that market. I'd just be curious as to what's driving the improved results there, and what opportunities remain in that market? I know it's been challenged in the past.

<A - Miguel Garcia>: Hey, Ben. This is Miguel. Yes, the – you're right. It's been the first positive comp in some time. I think the team's just doing a much better job of executing the strategy. We're just improving the whole customer value proposition. A lot of what you're seeing and hearing about in the U.S. we've – we're focusing on in the UK. So price investments, cleaner stores, improving the assortment, all those kinds of things, and we're just executing against the plan, and it's improving. And we're going to continue to do that. So, I think that's what we're going to continue to do, and we're just executing against the plan.

<A - Steve Schmitt>: Hey, Ben, it's Steve. It is encouraging to see the comps turn positive. We've seen sequential improvement in the business over the last several quarters, but it's certainly a good sign to see that positive, which gives us confidence the business is pointed in the right direction.

<Q - Scot Ciccarelli>: Two questions. First, can you tell us the impact of new store cannibalization? I think you used to run in about 80BPS and 90BPS. Just kind of wondering what that run rate is today, given the reduction in store growth.

And second, how much of your e-commerce growth is coming from the addition of the new SKUs? I'm just trying to get an idea or a sense of how impactful the SKU expansion has been. Has it been a primary driver of the growth, or should we view it as more of a modest incremental benefit? Thanks.

<A - Steve Schmitt>: Sure. So from a cannibalization standpoint, it is a metric that we typically disclose in our Ks, so our annual filings. We don't update that on a quarterly basis. In terms of how many the additional SKUs are impacting the business, we're not going to dissect that business more than just giving overall growth at this stage, but it's a piece of the puzzle. And it's – all the items that we talked about earlier, which is the two-day free shipping product on $35 minimum orders, the Easy Reorder, the online grocery program, all of the initiatives that we're launching, this is a piece. So we won't give you all the pieces to the puzzle, but I'll tell you this is an important piece of how we drove the business.

<Q - Scot Ciccarelli>: So it would be more or less – would you view it as the majority or less than the majority, Steve?

<A - Steve Schmitt>: Well, it's certainly driving the SKU count, but we won't talk about how much sales growth it's driving.

<Q - Budd Bugatch>: Yeah. I have a couple questions. Good morning. The 27 basis point decrease in gross profit rate in International, can you – and you talked about the change in comps in Asda. Is much of that gross profit rate decrease, is that related to the UK? Can you quantify any of that?

<A - Steve Schmitt>: Yeah. We do have some price investments going on in some key international markets, Budd, for sure. So that's contributing, and certainty UK's one of them.

<Q - Budd Bugatch>: Okay. All right. And secondly, can you give us any color on what's in the corporate support (sic) [corporate and support] expenses? That did increase y-over-y, it's not significantly different than the rate in some of the later quarters. But what's going on, or what's the outlook for corporate expenses? How much of that's increased investment overhead?

<A - Steve Schmitt>: Yeah. I don't think we're going to go into details, Budd, there. I'm sorry, I won't be able to help you on just the specific line items of it. But we just haven't broken down just the corporate overhead on the growth rate. I mean, I'll refer you back to Brett's comments that he had in his script, which is we intend to leverage overall G&A expenses for the full year on a consolidated basis. But other than that, we just aren't going to guide on any particular items.

<Q - Michael Otway>: Appreciate you taking the questions. First, I guess, in terms of price investments that you're making in the U.S., what inning would you say that you're in?

<A - Steve Schmitt>: Thanks, Mike, for the call. We appreciate it. What we talked about is a three-year program, so I guess we're a little bit more than a year into that three-year program now and we continue to execute against it.

<Q - Michael Otway>: Okay. But still on the same pace that you thought when you laid the plan out?

<A - Steve Schmitt>: We started a little bit earlier last year than we initially anticipated, but we're on pace.

<Q - Michael Otway>: Okay. And then, I guess, just as a quick follow-up, in terms of the store base in the U.S., what are you seeing in terms of turnover, just from kind of a labor perspective?

<A - Steve Schmitt>: Yeah, that's not a number we disclose, Mike, but appreciate the question.

<Q - Robert F. Ohmes>: Actually, two questions. Just a bean counter one that – sorry, if I missed this, but just to clarify. The gain on the sale of the Suburbia business, was that all in other income, and did you guys give that number to make it easy for us to pull out of the other – the membership and other income line?

<A - Pauline Mohler>: It's out there, yes. So if you look at the back of the release, there's a reconciliation, so you can see the breakdown.

<Q - Robert F. Ohmes>: You gave it to us on an EPS basis. I was wondering, it kind of browns a lot when you do – I was just curious if you could give us the dollars to pull out of the membership and other income line to make it more comparable to last year.

<A - Pauline Mohler>: Yeah. We're not providing the dollars on that.

<Q - Robert F. Ohmes>: Okay. It is all in that line basically, though, right?

<A - Pauline Mohler>: Yes.

<Q - Robert F. Ohmes>: Got you. And then my other question was just on – another one on the dot-com. I think Doug mentioned in his comments the non-store item pick-up discounts. Can you remind us how early you guys are into doing that, because I think, Steve, you've mentioned some strength in other areas driving e-commerce. Is that discount of non-store items, is that early, so it's not big enough to be a key driver yet, but you're – but Doug's calling it out because it's – the response has been really strong? Maybe some color on that. And also, I know you guys had mentioned this employee delivery test. I was just curious if there was any update on that as well. Thanks.

<A - Steve Schmitt>: Sure, Robbie, thanks for your questions. The first piece around pick-up discount, so I think it's about 3.5 months old now, so it's a relatively new initiative for us and really leverages our strength and our asset base, which is clearly the footprint of stores we have and the growing e-commerce business that we have as well and customers taking advantage of both. So it's a contributor. I'd say we're happy with what we've seen from a growth standpoint on that particular offering. And it's – again, it's one piece of the whole puzzle that's driving our overall growth. I think your – what was the question…

<A - Kary Brunner>: Associate delivery.

<A - Steve Schmitt>: Associate delivery, the second piece of it, so it's still early days. It's in a few stores. We're testing, learning, and excited about it. I know it's an initiative that Mark's really excited about on how there could be a unique way for last-mile delivery, and we'll continue to test and learn and make sure we do it the right way.

<Q - Edward J. Yruma>: Two quick ones from me. First, you guys have been making price investments into a largely deflationary environment. Now that you've, hopefully, switched to a more inflationary environment, does it change either the timing or the depth of the price investments?

And then, I guess, second, I know you've had a multi-year investment period to build out some of these DCs on the eCommerce side. With the growth rates that you've had, at what point do you need to kind of reinvest in some of the distribution infrastructure to meet some of those high revenue growth targets? Thanks.

<A - Steve Schmitt>: Appreciate your question. So maybe I'll take the last part of it first. You may have seen that we opened up a new fulfillment center in Florida during the quarter, just outside of Orlando. And I think what you'll see is as the business grows we'll have to potentially expand to meet that need, so we'll make the investments necessary to accommodate the growth that we're forecasting. And what was the first part of the question?

<A - Kary Brunner>: Yeah, just on price investment, we've laid out a strategy for price investment, and we're executing against that. Customers are responding well. So we continue to go regardless of the inflationary or deflationary environment.

<Q - Joseph Isaac Feldman>: I wanted to ask, with the new – with the acquired websites that you have now, can you explain how you guys are thinking about maybe marketing across the sites or trying to drive customers from one site to another, or how you're going to integrate them at all? Any kind of talk of that.

<A - Steve Schmitt>: Joe, I think it depends. And quite frankly, it's one piece that we're figuring out. The brands have strong brand equity with the particular brands and we want to maintain that because of the following that we have from a customer base standpoint. We'll look to create some synergies with Walmart's scale, whether it's credit card fees, shipping rates, those types of things to help the economic model along. But in terms of how integrated all of the websites and brands are within all the portfolios, I think, is something we're figuring out right now, to be fair.

<Q - Joseph Isaac Feldman>: Got it. So, I mean, is there a day where you could see, well, a Bonobos customer might get an advertisement for Jet.com, let's say, or?

<A - Steve Schmitt>: Yes.

<Q - Joseph Isaac Feldman>: Okay. That's kind of possible. Also, I wanted to ask, I know you guys called out a lot of different categories in the quarter, but if I recall, I don't think you mentioned apparel too much. Anything to note there, or any trends that you're seeing from a competitive standpoint?

<A - Kary Brunner>: Yeah, apparel had a solid quarter. I'd say probably the stronger area of apparel, Basics was very consistent, but our athletic wear continues to perform well. We've called that out in the past and it continued to have a nice quarter again in Q2.

<Q - Paul Trussell>: I wanted to just circle back to the comments around SG&A, and in the transcript it mentions operating with discipline. And it was nice to see that you were able to leverage the stores in the U.S. Just any more color around the driver there and how we should think about your ability to continue to leverage the stores? And then also, there was a comment that it was offset by some technology spend. And how should we think about the trajectory of tech spending levels on a go forward basis? Is that run rate getting lower or higher? Just any color you can provide.

<A - Steve Schmitt>: Thanks, Paul. So again, I think, appreciate you making the point that we leveraged in the U.S. store business, which we're certainly happy with for the second consecutive quarter. So we continue to look for efficiencies there and we won't break out what all those efficiencies are, but we're happy with the efficiency that we have in the U.S. business and we think we're headed in the right direction there. And Brett certainly called out in his script about again leveraging expenses for the full year, which is certainly one of our goals that Brett's talked about in his script.

I think the second part of your question was around…

<A - Kary Brunner>: E-commerce technology.

<A - Steve Schmitt>: …e-commerce technology, so the level of investment there. I think the short answer, Paul, there is we're going to invest what we need to grow the business. We'll be disciplined with those investments and it's certainly one of the big pieces of the financial framework that we're executing upon, but I don't have anything really else to say, but we'll make the investments we need to grow the business, but be disciplined about it.

<Q - Patrick G. McKeever>: Just a question on all the store closures across retail. I mean, it's a huge number, and you've got some exposure pretty much across the board to the various merchandise categories that are being impacted, though I guess it's a lot less on the food side, but.

So the question is, I mean, do you think there was any – has been any impact on your business just sort of on a YTD basis from some of the liquidation sales that we've seen, particularly in the department store space? And then just looking out to – as these stores do get closed, do you see an opportunity to capture some of the displaced share? And if so, in what specific areas?

<A - Kary Brunner>: Thanks, Patrick. This is Kary. We're really interested in picking up customers however they want to come to Walmart, and so we're really focused on serving our customers every day. We've made a lot of investments in our store experience and the customer has noticed that. And through some of the omni-channel initiatives we have, we're bringing new customers to Walmart. So, yeah, I think there clearly is an opportunity for us to pick up new customers as a result of some of these closures and really across the board. Our Supercenters serve a lot of different categories. And so we have a lot of opportunity there, and we're doing our best to continuing to drive traffic in our stores. Have had really good progress in that over the last many quarters and we'll continue to shoot for that as well.

<A - Steve Schmitt>: And the only thing I'd add is, it's really great to have momentum in a business the scale of Walmart. I mean, I always look at retail and think it's easier to keep momentum than to get it. I think Greg would say it's anything but easy and he's right, it's not easy, but momentum in the business from a traffic and from a sales standpoint is really important and we're very fortunate to have it and look to keep it going.

<Q - Patrick G. McKeever>: And then on the grocery side, I mean, there's concern out there about, this is not new, but about Aldi and Lidl, the hard discounters expanding more aggressively, entering the U.S. and/or just expanding more aggressively in the U.S. And there are a lot of comparisons drawn between – to the UK and the impact that those two retailers had on the UK supermarket industry. Do you think that's a fair comparison? And just how are you thinking big picture about the growth of those hard discount chains in the U.S. and your competitive position?

<A - Steve Schmitt>: Sure. Thanks for the question. So as you mentioned, Aldi is not a new competitor, they've been in the U.S. for I think over 40 years and have a pretty good footprint today. Lidl's new. They've opened up about 20, 21 locations this year, and we're certainly monitoring their results in the markets they're in closely. We have a lot of respect for what they do.

You mentioned the UK parallel. We obviously know the story there. We have a lot of executives in the company that have good experience competing with both the hard discounters, Lidl and Aldi, as well as others in the U.S. We like our plan. We think we know for the most part what their game plan is, but we like our plan, and we'll continue to make progress with the customer. And if we do that, we think we'll do well. So we definitely are aware and watching it closely.

<Q - Christopher Horvers>: [Indiscernible] (40:37). Can you refresh us on what you said at the last Analyst Day, which updated the prior one about how you expect the trend in eCommerce losses to go? When do you expect them to add? Is that happening now? And what was the guide on when it becomes additive to profits? Is that expected in 2018, next year?

<A - Steve Schmitt>: Okay. So if you go back to October last year, we made some comments that we expected this year to be the heaviest investment period for our eCommerce business, and we typically address those types of guidance measures at our October meeting, which is coming up here in a couple of months.

In terms of – your second question is round profitability, and when the business turns profitable, we haven't – the eComm business turns profitable, we haven't given a timeline on that. But again, we typically talk more in depth about the business and our plans at our October meeting.

<Q - Christopher Horvers>: All right. I guess, correct me if I'm wrong, I thought two years ago, maybe at the 2015 Analyst Day, it was – I thought I remember a chart showing you turning profitable in 2018. Is that – that's not accurate?

<A - Steve Schmitt>: No, the losses were just expected to decline.

<Q - Christopher Horvers>: Just the losses were expected to decline. Okay, understood. And a couple of detailed questions, following-up on the prior one. If you added Jet to comps, put it in the comp base, would that have been additive to your comp in Q2? And then on the interest expense, you did a debt refinance. Can you talk about what the interest expense savings are vs. what the expense was in Q2? That would be helpful.

<A - Steve Schmitt>: Sure. So I guess what you're getting at is what the growth rate of Jet was in the quarter year-on-year, and that's something that we haven't talked about. We're pleased with what Jet's doing, and I'll leave it at that.

The second piece around tender, the bond tender. So a couple of points on that. If you weren't able to read through some of the press releases that we had throughout the quarter is we were able to retire about $2B of debt that had an average tenure of 21 years and an average interest rate of just over 6%. We issued about $1.5B of Japanese yen denominated debt with an average tenure of about seven years at a significantly lower rate.

So in isolation, it certainly benefits interest expense, but there are a lot of moving pieces in the line for a company like ours. And we're not guiding specifically on what interest expense will be for the next couple of quarters, but certainly we're able to take advantage of market conditions and reduced our interest on this debt.

<Q - Bob Summers>: Just, can you talk about SNAP trends a little bit? I mean, to your credit, you really haven't said boo about it, but we're now in our second year of mid-single-digit declines. And so I'm curious as to is that a headwind that's mitigating comp strength, or is it actually a perverse positive that as that customer returns, you actually capture more share of wallet?

<A - Steve Schmitt>: Yes. There's certainly been some speculation about SNAP over the last couple of months too, and I don't think I'll use your explanation of what our response is to it. But you're probably not going to get a lot more out of it today, other than we look at the program and any of the changes that are made are built into our operating plans.

<Q - Bob Summers>: Okay. And then just a real quick on – back to inflation. Typically, at inflection points, there can be some gross margin volatility. Could you just talk about what the pass-through is like this cycle? I mean, arguably there's a lot of deflation fatigue out in the market and one could argue that it gets through a lot easier this time relative to other cycles?

<A - Kary Brunner>: Yeah, it wasn't a key driver for our gross margin variance. So…