Company Name: Walmart
Company Ticker: WMT US
Date: 2017-05-18
Event Description: Q1 2018 Earnings Call - Follow-up

Market Cap: 293,941.76
Current PX: 102.43
YTD Change($): +9.28
YTD Change(%): +9.962

Bloomberg Estimates - EPS
Current Quarter: 1.021
Current Year: 4.763
Bloomberg Estimates - Sales
Current Quarter: 124955.000
Current Year: 529637.417

Q1 2018 Earnings Call - Follow-up

Company Participants

- Steve Schmitt
- Kary Brunner
- Miguel Garcia

Other Participants

- Oliver Chen
- Karen Short
- Simeon Ari Gutman
- Michael Louis Lasser
- Robert Drbul
- Beryl Bugatch
- Robert Ohmes
- Edward J. Kelly
- Matthew J. Fassler
- Greg Melich
- Daniel Thomas Binder
- Peter S. Benedict
- Joseph Isaac Feldman
- Kate McShane
- Paul Trussell
- Scott A. Mushkin
- Zachary Fadem
- Scot Ciccarelli
- David A. Schick
- Edward J. Yruma

MANAGEMENT DISCUSSION SECTION

Steve Schmitt

Q1 Highlights

EPS, Comp Sales, Traffic Growth and GMV

- First, we're encouraged with our start to the year
- EPS was $1 in Q1, 2% increase over last year
- U.S. comp sales growth was 1.4%, including 1.5% traffic growth, which makes 3% traffic growth on a two-year comp basis
- Our U.S. e-commerce had extraordinary growth in sales and GMV, up 63% and 69% respectively including acquisitions

    - The majority of this growth was organic through our Walmart.com business
- So, for the U.S. business, we're pleased with both store traffic and GMV performing well
- Sam's Club reported comp sales growth of 1.6%, which was also traffic led and International continued to post solid results keeping in mind the later Easter and lapping Leap Day from last year negatively impacted y-over-y comparisons

Q2 Guidance

EPS and U.S. Comp Sales Growth

- From second quarter guidance standpoint, we expect EPS of $1 to $1.08
- This excludes an expected gain of approximately $0.05 from the sale of Suburbia, the company's apparel format in Mexico, and we expect U.S. comp sales growth between 1.5% and 2%

QUESTION AND ANSWER SECTION

<Q - Oliver Chen>: Regarding your results and momentum, was there an opportunity to consider raising the full-year guidance or how should we think about how the full year may proceed in the context of the environment you're seeing? Are you still seeing a fair bit of volatility in terms of the traffic situation? And then, just a modeling question on average ticket, will that be a slight headwind throughout the year or is that an aberration given some of the dynamics around the shift? And on the gross margin line, the – is flattish kind of a run rate we should think about? Thank you.

<A - Steve Schmitt>: That's quite a few. I guess, maybe first off, on the full year outlook. We're pleased with our start to the year. We've given guidance for second quarter and on a full year basis, that's something we'll update at a later date, so we're not in a position to talk about full year guidance today, but we're certainly pleased with our start to the year.

I think on a traffic standpoint, you mentioned traffic next. Look, 3% traffic on a two-year comp basis is something we're really proud of, and I think that's 4% on a three-year stack. So we're really going from strength to strength for traffic in our stores. And it's nice to complement that with really healthy e-commerce sales and GMV growth.

From a gross margin perspective, it's really not something that we guide to. All of our assumptions around both operating profit and gross margin are included in our guidance for Q2 that was issued. I would point you to our earnings materials and the presentation that explains a little bit about our gross margin for the quarter.

<A - Kary Brunner>: And I think you asked about average ticket, Oliver.

<Q - Oliver Chen>: Okay, thanks. Yes.

<A - Kary Brunner>: Average ticket, we'll see how it goes. Clearly, where we saw deflation be less of a headwind this quarter, but we'll see how the next quarters flow through.

<Q - Karen Short>: Just a couple of things. Wondering, can you maybe just provide some color on the U.S. comp and how it trended throughout the quarter, because it seems fair to say that it accelerated, and that the momentum continued into Q2, based on your Q2 guidance? But I guess – so just clarify that, and then the strength is kind of there in Q2. And then, is there anything you'd call out as it relates to drivers of the acceleration, or was it more or less delayed tax refunds?

<A - Steve Schmitt>: Sure. We typically don't comment about intra-quarter trends, but we did mention, if you may recall on our fourth quarter call, that we'd gotten off to a slower start than expected to the quarter, due in part to the delayed tax refunds – federal tax refund checks. So we did see sales strengthen throughout the quarter, and all of what we've seen in the business and our plans are incorporated in our guidance in Q2, which would be 1.5% to 2%. And

Kary, did you have anything else?

<A - Kary Brunner>: No, I think that's correct. We did have a strong Easter, and both in food and general merchandise, so we're pretty encouraged by that.

<Q - Karen Short>: Okay. And just to clarify one thing on the comp then. I guess in grocery, the comp was low-single digit in Q1, which is unchanged from Q4. But in Q4, as you know and pointed out, you had the 90 basis point headwind from deflation. So I guess, is it fair to assume that kind of the deflation headwind went away in Q4, but it was basically replaced by price investments in Q1?

<A - Steve Schmitt>: Well, keep in mind, the deflation number, or lack of deflation for this quarter, excludes our price investments. And we won't comment even – more on what the pricing investment impact might have been.

<Q - Simeon Ari Gutman>: Steve, can you tell us or give us some color, why the big acceleration in online GMV, the 69%? And just to confirm, Jet is in the GMV, but it's not yet in the e-commerce comp?

<A - Steve Schmitt>: Sure. Thanks Simeon, for the question. Good question. So there's a few things that are impacting the e-commerce growth. So it's certainly an acceleration with 69% GMV growth. If you think about some of the products, some of the intra-quarter offerings you have, you have the two-day product that we introduced, that was certainly a catalyst to the growth of Walmart.com. You have recently announced Pickup Discount. You have the combination of first party and third party SKUs going from 10mm to 50mm from a year ago standpoint. So we really have quite a few things positively impacting both e-commerce sales and GMV growth.

From a contribution to the comp, Jet would not be included. It's not included until we anniversary that, it would be excluded from the comp until that point in time. And I think the other point, just to make sure people call it in the materials, is that the majority of our growth is organic driven through Walmart.com, as opposed to acquisition-driven.

<Q - Simeon Ari Gutman>: And can you tell us the pickup in store percentage either this quarter, how it's trending sequentially, or how it looks y-over-y, because I think people are also looking at the in-store comp, which I don't know if it's on a sequential basis or on a two-year basis. Looks like it could've slowed, but I'm assuming, if you're raising your pickup percentage, that's getting moved in – the pickup in store, that's getting moved into your e-commerce contribution?

<A - Steve Schmitt>: It would be, and so the Pickup Discount that we recently launched, it's still early days and didn't have a dramatic effect on Q1, but it's an initiative that leverages our store base like we think only Walmart can, and combine our e-commerce and store business to really give the customer what they need. So...

<A - Kary Brunner>: Online grocery has been really strong too.

<A - Steve Schmitt>: Yeah. Online grocery has been [ph] growing too (9:25).

<Q - Michael Louis Lasser>: Can you give us more detail on the U.S. gross margin in light of the price investment, the mix shift to the online business being able to – how are you able to keep the gross margins flat?

<A - Kary Brunner>: Yes. Good question, Michael, this is Kary. You're correct, we did continue to invest in price this quarter, it's falling along our multi-year strategy that we've talked about in past quarters. We did benefit this quarter from continuing, saving from procuring merchandise, and so that was a COGS benefit to us. And then, I would remind you that we had some timing related to markdowns, where we had [ph] pulled for (10:18) markdowns forward into Q4, and so that was the benefit in Q1 for us. E-commerce continues to grow and we're really pleased, obviously, with our top line results. There is the mix headwinds that we're facing there, and that would include the Jet acquisition, which doesn't have a comparable amount last year.

<Q - Michael Louis Lasser>: So in light of all those factors, do you think keeping your gross margins flat over time is sustainable?

<A - Steve Schmitt>: Yes. It's not something we – we're going to specifically guide to, and I think we'll leave it that, it's all incorporated in our guidance. Certainly, I understand why you're asking the questions, it's just not a detail that we're going to guide to at this point.

<Q - Robert Drbul>: On the inventory side, given comp inventories in the U.S. were down, can you just tell us what are the drivers or the initiatives, that continues to be impressive and when you think about opportunities or focuses that the company is on right now, what else is left and where do you think this can go?

<A - Steve Schmitt>: Yeah. Thanks, Bob for noticing that. It's something the team, I know, is very proud of. Lets our associates focus more on the customers with less inventory. You'll notice over really more than a year now, some nice improvements in the comp store inventory and it's really a combination of technology as well as initiatives in store. As we talk to the operators, we do think there is additional room to improve, maybe not the step change amount that you've seen y-over-y, but [indiscernible] (12:02) [ph] folks of Greg, Judith and her team (12:04) and they are making great progress.

<Q - Robert Drbul>: Okay. And I'm – can you call in a little bit about the apparel business, just in terms of how you're positioning yourself and how that's trending for you?

<A - Kary Brunner>: You know, Bob this is Kary. The apparel business really has been solid for the last number of quarters. Our Basics business is really the foundation, and that continues to perform well. We did have some headwinds this quarter with a delay in tax refund check impacting apparel and weather didn't help in some degree over the quarter. But, overall, we're really pleased with the Basics business and we like the value that we're providing with the quality, [ph] just at the (12:51) quality we have in apparel.

<Q - Beryl Bugatch>: Just, I wonder if you could give us outside of the U.S. some additional color on e-commerce globally. I know you've got still lot of moving parts, particularly with the Yihaodian in China, but maybe you could give us some feeling of how we can look at the penetration and think about that for modeling?

<A - Steve Schmitt>: Yeah, Budd. Thanks for the question and I appreciate you noticing the Yihaodian piece. Hope you paid attention to Brett's comments in his script on how that's going to [ph] end up (13:30) drive a sales headwind for – as that business winds – that first party business winds down. I'd say the biggest piece that I'll mention from a global e-commerce standpoint is that we continue to partner with JD in China, and we continue to have new offerings that service the consumer faster and with the new products. That's probably the highlight of the International e-commerce. Miguel, is there anything else you can highlight?

<A - Miguel Garcia>: No. And I think just and as a reminder, Budd, I mean, our – we obviously have a pretty mature business in the UK already with online grocery and everything, which is – continues to do well. But just [ph] premature for the growth returns to see how it's going to be, (14:04) where they are and that you're seeing obviously in the U.S., but we're still pleased with the initiatives we have in the other International markets.

<Q - Beryl Bugatch>: And – thank you. And just, and on the e-commerce in the U.S., can you talk about how many of the transactions and what percentage maybe also impacting in-store. I know the new Pickup Discount is new, but what are you seeing between customers doing online only and [indiscernible] (14:30) online and store business?

<A - Steve Schmitt>: Yeah, we will not give you any specific numbers around that, but our in-store e-commerce transactions continue to grow. We're nearly doubled the amount of stores that offer the online grocery service. You've seen some initiatives and how we continue to give customers new options around pickup at store. And that's part of our strategy. We think we can make magic [ph] not (14:54) bringing the online and the store business together, and we like the progress that we've seen but we don't break that out specifically, Budd.

<Q - Beryl Bugatch>: Okay. And last for me is, Scan & Go was in two locations for Walmart U.S. that Doug talked about in the last call and we saw on a couple of our visits. Can you talk about what you're seeing in that or what might be the rollout of that? I know its early days, but maybe any feeling of how that's going?

<A - Steve Schmitt>: Early days, still testing and learning.

<Q - Robert Ohmes>: Steve, I was wondering, hopefully you'll maybe comment on the confidence in U.S. same-store sales accelerating in Q2 against the tougher comparison. Is it – should we be thinking it's e-commerce driven or how should we be thinking about that? The traffic trend was strong in Q1 – where does that confidence come in the acceleration against a tougher comparison?

<A - Steve Schmitt>: Well, we certainly have confidence in the range, to put it out there, of 1.5% to 2%. So we're feeling good about the business. You mentioned the traffic piece of it, which is a pretty healthy indicator of how our business is performing. Whether or not it's going to be more e-commerce driven or not, it's hard to say. And we're not going to guide on that specific element. But we're happy with all the things that we're seeing in terms of where the business is, where our plans are to grow our comp sales 1.5% to 2%, which is an acceleration, and we feel good about it.

<Q - Robert Ohmes>: And just on the Pickup Discounts on non-store items, I know it didn't – it's real early. But can you give us a little more color on sort of what the early response has been, and how many stores is it exactly?

<A - Steve Schmitt>: In the Pickup Discount piece?

<Q - Robert Ohmes>: Yeah.

<A - Steve Schmitt>: Well, it would – I guess it's going to be all the Supercenter business stores that we have. And in terms of specific, just general comments around, we're pleased with what we've seen so far, but really nothing beyond that. It's still pretty early for us.

<Q - Edward J. Kelly>: So, obviously, e-commerce sales accelerated. Can you just talk about, though, what you're seeing sequentially from an operating loss perspective, especially as you eliminated the membership fee for shipping? And then Doug mentioned in his prepared remarks the need to scale e-commerce to deliver further results. What if anything is he trying to tell us about losses in this business over time, over the next sort of like year or two?

<A - Steve Schmitt>: Yeah, in terms of breaking out the losses specifically, it's not something I'll give you a specific number on. We did talk, if you remember, back to our analyst meeting last fall, that this – that we would be investing in e-commerce, and we said at that time that it would be the heaviest investment in e-commerce during this FY. So we're making investments, we're certainly seeing the – some of these investments pickup the growth rate, like you've seen in this quarter.

But Doug's comments is – scale is a big piece of e-commerce, and we need to scale it faster. It's still, from a U.S. sales standpoint, it's still relatively small piece of our total U.S. business. So, certainly we need to get some advantages of scale and we expect that as the business grows.

<Q - Edward J. Kelly>: All right. And then just a quick follow-up on the price investments. Can you just talk about the impact price investments have had in the markets where you've taken the action? So how has performance in these stores been vs. markets where you haven't made the investment? And then, where are you in the journey at this point? Has there been any pause in the rollout? And as we transition to inflation, how does that change the way you think about executing this, because obviously it gets more difficult to lower prices?

<A - Steve Schmitt>: We always have to weigh all the different environmental factors, inflation being one of them as you make your pricing investment decisions. But overall, it's a – executing the plan. And it's a continuous execution of the plan from a pricing standpoint. And beyond that, we're really not going to talk about performance, markets, and what we're seeing relative to non-price investment markets. So – other than to say, look, we're pleased with what we're seeing.

<Q - Matthew J. Fassler>: I've got kind of a two-parter on some of the metrics that you disclosed. Given the growing role of e-commerce, I'm interested in whether we should think about the contribution of e-commerce to traffic being similar to the contribution of e-commerce to the comp overall? And also, as you think about comp store inventory, is that inclusive in any way of inventory associated with e-commerce, or is it really just what's in the stores, however the sales are fulfilled?

<A - Steve Schmitt>: Thanks, Matt. So, I'll take the second part first. So the comp store inventory would just be inventory in the stores, which we think is the relevant measure to report on. And then – and we also report inventory as a total too, so we give you both metrics.

The first part of your question, what was the first part, Kary?

<**A - Kary Brunner**>: E-commerce comp contribution.

<**A - Steve Schmitt**>: So the e-com – so how much does it impact traffic as well, it should be similar.

<**Q - Matthew J. Fassler**>: Got it. And then just a very quick follow-up. Health & Wellness in the context of a good quarter overall seemed like it moderated a little bit from the prior quarter, anything in particular happening in that slice of the business?

<**A - Steve Schmitt**>: No, not really. We were up against some tougher compares last year, allergy season, cold, cough, flu season was stronger last year than this year in the OTC business, so pretty consistent business so far on pharmacy.

<**Q - Greg Melich**>: Steve. I want to follow up a little bit about understanding the margin dynamic in the guidance. So, if you look at Q1, EBIT margins for the company were down 10BPS, I think dollars were down about a 1%. And if you look at Q2 guidance, you're guiding for better sales and if I use the midpoint, I get EBIT margins down 20 to 30BPS and dollars down like 3% or 4%. Is there some shifting in costs or expenses, or something else going on there as to why that guide implies like higher sales, but weaker margin trends?

<**A - Steve Schmitt**>: Yeah. I understand your question, and I'd ask the CFO as he quite frankly the – there are always moving pieces in a quarter. There's a lot of moving pieces in and we've given you our guidance as everything rolls up and we just don't tend to give all the different pieces of it. So we've just given you through an aggregate, but I understand the question and there is a lot of moving pieces that go into it.

<**Q - Greg Melich**>: Yeah. So, okay. So try and at least help put some color on that. Is it fair to say there were moving pieces that may have helped Q1 from a margin perspective that you see with some timing might hurt second quarter?

<**A - Steve Schmitt**>: Yeah. Sure. Yeah. So I won't talk about Q2, but I'll remind you what Kary talks about and what's in our presentations around the timing of post-holiday markdowns that helped our [ph] gross profit (22:26).

<**Q - Greg Melich**>: Got it. Okay. That's helpful. And then, just to make sure I get the e-commerce side of this right, e-commerce helped traffic 80BPS, but then you said organic Walmart.com was a majority of the growth. I just want to think about it, that if we think about e-comm at 80BPS, then a fair assumption would be, if that was – basket didn't change that basically Walmart.com was 50BPS of it, and Jet was less than half of the traffic?

<**A - Steve Schmitt**>: Well, just keep in the mind that the Jet's not in our comp, so Jet won't – Jet's in our overall gross, but not in the comp.

<**Q - Greg Melich**>: So when you're reporting the e-commerce traffic boost of 80BPS, that excludes Jet?

<**A - Steve Schmitt**>: Say that again.

<**Q - Greg Melich**>: If e-commerce helped traffic 80BPS and maybe that's a wrong number. But I just – I thought I…

<**A - Steve Schmitt**>: Yeah. Jet's not in our sales or comp traffic – comp sales or comp traffic.

<**Q - Greg Melich**>: [ph] I don't need it. (23:31) So that 80BPS – whatever came out of e-commerce was Walmart.com's benefit to both comp and traffic?

<**A - Kary Brunner**>: Yeah. So, think about things like two-day shipping, obviously benefitted Q1 online grocery, anything that's worth initiated is – and is not acquisition related, is included in the 80BPS, but as Steve mentioned, Jet or any of the follow-up acquisitions are not included in that 80 basis point contribution to the comp.

<**Q - Greg Melich**>: Got it. All right. Thanks a lot.

<**A - Kary Brunner**>: 63% growth in sales.

<Q - Daniel Thomas Binder>: I was wondering if you could give us a little bit more detail around the third-party or marketplace business, the size of that, I know you are moving the SKUs up materially, but as you look at that in the overall percentage of the e-commerce business, what does that look like? And then can you just remind us of the accounting for that on the P&L like, assuming you're getting fee income on those transactions, where is that showing up?

<A - Steve Schmitt>: Yeah. So, Dan, we don't break out the SKUs, but certainly the marketplace business has been growing and a big part of the SKU growth that you've seen, again, going from $10mm to $50mm in the last year. So, well, we don't break out the specifics of that. And from an accounting standpoint, it's a commission-based model, so you [ph] cannot use – so (25:08) I don't know if there is anything more to do add on that.

<Q - Daniel Thomas Binder>: But is that fee income showing up in – is it showing up in gross margin, is it showing up in sales, where does it show up?

<A - Steve Schmitt>: In sales.

<Q - Daniel Thomas Binder>: In sales. Okay. And then my second question was around Brazil, there was no – last quarter, that was included in the comp store sales table for international, just curious why it was excluded and what's going on in that market?

<A - Steve Schmitt>: Yeah. Nothing really, this is smaller business internationally and we just made the decision not to break it out going forward.

<Q - Daniel Thomas Binder>: Okay. And then if I could just fit one more in, on the comp impact that you excluded or you've given us the comps for the different markets internationally, including the impact of the later Easter and leap year comparison. Can you just give us a rough estimate of what that impact look like when you consider those two things?

<A - Steve Schmitt>: We haven't broken that out, I don't think it materials, but – so, no more details on that [indiscernible] (26:10) for the quarter.

<Q - Peter S. Benedict>: A question on the pickup discount. Is the way we should think about this from your perspective that – is it the price of discount you are giving to incent the consumer to picking up in the store basically is offset by the delivery savings that you are getting from not shipping it to the home, is that kind of a – so maybe a margin neutral thing that might incent maybe more sales, is that kind of the way to think about it?

<A - Steve Schmitt>: Yeah. I think, look, the idea is we know that our stores are located within 10 miles and 90% of the population and it's convenient for a lot of customers to [ph] combine (26:57) and pick up their online order while they are in the area or while they are combining it with the different super center shop. And so, it makes sense for the customer. In terms of the discounts, I won't break out who owns what piece of it, but certainly, as this business scales, transportation costs become more efficient and it will be, what we think is a better economic model over time for us and the consumer.

<Q - Peter S. Benedict>: Now it sounds like it. And then just a clarification, Steve, if I can. The FY2017 guidance, I know you guys don't update that until after Q2. In terms of the Suburbia sale though, I assume that wasn't in the initial guide, and I know that the $0.05 is not in Q2 outlook that you've got, which makes sense. But the couple – I think there's a couple of pennies of operating headwind in the back half of the year. Is that – again, it's not a big number, but just to clarify, that was not incorporated in the initial guide you guys gave, is that right?

<A - Steve Schmitt>: This gain – I mean, it was –it's hard to tell when the transaction will close and this is the $■0.05 that we're excluding from our second quarter. But I'm not going to comment any further on full year, what's in there, what's – [ph] we'll (27:58) take that later on in the year. But it's the $■0.05, our guidance excludes that for Q2.

<Q - Joseph Isaac Feldman>: So I wanted to follow up, for the pick-up at store, both at the Walmart business and the Sam's Club, whether it's on – any of the online pickups, I guess, what kind of add-on sales are you seeing and any kind of extra lift you can share about that?

<A - Steve Schmitt>: From a pick-up customer to whether or not they come in and buy something else, I don't have that to quantify for you, Joseph, I just don't.

<Q - Joseph Isaac Feldman>: Okay. And then I wanted to go back some – I know you've been asked a couple of times now about the e-commerce, with the GMV 69% and the total up 63%. If you excluded Jet from that number, like just the total e-commerce, how much would the organic Walmart be up like 40%, 50% or?

<A - Steve Schmitt>: We didn't give that specific number, it's the majority.

<Q - Kate McShane>: There have been several articles this week about the more aggressive entry of European competitors in the grocery space and further price competition. Just wondered your take on this, how you are navigating and what we can expect going forward.

<A - Steve Schmitt>: Certainly, have a lot of respect for the hard discounters. We've got experience competing against the hard discounters in a couple of international markets and certainly, in the U.S., certainly with Aldi. So a lot of respect for what they do. We like our strategy and we'll continue to do what we do best, give great assortment to our customers, give them great prices, low-cost baskets of goods, and give them more ways to shop, whether it's online, in our stores, combination of both. But we are certainly aware, paying a lot of attention, have a lot of respect, but we like our strategy.

<Q - Kate McShane>: Okay. And if I can just follow up with an unrelated question, again strategic. With regards to acquisitions, obviously Jet was a big one. I think there, again, has been a lot of speculation of what you could buy or what's being contemplated. Could you remind us on how you're thinking about M&A, and where you're prioritizing some of your thoughts around acquisitions?

<A - Steve Schmitt>: Sure. So if you think about some of the smaller acquisitions we've made over the last, call it six months, what they are really designed to do is, is improve our assortment, bring category expertise that we can leverage across all of our e-commerce business, and we're doing that. So, it's certainly leveraging the expertise within the categories to improve the overall business as a big part of that. [ph] Michael (31:13), anything else you'd add on that? No? So that's how we're doing.

<Q - Paul Trussell>: The e-commerce growth was very impressive, I'll add my congrats on that, but it does imply the in-store comps being a little bit slower. Just wondering if you can perhaps address that a little bit. And then separately, just speak a little bit about how we should think about your ability to leverage expenses going forward.

<A - Steve Schmitt>: Sure. Thanks, Paul. First off, with store comps, which I think is the first part of your question, I guess I'd – what I'd point you to is really healthy traffic in our stores. To have the e-commerce growth that we've had, and to have the traffic growth in our stores of 1.5%, on top of 1.5%, is something we feel really good about, to have this one-two punch going of both e-commerce and strength in our stores. How that progresses, we'll just have to see. I think we've talked a couple of times about the U.S. comp of 1.5% to 2% in Q2. So we expect continued healthy growth to continue. In regards to leverage, it's a company initiative to look at all of our expenses to manage, as effectively as we can, of course, growing sales is a part of that equation, and we'll continue to do that.

<Q - Scott A. Mushkin>: I just wanted to clarify with the last answer, and then I will get to my questions. You said traffic at 1.5%, but I thought we also said that about 80BPS of that was actually e-commerce, so traffic would be about 70BPS, is that right?

<A - Steve Schmitt>: Yeah. Just keep in mind, the store traffic is calculated on transactions and the e-commerce transactions that touch the store.

<Q - Scott A. Mushkin>: Okay. So, then another clarification, the 3P business has grown real fast, that goes to your comp [ph] to these? (33:33)

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

<Q - Scott A. Mushkin>: Do you know what – of the 80BPS, how much is 3P?

<A - Steve Schmitt>: We haven't broken that out, Scott.

<Q - Scott A. Mushkin>: Okay. And then, to follow up on Paul's question, just trying to understand if your – it looks like your stores are running 50 to 100BPS of positive comp in the last year or two, year. And obviously, we've seen a lot of wage growth, not your bump, but just on the low-end side, expenses are growing really rapidly. I mean, how do we grow EBIT U.S. if store comps stay where they are and e-commerce continues to grow?

<A - Steve Schmitt>: Yeah. I think it just gets on looking at all of our expenses and, in some cases, we utilize technology to change the roles that our associates have. Examples of that are moving people to online grocery initiatives like that and putting more self-checkouts in, so you have just different ways of changing how we work and utilizing technology to become more efficient.

<Q - Scott A. Mushkin>: And on the procurement savings, and this is my last one, what are you guys actually doing, and how long can it last? And then, thank you.

<A - Kary Brunner>: Yeah. Scott, this is Kary. We're doing a better job working with our suppliers to get the best cost. And so, you saw us, over the last year or so, work on aligning our terms and allowances with our supplier base, and that has been a benefit and now we're partnering together with suppliers to grow together. As Steve mentioned, we have really solid growth in our stores, good traffic and I think that's appealing to our suppliers.

<Q - Zachary Fadem>: Just a follow-up on some of the smaller e-commerce deals in the home and apparel categories and I know it's a small part of what you're doing, but as you think about building out your e-commerce portfolio, are there any other specific categories that you believe you are underpenetrated online and would be looking to expand either organically or via M&A?

<A - Steve Schmitt>: Yeah. I'll just talk about what we've done, which is, in the companies that we bought again, it does expand, our assortment improves, our category expertise, but we won't talk about any particular areas or acquisitions that may be in the future or not.

<Q - Zachary Fadem>: Okay. And then on all the [indiscernible] (36:07) to follow up there, how do you think about the role of the hard discounters in the U.S. retail landscape and how that compares to the UK? And then when you think about how you compete with them over there, what have you learned from Asda that you think can translate over to the U.S. business as this competition heats up?

<A - Steve Schmitt>: Again, I'll just say, we certainly have a lot of respect for what they do and we do have experience competing against them in other markets, and [ph] that'll (36:35) certainly factor into what our strategies are here.

<A - Kary Brunner>: Yeah. And the only thing I'd add to that is, you've seen us do a lot work in the U.S. to provide a better value proposition for our customers, investing in price. We're looking at becoming more efficient in our stores. We're offering a better assortment, better quality. our private brand offering has [ph] – that's up a lot. We're on trim (37:01) with organics and healthy foods and healthy life-styles and our activewear in apparel. So, our business strategy, I think [ph] it sit's (37:12) up quite well.

<Q - Zachary Fadem>: And briefly on your private brand, you mentioned that what's that the penetration today as a percent of your U.S. sales?

<A - Kary Brunner>: We don't disclose that, but it is growing in penetration.

<Q - Scot Ciccarelli>: Scot Ciccarelli. With deflationary pressures on the food side finally starting to ease, can you guys help quantify for us what you're expecting for inflation and deflation in Q2 and the balance of the year?

<A - Steve Schmitt>: Thanks. Thanks, Scot. We're not going to give a forecast on what we think inflation or deflation is. I'd point you back to what we've said, I think, last quarter, which is we expected deflation to abate in H2. So it's clearly been ahead of our expectations. But we'll report it as we go, we're not going to get into the business of trying to forecast that.

<Q - Scot Ciccarelli>: Okay. And then just a clarification if I could, Steve. Just looking for a definition here, when you guys say or use the word majority, does that mean closer to 90% or is that – could that mean something like 51%?

<A - Steve Schmitt>: Yeah. Good question. I think we would [ph] use a different descriptor and find a majority through 90%, (38:27) but it's the majority of our business, and it's not 51% either.

<Q - David A. Schick>: On the general merch, you talked about the business getting better as the quarter progressed. I was wondering if you could talk any more detail about apparel, in particular, your private brands and how those are doing online as well?

<A - Kary Brunner>: Sure, David. It's Gary. Yeah. General merchandise [indiscernible] (39:01) beginning. Clearly, as we mentioned last quarter, the delay in tax refund checks created a bucket to get out of, but we – the quarter strengthened as it went on, it still ended negative overall. From an apparel business perspective, I mentioned earlier that our basics business really continues to perform well and candidly, that's the – the majority of our business is basics, so jeans, socks, underwear, T-shirts, just everyday essentials that customers need. And that business continues to perform well. But as you look at brands, we're focused on quality. Our private brands have really strengthened and then price points are important. And so, we think that we're making good, solid progress there and we'll look to continue to build upon that in the quarters to come.

<Q - David A. Schick>: And how are your private label apparel brands doing online?

<A - Kary Brunner>: Clearly, the store is the biggest business, but that's our business we want to grow online as well.

<Q - Edward J. Yruma>: I guess first, in the Sam's commentary, you guys called out higher shrink, was that tied to greater use of technology and self check-out? And then, I guess, second, obviously, you guys discontinued ShippingPass, was that a material contributor to the membership income and how do we think about that going forward? Thanks.

<A - Steve Schmitt>: Ed, can you ask the second question again? I want to make sure I [ph] understand... (40:44)

<Q - Edward J. Yruma>: Sure. This is the – on the membership income line, and then I guess, was ShippingPass ever a component of that and was that a significant number kind of when you had the program?

<A - Steve Schmitt>: Yeah. So, maybe we'll take the Sam's shrink number piece. We won't break out any specific component of the whole business, not any one component that we'll call out as a driver of the shrink. [ph] Michael (41:08), is there anything else to add on to that?

<A>: No, no.

<A - Steve Schmitt>: No?

<A>: It's just higher than what we anticipated.

<A - Steve Schmitt>: Yeah. And then –

<A - Kary Brunner>: And ShippingPass was the Wal-Mart U.S. offering, e-commerce. So not related to Sam's.

<A - Steve Schmitt>: Thanks, Ed