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EDITED TRANSCRIPT

WMT - Wal Mart Stores Inc Question and Answer Session with the
Investment Community

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PRESENTATION

Steve Schmitt - *Wal-Mart Stores, Inc. - VP of IR*

I want to start by thanking everyone for making the trip into Arkansas that's here with us today. We appreciate you making the journey and your interest in our Company. I also want to thank everyone who's listening live on the webcast. We appreciate your interest in Walmart.

I want to introduce myself first before I introduce the Q&A panel. My name is Steve Schmitt; I'm new to the Company. I'm actually going to be leading the investor relations group here at Walmart. And I'm very much looking forward to working with each of you. And I'm excited to be here. And I'll tell you, after this morning, I'm even more excited to be here. What an incredible company we have.

I do have a bit of housekeeping before we get started. Today's comments and discussion may include forward-looking statements. Forward-looking statements are subject to future events and uncertainties, which could cause actual results to differ materially from these statements. I would invite you to check out our entire Safe Harbor statement on our website at stock.walmart.com.

I also want to remind you that on October 6, we're going to be having our annual shareholder -- our investor and analyst meeting on our campus in Bentonville. So we look forward to seeing you here in Bentonville on October 6.

Now to introduce our panel: of course, we have Doug McMillon, Walmart's President and CEO, with us today. We have Brett Biggs, Walmart's CFO; Greg Foran, Walmart US President and CEO; David Cheesewright, Walmart International President and CEO; Rosalind Brewer, Sam's Club President and CEO; and Neil Ashe, Global E-Commerce President and CEO.



Before we turn it over to Q&A, Brett and Doug will have some initial comments.

Brett Biggs - Wal-Mart Stores, Inc. - EVP and CFO

All right, thanks, Steve. That's typical -- we get Steve here, he's been one week, and we throw him right into it. That's pretty much what we do. (laughter) So we're glad to have him here.

I also want to thank Pauline Mohler and the rest of the IR team, Gail, and Carrie, and Miguel, and Michael, who have done a great job in my first few months here in helping me get transitioned. And I can't thank you guys enough. So I really appreciate it.

I hope you enjoyed the show; it was quite a show. It didn't go exactly like I thought it would. (laughter)

A couple of housekeeping things in addition to what Steve was saying. As would be typical of our process, we won't be updating any guidance this morning, which you would expect. Also I will not answer any questions about that hug. That is not going to happen. I see Robby is upset with that.

But you heard a lot of common themes this morning as you heard the various speakers and talked a lot about the transformation of the Company, about technology in stores, and people and associates. And you heard very common themes. And it's such an exciting time to be part of Wal-Mart as we look toward the future.

Clearly, we know results matter, both short-term and long-term. And as you know, we are always focused on that. A pretty good start in the first quarter for us, and a lot of pieces of the business had a part of that. Walmart US was continuing to have positive comp sales of one comp in the first quarter. Continue to see customer scores improve, which is very good.

Ros -- increase in membership income, and a great digital strategy we have going on at Sam's Club. In Walmart International, 10 of our 11 markets having positive comp sales; Mexico and Canada doing exceptionally well. And then in e-commerce, we have so many things going that are building the foundation for our future that are so exciting and what we're doing with the Company.

EPS came in a little better than we had guided you to. And as we mentioned in our script, there were a couple things that worked in our benefit, with weather and some things like that on utilities expenses. But it was a good performance overall by the Company and a good start to the year.

But if you have followed us for any length of time, or even if you're new to us, you know we are never satisfied. This is a company that keeps striving for excellence, and we're going to continue to press forward with our strategy in ensuring that we get results for shareholders.

So with that, I'm going to turn it over to Doug. (laughter) I mean, nothing will ever surprise me again.

Doug McMillon - Wal-Mart Stores, Inc. - President and CEO

(laughter) For the rest of your career, you're going to hear about that. Oh, loved it. Kind of liked your alias thing, too. That was good.

Thank you for coming. We hope that you enjoyed that but also learned something about the Company. And we'll try to do our best to answer your questions now and help fill in any blanks that you have about what we're working on and what we're doing.

Can I ask you guys to stand up real quick? This is Rollin Ford. Rollin is the Chief Administrative Officer of the Company, retiring at the end of July -- long career in logistics, led IT. And we're going to miss him. And he's working on some cool things before he takes off.



Jacqui Canney -- as she mentioned, this is her first shareholders meeting. She is responsible for the people area of the Company. Jeff Gearhart, the Chief Governor; Dan Bartlett, who leads corporate affairs. And if there are any questions that come up for you, we'll toss them to you, and you can use that microphone over there.

Making progress. Still a lot of work to do. Still pushing the ball uphill a little bit; it's not rolling downhill on its own yet. But some really encouraging things are happening. When we were together in October, we talked to you about winning with stores, building a digital relationship with customers, and adding new capabilities to the Company.

When we think about winning with stores, we have a lot of them. The supercenter format is a great format. When it's run well, it will generate attractive returns and drive growth. And of all the brick-and-mortar retail formats that are out there, that's the one we'd want, and we want to make the most of it. But there's a certain formula that makes them work. And what we've been doing is to shift to that formula that we know will deliver the productivity loop. So we had to make some investments upfront.

This is a people business. You can't go to the meeting that we were in this morning and not understand it's a customer service business; therefore, it's a people business. And we want our associates engaged and ultimately feeling ownership for their part of the business, whether they are a department manager or a cashier at the front-end. If they feel like this is their Company, they are responsible, they have everything they need to do their jobs well, they are going to do well.

And when you run one department at a time well, you get a store that runs well. You do that enough, and you've got a really nice financial picture. So the steps we've been taking are aimed at doing that.

And of all the things that we shared with you about the first quarter, the one I'm most excited about, Greg, is the inventory position in Walmart US: the deleted inventory being down, the in-stock being up, comp-store inventory being down. It's like oxygen in a store. You can find something in the back room; you can spend more time on the floor helping customers. The weight of inventory has been relieved to an extent, and I think that bodes well for the future.

We want to make sure that every step we are taking in the supercenter business gives us the opportunity to have the productivity loop spin, including some investments in price, which we talked a little bit about when we published our first-quarter results. As it relates to the digital relationship, I think Neil can certainly talk about that better than I can. But this idea of having a seamless relationship with the customer, so that they really don't have to think about -- whether they are going to a store, picking up an order, or getting it delivered, they are just shopping at Walmart. That's what we're trying to do.

And we need that digital relationship to be able to do that. So the investments in our operating system, the progress we've made on our app, what we're trying to do with Walmart Pay -- all those things that you have heard about help propel us to that point where we can do that.

As it relates to adding critical capabilities, we've added talent, different types of talent. We are changing how we think about the supply chain in some ways to make it more dynamic. One way to think about Walmart is a system of supply, with inventory distributed around the world in lots of different ways. It's in different type of distribution centers; it's in different types of stores and clubs; and it's positioned close to the customer.

So all we're really trying to do is connect the customer with that product in the most cost-efficient way with the service that they expect, which includes speed and accuracy. So with inventory levels going down, and on-hands going up, and inventory accuracy going up, it gives us the opportunity to do that more effectively.

So -- encouraged by that particular metric in Walmart US. And then also really encouraged, David, that 10 out of the 11 markets are running positive comps. We've got a lot of international businesses that are going well. We've got membership performance, Ros, happening at Sam's Club. And Neil and his team have done a lot of heavy lifting over the last couple of years to get us to the position that we are in now.

And if you listened to our recording at the end of the first quarter, I mentioned I think it just takes time for a customer sometimes to realize that we have made progress. And we'll try to make sure that they know we've made progress while the same time, Neil, continuing to make it.



So in our business you get what you earn. There isn't anything they give to you. And I am encouraged; I think we're earning it. I think we've made progress, and I am excited about what's to come. With that, we'll open it up for your questions.

QUESTIONS AND ANSWERS

Robby Ohmes - BofA Merrill Lynch - Analyst

Thank you. Robby Ohmes, Bank of America Merrill Lynch. I want to ask about the Uber announcement and see if we could get more details on it. I'd be really curious -- any exclusivity aspect? I think it came across \$5 to \$7 fee for that. Is it a Walmart fee? Is Uber getting the fee?

The interface: is it -- the task can be done, you order online over Walmart? Or is there another -- does Uber have an interface that you order through to get Walmart? You know, I'm very, very -- anything you can give us on that would be terrific.

Neil Ashe - Wal-Mart Stores, Inc. - President and CEO, Global eCommerce and Technology

So let me describe the customer proposition. So we announced Uber and Lyft and some other folks that will power this, and we'll start to test this in two markets in the next couple of weeks.

You go on the regular grocery app. You make your order, and then you choose whether or not to have that delivered to you. So currently in Denver, this will slot into the pricing that customers are already experiencing for delivery. They won't see the provider, whether it's Uber or anyone else. What they will see is the ability to order that -- or to effectively schedule that delivery, say, I'm ready for that delivery to come.

And that's true of all the providers. So it's Walmart-branded, and the delivery providers are service providers. The fees are Walmart charged to the customer based on existing delivery prices. And then we obviously have a relationship with Uber, Lyft, and the others to provide on the backend.

Part of the reason that we're excited about this -- and put this in context for the online grocery effort and then the expansion -- we're trying to satisfy for the customer those things she needs on a regular basis, and we're trying to do that better than anyone else. And so we've created the ability for her to order those whenever it's convenient for her. And you saw from the videos that we've run; there's 100 others of those videos that are just like that, which say, wow, you've changed my life, because you're allowing me to schedule my life more effectively.

We introduced pickup because that flows perfectly with what many people have identified. The two things that are necessary for customer satisfaction are: you get what you want, and it shows up when you expected it to.

So we've nailed the shows up when you expect it to as you show up on the -- at the store for pickup. Now, with on-demand delivery, by definition it's going to show up when you want it to show up. And so we think that's a game-changer in a service level. And so we'll roll this out in a couple of markets, just as we've done with the broader online grocery. And if it's successful, we'll roll it out to the other markets.

Robby Ohmes - BofA Merrill Lynch - Analyst

Exclusivity?

Neil Ashe - Wal-Mart Stores, Inc. - President and CEO, Global eCommerce and Technology

There's no exclusivity on either side.



Greg Melich - *Evercore ISI - Analyst*

Greg Melich with Evercore ISI. Doug, I think last October, you put it in two phases: we're going to start with the SG&A investment, clean up the stores, get it moving, and then start the price investment. Could you give us a little more detail on what sort of price or gross margin investment is it? Is it just price? Is it assortment? Is it in particular categories or different areas? How should we think about where that's going to go to really get the productivity loop moving?

Doug McMillon - *Wal-Mart Stores, Inc. - President and CEO*

Yes, as you know, Greg, from looking at the investments we've made, it put that upward pressure on expenses for a couple of years, because we made an announcement that it was in two steps related to the wage increase. And again, it wasn't just a starting wage rate change. We moved wages for many associates over this two-year period.

And we didn't feel like we could do that -- which helped us, Greg, lead to cleaner stores, improved in-stock, faster checkouts -- and take prices down at the same time in a way that ultimately we would like to. So that's why it's two steps.

I would also say it's not just the US. If you look at what Dave is doing and what needs to happen in some of our markets around the world, it's ultimately the productivity everywhere. We're just in different stages, but with the same overall approach. So maybe what I should do is ask Greg to talk a little bit about the US and then Dave to comment on international.

Greg Foran - *Wal-Mart Stores, Inc. - President and CEO, Walmart US*

In terms of the investment, what we've advised everyone, Doug, is that it will be several billions of dollars over several years. And that's about where we're at with this. We're getting on with it.

For competitive reasons, we are not going to get into details around exactly how it's working. Suffice to say that we are underway with it. We're happy with it. And as we roll this out, we'll learn, we'll adjust, and take it from there.

David Cheesewright - *Wal-Mart Stores, Inc. - President and CEO, Walmart International*

Yes, on international we've got activities on price leadership going in most of the markets. You see a program rolling out across the countries of dead net costing, which we're finding very valuable. It brings a very fact-based approach to some of our negotiations with vendors -- takes it right down to the item level, and that's certainly leading to much more productive discussions. And the money that generates is then invested in price.

We've got a pretty good track record of understanding which categories respond better to price. And then probably two other things I'd add is what we are looking at is making some more distinct choices about categories and thinking of categories in terms of whether they are value related to the customer or quality related; and where we believe they are value related -- so particularly paper, chemicals, that sort of category -- you'll see us not just invest in in price, but also narrow assortment, make it -- put more on semi pallets, so it's more efficient, and it looks like a more value offering, and leaning hard on those. Where it's quality, we might do something quite different.

The final bit is, you know, we've got some really interesting work going with Neil's team. Obviously the online space has used algorithmic pricing for quite a long time. So anyway, we would never -- I can't imagine us changing prices anything like as frequently, but the methodology in terms of optimizing the way our buyers think about how they price, and their ability to price all of the 100,000 items in the store rather than simply the number they can get around with the resources they have, I think, is very exciting. So lots going on on pricing. We're seeing some good growth around the world.

Doug McMillon - Wal-Mart Stores, Inc. - President and CEO

Given the level of investment -- in October we gave you three years looking forward relative to the profitability for a reason, and we're not changing that today. I think that's what you should expect.

Bob Drbul - Nomura Securities Intl (America) - Analyst

This is Bob Drbul of Nomura Securities. Two questions: the first one is -- one of the statements, Doug, you made earlier this week was be the best, not the biggest. And I was wondering if you could just give us an update on each strategic review that's underway. Assuming store closures, or asset sales, or anything like that, and how we should think about coming up?

And in the second question is, Brett -- it was a nice hug. If you could talk a little bit about the expenses, either dollar goals or rate goals that you have? It seemed to be very big focus this morning.

Doug McMillon - Wal-Mart Stores, Inc. - President and CEO

Yes, I'll start with the portfolio. I think you could string together, if you are paying attention, a number of different decisions and start to see a pattern: the store closures, some of the other sales that we've done -- a few of them international, for example; and it demonstrates the fact that we are willing to prune the portfolio.

I don't think we should exit a market or do something dramatic unless we understand how it's going to help some other initiative that we have. So it's obviously very important to us that we win in the United States. If something gets in the way of that, we may take action on it. So as we've said to you before, until something happens, we really can't discuss specifics with you. But what we are trying to show you is that we are willing to make tough decisions if we need to to make sure that we win where we must win. We haven't entered a new market in a long time. Don't feel a need to expand the footprint that we have right now. We like the set of markets that we are in, certainly, generally speaking; but we are open to doing things differently and from time to time work on things. Some of them come to fruition, and some of them don't.

Brett Biggs - Wal-Mart Stores, Inc. - EVP and CFO

Yes, Bob, on expenses, we've -- expense management, I talked about this morning, has always been a huge part of who Walmart is, all the way back to Sam Walton. And over the past few years we have made decisions to -- as Doug said, to add expenses in people, technology, and some other things that we believe gets us prepared for where we want to be in the future. It's still a big part of what we do.

As Doug talked about, the productivity loop -- it's the first part of the productivity loop. I don't think we've done as well as we could have overall on expenses. We can do better. We can always do better. And you'll continue to see that be a big focus for us going forward.

Paul Trussell - Deutsche Bank - Analyst

Paul Trussell, Deutsche Bank. Two areas of emphasis this morning and over the past year has been in the fresh food area as well as e-commerce and omnichannel retailing. And from the outside looking in, it's very clear that you continue to make very heavy investments in technology, and in people, and in process assortment and presentation on the food side.

But also from the outside looking in, with the first-quarter results, it looks like the food business as well as e-commerce growth is below that of the market. And just help us understand what the next steps are as we think about how these businesses will accelerate over time, and what incremental investments are to be made? And when should we be expected to see that return?



Doug McMillon - Wal-Mart Stores, Inc. - President and CEO

Paul -- fresh -- why don't we take the US in particular? I think that's probably most of what you are speaking about, not the other countries. So, Greg, why don't you start there? And Dave, chime in if you want to; and then, Neil, you can address e-commerce.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO, Walmart US

I guess my overriding comment is: we are reasonably happy with the progress that we are making in food generally. And Steve and his team -- and Steve is here now -- are seeing the metrics that we think matter moving in the right direction. So we are reasonably happy with what we are seeing with traffic.

We are happy with how the units are moving. As we invest in price, we deflate ourselves. I'm fine about that, because if we see a corresponding increase in the amount of units we sell, then we are on the right track of getting the warm out we are working.

And you can pretty much apply everything that I said against fresh. There's always isolated areas, like beef, that are pretty heavily deflated at the moment. But overall, in terms of fruit and veg, it's where we want it to be. Meat, tracking along nicely. Deli -- always opportunities for us in deli, but we're making some good progress.

So I'm actually reasonably comfortable with the progress that we're making. This is an awfully big business, as I've come to learn over the last 18 months. And change, I think, has happened quite quickly to us, particularly with the efforts that you and your team have put in with Steve and his team. But it's incremental, and it will take us a little bit longer before we are going to really sit back and say we've got a really thriving food business. But I'm happy with the progress that we are making.

Neil Ashe - Wal-Mart Stores, Inc. - President and CEO, Global eCommerce and Technology

One of the things I like is that when you want to sell fresh food, there is a chain of events. And what Greg and Steve and the team are doing is breaking down that chain -- from the specs, to the sourcing, to the way we handle logistics; some of the speed with which we get it to the store, how we staff the store, how we teach people how to call, how you manage throws. And what I'm watching is a methodical process to put all the pieces together to drive it.

But I would agree with Greg; if we deflate ourselves for a little while with these price investments that's okay. We like the traffic numbers. You want to keep the traffic numbers going, and I worry a little less about the dollars.

David Cheesewright - Wal-Mart Stores, Inc. - President and CEO, Walmart International

Yes, you know, what I'm looking for is I'm looking for units as well now. And you know give or take a bit. Steve -- we are heading in the right direction with where we want to, so.

Yes, I mean, we are seeing good growth on fresh across international. We work on the areas Doug talked about. So, sourcing -- you are seeing us look to develop a much more harmonized approach to produce sourcing across the globe. And Greg and I have been collaborating pretty closely. I took on sourcing from Rollin at the early part of this year, so we've got -- we traditionally had an Americas sourcing operation and a Europe/Middle East/Africa operation and an Asia one.

We are looking at harmonizing the protocols there. That will allow us to move product between countries and make sure that we have the best product at the best prices in a fairly seamless way across the globe. So I'm quite excited about what that's going to bring in terms of product.

You have seen us leaning in some countries to build the infrastructure. So China would be a great example, where we've invested a fair bit in building a national chilled and freezer network. That gives us huge advantages versus the competition there in terms of making sure the product

gets to customers safely and at the right quality, which is a big deal in China. And then, not dissimilar to the US, we're spending a lot of time in terms of our store operations making sure that we have people who truly know how to handle projects.

Doug McMillon - Wal-Mart Stores, Inc. - President and CEO

Ros, do you want to chime in on fresh?

Rosalind Brewer - Wal-Mart Stores, Inc. - President and CEO, Sam's Club

Yes, so some of the similar activities are happening at Sam's. In order for us -- we talked to this group and have been very public about the merchandise transformation we need to make at Sam's. Membership, like Doug mentioned, in the right direction; and our work that we do operationally in the clubs through Don Frieson and his team is doing well.

The merchandise transformation -- a big part of that is our food business. Our general merchandise business has continued to do well. We are focusing on fresh, and part of that is our sourcing piece and also, too, our varieties. And so we tried to really offer a higher level of sourced goods, and we have been doing that, but we've got one more step to make to make sure that we've got the pricing on these fresh goods priced appropriately and the sourcing is effective. But we continue to focus on fresh as well at Sam's as we look at merchandise transformation.

Neil Ashe - Wal-Mart Stores, Inc. - President and CEO, Global eCommerce and Technology

As we talk about global e-commerce, remember that's e-commerce for the whole Company around the world. So as we've said over the last couple of quarters, the portfolio has not been our friend. So we have faced some challenges in some of the international markets, which over the course of the year will cycle through on those sides.

The progress at Sam's Club, Ros, has been outstanding. You mentioned it earlier today. The impact on membership, the impact on the business member, the club pickup has been really, really strong. So then as we focus in on the US, we unpack kind of what e-commerce is for Walmart in the US: let's start at Walmart.com, which in April according to comScore, was 87 million unique users, which makes it the now consistently second-largest retail site in the US. That's a big achievement, if you think about over the last several years and kind of where that started. That's a great foundation for us to grow from.

A lot of our activity, as you know, has been related to our first-party merchandise, and our relationship with Greg and the stores, and how we are driving those. We -- our online grocery is the key intersection point between e-commerce and the stores, and that's grown, obviously, dramatically. So we've built that over the course year and a half or so.

We -- as you know, we are now in 30 markets at the end of June, 40 markets at the end of July. You can start to see the pattern here, which is we are scaling this and rolling this out. That you will see be a strong contributor to growth going forward.

Then we are also expanding the assortment at Walmart.com so that people find more of what they are looking for, and so they can spend more of that time with Walmart.com. So in May we introduced some new technology to our marketplace that allows us to scale both sellers and their items at a significantly faster pace.

That's something you know we've been working on for a while. I'm pleased to say that it's out there now, and it's growing. So where the marketplace probably grew 50% in the first quarter, we expect growth to accelerate from there.

So taken all together, Doug, you described it at the beginning. If we think about the customer experience at Walmart, you can walk into one of Greg's stores, and you can buy anything you need. And you are having a significantly better shopping experience while you are there, as we have discussed. The fresh is better. The experience is better. The clean, fast, friendly scores are better.

You can download the app, and you can create a profile, which is just your name, your address, and your payment credentials, and we can do some pretty special things for you while you are there. We can check you out in a second. So for those of you who haven't used Walmart Pay, please do. We'll roll that out to the rest of the country.

How many people here think that checkout is the best part of the shopping experience? No customers do, either. So we're doing something special to transform that, and that's a beachhead to continue to do more things with that. Think about what else we can do with that digital relationship while we are in the store.

Then through grocery, we are solving the things that you need, whether you are coming by to pick them up at our store, or where getting them to you on demand wherever you are. And then you can go to Walmart.com in the app, and you can pretty much by anything else that you want. And if you subscribe to ShippingPass, we'll get it shipped to you anywhere you want for \$49 a year. And we'll ship it to you for free. So that's a pretty solid customer proposition. We feel like it is differentiated from the marketplace, and we are excited about it.

The scanning bill thing at Sam's is cool. And the first time I used Walmart Pay, I was uncomfortable, because I literally felt like I was stealing something. It is so easy. And if you haven't used it, please try it. Scanned the QR code and just stood there waiting for somebody to tell me it was okay to go, or a receipt to print out, or something to happen. And the cashier kept looking at me like, you are good, go. It's okay. I said, are you sure? Because I don't want to get fired over stealing \$20 worth of food. (laughter)

And then, you know, the email receipt shows up fairly quickly. And then you breathe, and you can leave the building.

Doug McMillon - Wal-Mart Stores, Inc. - President and CEO

Savings Catcher on the top of that, right there with it.

Neil Ashe - Wal-Mart Stores, Inc. - President and CEO, Global eCommerce and Technology

Yes, embedded in it. So it's one of the pain points in this story that we can relieve. And there are others which I think will help drive traffic over time. People come back if they got in and out fast.

Peter Benedict - Robert W. Baird & Company, Inc. - Analyst

Peter Benedict of Robert Baird. Two questions. First, in the US, with respect to the improvement we've seen over the last several quarters, in the past you guys have talked about really trying to focus on, like, your bottom-10%-performing stores. I'm just curious how those laggard stores have performed during this kind of upturn. Have they outperformed the average and been a particular source of strength? I think, Greg, yesterday you had mentioned in our store tour that you are coming across fewer Code Reds.

Then the second question is around fresh. Just how do you balance scale with the desire to be local? Is there a point at which scale is almost a disadvantage when you're trying to be great at fresh?

Greg Foran - Wal-Mart Stores, Inc. - President and CEO, Walmart US

Happy to take those, but Judith, you might want to think about whether or not you'll answer about the 10%, because I actually don't focus on the bottom 10% per se. But I'm sure that Judith and her team get into that detail.

Generally what I have been focusing on is moving the bar up for just about all of them, and that was based on the fact that, to be honest with you, I didn't often go into stores where I would walk out and say, gee, I thought that was an 8 out of 10 experience or a 9 out of 10 experience. So



generally, we are probably more around 4s and 5s. So I haven't specifically jumped into laggards, but you can think whether you want to comment, Judith.

And in terms of scale, yes, as I mentioned yesterday when we were touring the store, there's no doubt that size actually can work against you on fresh. If you try and do everything -- if we go out and decide that across the country, we're going to do an amazing deal on limes, we are probably going to skin everyone out of limes, Steve. So we don't do that.

We tend to operate more locally there. And it just means you need to be a bit ambidextrous. If you are talking about dry grocery or you're talking about general merchandise, when you want to use scale to your advantage and you build and place the appropriate infrastructure.

When you are dealing with fresh food, whether it's meat, fruit and veg, seafood in particular, you need to be a little bit more circumspect and think about seasonality and growing regions. So what we think about is -- we think like that, and we make sure that our buyers think like that and we operate like that.

And to be honest with you, having worked in a number of different countries, that that was the same even in Australia, for example. If Woolworth's decided to hook into strawberries, we would have run everyone out of town with strawberries over the weekend. So you don't tend to do that. Do you want to make a comment on laggards at all, Judith?

Judith McKenna - Wal-Mart Stores, Inc. - COO, Walmart US

So the way I'd -- when we started the journey of this, we started with a phrase, which is No Store Left Behind. And we deliberately structured the way that we created incentives for our market managers around clean, fast, and friendly in order to be able to do that.

So for a market manager, in terms of getting the stores to green from a clean, fast, and friendly perspective, their target is to get all stores -- not an average of stores; it's all stores to that position. And that's really helped us, Greg, in the way that we've been able to focus one market at a time and one store at a time across the board. The great thing about maths is you've always got a bottom 10%.

But they actually just move around. And we've seen some real progress at those that we've got, not just from a sales perspective, and but from things like shrink as well, which we are also being very focused on. So we are pleased with that, but it just gives another cohort of stores for us to review and look at again.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO, Walmart US

I think that's a really good point. Because effectively, if you are store that was scoring X, we're still looking for a 20-odd basis points improvement, regardless of whether you were sitting there at this stage. Now at some point, when we think we've got that high jump bar far enough, than probably we'd go back and start breaking the cohorts down. But we're not at that point at this stage and probably wouldn't be for maybe another two years.

Doug McMillon - Wal-Mart Stores, Inc. - President and CEO

As you would probably guess, the stores are very focused -- all of them -- on their clean, fast, friendly scores. It's one of the first things that people want to talk about when I walk into a store. And I don't know if you could hear him or not today, but when I was making my remarks earlier today, there was this guy on the front that kept yelling out: clean, fast, friendly! I would say, and save money, live better. He would say clean, fast, friendly! (laughter) So I think it's taking hold.

Simeon Gutman - *Morgan Stanley - Analyst*

Simeon Gutman from Morgan Stanley. First, a follow-up for Neil. How much is food contributing to online growth today? And how much could it going forward? And could you share with us the overlap of customers who shop online versus the physical stores?

My second question, different topic: I just want to think about or focus on Asda and think about how that could relate to the lesson for the US one day, just to compare and contrast the markets. That's a market where you fought hard to come back and hold onto the market share, and it was successful. Seems to be very price competitive, and now it's going the other way.

Same in US here. You are doing a great job regaining market share and enhancing all parts of the store. And why is this market going to be very different from that UK experience down the road?

Doug McMillon - *Wal-Mart Stores, Inc. - President and CEO*

Neil, you want to go first?

Neil Ashe - *Wal-Mart Stores, Inc. - President and CEO, Global eCommerce and Technology*

Okay. So Simeon, we don't break out the grocery numbers yet, but we expect it to be a meaningful -- like hundreds of basis points -- contributor to the US over time. So obviously we are scaling markets. So that's -- that drives the growth and how the growth will roll out, so -- as we roll these out.

What I will say on that, though, is that in each of these successive cohorts that we've launched, the markets have launched better than the market prior to them. So we are getting better at this, and it's showing. We target a -- we target a customer satisfaction score. So we built the entire experience from a customer satisfaction score back. And the customer satisfaction is running at a 92% to 94% based on the week in all the markets, new and the ones that have been around for a while. So it really is -- and we -- and so as those scaled -- as it scales into more markets, it will contribute significantly more.

And then from a customer performance perspective, we launched it for three reasons that we talked about, which is: we wanted to attract new customers to Walmart; we wanted to deepen the relationship with many of the customers that we already had; and we wanted to introduce service to the brand, so that the customer could see Walmart throughout. And it's really been a success on all three of those metrics.

So it's hard to find somebody in the US that hasn't shopped at Walmart. So the definition of a new customer to Walmart is a little bit challenging, but we've seen real additional spend from the -- from customers. So Michael Bender, who runs the operation here, is in the back, and he was telling me a story about a woman he met in Nashville on a recent store visit there. We launched there beginning of November, I think, or end of October, Michael?

And he was interviewing her, because we were checking -- we were testing an automatic check-in through your mobile app, and she was using it. So he was talking to her, and he asked her how many orders she had made. She had made 30 orders since we had launched in Nashville. So that's once a week. So -- basically.

So that's a -- and she was not shopping with us before. She was shopping at the Publix across the street. So that gives you kind of, you know, how. That is not just anecdotal. That's consistent with how it's rolling out.

David Cheesewright - *Wal-Mart Stores, Inc. - President and CEO, Walmart International*

So the UK, I mean, the markets are slightly different. In the UK, we are predominantly competing in the food and grocery market rather than a much broader base here with Greg. But I think a couple of things that we've observed in there -- and we are learning and sharing a lot of best practice.



One is the discounters. They are good operators. They are dangerous, and we need to view them as big competitors. And we've worked together pretty closely at looking at how you deal with that. They are a different proposition, but there's lots to learn from that.

I think there's a lot to learn around how the UK put down probably too much square footage on stores. It's logical for each individual player to open the next store, but when you put it all together, there's a potentially tough scenario for everybody.

In terms of Asda itself, we'd be disappointed with their performance at the moment. Doug said we've got 10 out of 11 markets growing well, 9 actually over 4% in Q1. Obviously one that isn't is Asda.

And I think just a couple of things I'd say there. First is we run a portfolio. And I think one of the things we've done a much better job as a leadership team over the last couple of years is making some clearer choices. So think about the last two years -- the biggest priority was to get Greg's business back on track and invest in Neil's business. So international has had to kind of look after itself.

And within our business, I've got two big profitable markets in Canada and Mexico. And in a portfolio, if you can get your good markets going, life gets a little easier. So they've been our priorities.

So the UK has been asked to manage -- you know, try to manage a balance between share and profit. And they've done a very good job of that when you look at the decline of profitability in that sector versus where we are. We would say in hindsight we've probably lost a bit more share than we would want. And there is a pretty robust plan in place which has started this year to try and get that back again. But it's very high up my focuses at the moment.

Doug McMillon - Wal-Mart Stores, Inc. - President and CEO

I think if you listen, you can hear us making choices. Using the portfolio to our advantage. That's what we're doing.

Steve Schmitt - Wal-Mart Stores, Inc. - VP of IR

Yes. Can we keep it to one question? We have a hard stop in about 15 minutes.

Matt McClintock - Barclays Capital - Analyst

Matt McClintock, Barclays. China: it's been about a year since you brought in Yihaodian, and I was wondering if you could maybe update us on how your thoughts have evolved regarding the overall growth opportunity in that market and how to go about addressing that growth opportunity?

And nearer-term, traffic has been a bit soft. It sounds like food improvements will help with that, but how should we think about a return to positive traffic in that market? Thanks.

Doug McMillon - Wal-Mart Stores, Inc. - President and CEO

Why don't we do Yihaodian first. And then, Dave, round it out if you want to talk about the rest of China.

Neil Ashe - Wal-Mart Stores, Inc. - President and CEO, Global eCommerce and Technology

Yes, so just a quick refresher on what Yihaodian is. Yihaodian is largely fast-moving consumer goods and groceries targeted at a female and a higher-end demographic in Tier 1 cities -- mostly Shanghai, Beijing, Guangzhou. So it's a -- it is not broadscale national competitor to a JD or to an Ollie.



As we brought the business in, we made some pretty significant changes to the marketplace of that business. So we cleaned out a bunch of sellers.

So that has impacted -- that has been what has impacted our GMV growth rate and had a big impact on the total growth rate, and introduced good questions like Paul's earlier. As that cycles through, we feel like we have a -- a very strong, very active, very loyal customer base in these Tier 1 cities of attractive customers focused on the things that they need. We have a highly efficient fulfillment network to provide those, and we think that's a great foundation for continued growth in those markets.

David Cheesewright - Wal-Mart Stores, Inc. - President and CEO, Walmart International

As far as the cool retail business in China, it is -- we had positive comp in Q1. That's an improving trend. With the way the economy has been over there, we've had to stay very close to what's going on in share so we can see relative performance, and certainly against hypermarket competitors, we are pleased with the performance there.

The business is roughly 90%/10% Walmart stores to Sam's Club. And in terms of where you would expect to see the growth from the future, the Sam's Club format is very, very well suited to China. And you will have probably seen a couple of years ago we disbanded our regional real estate function and asked them to only work on one thing, which was a pipeline of store in Sam's Club.

And we are starting to see some good progress in terms of getting more stores on the ground with Sam's Club. So we see that as big opportunity in stores. We also see it as a big opportunity with Yihaodian in terms of putting Sam's Club on Yihaodian, which gives customers outside of the cities we are in access to an offer that's clearly working in China.

The Walmart store is also doing pretty well. And what you've seen us do, not dissimilar to a lot of countries, is spend a lot of time working on the proposition: what is the right format to win there? And typically in the stores that we are building now, we are much clearer about what locations work. We are much more concentric circles around how we build, particularly in the South and the Southwest.

We are smaller. Where typically on one floor, not two floors. And we have much higher proportion of food. The final bit, which is really, really encouraging is -- I mentioned earlier the work we've done on the distribution center. We also harmonized 29 buying offices down to 1 for fresh. And we are seeing very strong comps in China with our fresh business. And fresh is the thing that drives traffic, so I would expect to see that improve.

Dan Binder - Jefferies LLC - Analyst

Dan Binder, Jefferies. Congratulations on the innovation center. It was pretty impressive.

I think as we listened to what was being said in that tour, private label is getting more attention. Historically you've called yourselves the house of brands. So I was wondering if you can just talk a little bit about private label today, where it is; if you can discuss the mix, that would be great; what you envision private-label doing for you in the future? And if you could address organics in that conversation, I would appreciate it. Thanks.

David Cheesewright - Wal-Mart Stores, Inc. - President and CEO, Walmart International

I'll start and then hand over to Greg. It's interesting with Walmart -- if you started life as a food retailer, you view private label as the place you start and brand the things that you only sell if you can't create a proper private label, because if a sign says we save people money, then why would you want to sell something that costs more for the same quality?

If you start in general merchandise, I think you tend to view things as the house of brands. So I think they are both important.

I think you look around the world -- there are very few discount operators who don't have high private-label presence. It's a very good way to understand the economics of your business; it's a very good way to provide differentiation to customers. And it's a good way to provide better value for customers and better returns for us.



Jack Pestello is doing a nice job. Obviously he started in international, moved across to Greg's team, and we remain a really close contact -- and certainly now much more harmonized in terms of the brands that we are developing around the world. And I think we'll see some good opportunities, Greg, particularly around -- because food tends to be regionally rather than globally sourced, particularly around regions like North America. So looking for synergies in private brand between Canada, Mexico, US -- I think there will be some big opportunities there.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO, Walmart US

I guess the only bit I would add, Dave, is that I think we are fortunate to have big enough pieces of real estate that we don't have to be a one-trick pony. And part of the art to running a retail business is to manage your mix, whether it's in fresh, or whether it's in dry, or whether it's in private label, or whether it's in general merchandise.

When you go back to the early days of Walmart, as Walmart went from Division I stores into supercenters, one of the things that they worked out probably before almost anyone else in the world was how to manage the right mix. So, you know, private label helps us do that -- helps us manage a portfolio of businesses within a business.

As I said in my tours yesterday, what you saw at the innovation center is terrific, but don't take away from that the fact that we are not still serious about selling brands. And the reason that we are serious about selling brands is that brands allows you to offer everyday low price. It's pretty hard doing everyday low price on products that are not necessarily comparable with anyone else in the marketplace.

So I like the fact that we sell brands. I like the fact that we are now going to do private label. In terms of the US, we are going to sensibly manage that mix, as we do with fresh foods, and try and create an offer which is not only great for the customer but delivers a good financial return.

Rosalind Brewer - Wal-Mart Stores, Inc. - President and CEO, Sam's Club

One comment on Sam's and our work with private brands: if you had a chance to visit the club here in Bentonville, you'll see the work that we are doing re-engaging with our Member's Mark brand. We started off about two years ago with about 20 different private label brands in our club. We've narrowed it down to one brand, and it is Member's Mark.

And actually, if you know the history of Sam's, that actually was our first stint at private label. That's how we got the club business going. So you'll see us continue to invest in the Member's Mark brand.

For us it is the key differentiator in terms of our membership renewals, because we do want that exclusivity in a brand that really stands for quality at a value. So the position we are taking at Sam's is: we would love for our national brands to innovate on our behalf, but when they don't, we'll develop it ourselves.

And so in the last six months we have brought in or hired private brand talent, product development talent, and quality talent in the Sam's business in the merch organization. And we are reinvesting in the Member's Mark brand. So you'll see it in our meat, our produce, our salty snacks. And we continue to grow in that area. So it will be a main focus for us, and it will be something that our members can count on us for from a quality and a value standpoint.

Steve Schmitt - Wal-Mart Stores, Inc. - VP of IR

Any other questions? Robby?



Robby Ohmes - *BofA Merrill Lynch - Analyst*

I want to ask, again, sort of on the price investment thing. And I apologize if you talked about this already. But can you remind us: on your internal surveys, where is the US customer seeing you on pricing? And has that deteriorated, or are you still considered one of the leaders in low price?

When I hear you talk about investment, what I'm trying to understand are -- has Walmart gotten way above everybody else in perception, so you need to do something pretty dramatic to get price perception back in place? And also, when you do accelerate price investment, what's the anticipated competitive response you guys have put into your models that makes you believe you will be able to drive better volume?

Greg Foran - *Wal-Mart Stores, Inc. - President and CEO, Walmart US*

Do you want to start, or do you want me to?

Brett Biggs - *Wal-Mart Stores, Inc. - EVP and CFO*

We don't have a price perception problem. The way I would say it is, and I'll speak first, because I've been looking at it longer than Greg has -- but we just didn't -- we were too stagnant for a while. We weren't playing offense with it. Just kind of got to a steady-state, and we left it, thought that was good, went on to something else.

And productivity loop is the way this business works. It runs well when you get a bit of a stronger comp going, and you can provide leverage, and expenses matter to us. Inventory management matters to us. We've got to manage all the pieces. But when you want to get the thing moving, you've got to get the sales line going.

But you don't reduce the prices until you've cleaned the place up. We have made good progress on that. Now it's time to start thinking about that mix differently.

And one of the great things about retail and one of my favorite things about retail is the art of mix management. When I was a buyer early on, one of the moments I won't forget is my divisional merchandise manager, Don Harris, walked into a room once to the buying team and said: we need to get our margin up by 20 basis points. By the end of the day, bring me a list of items you are going to reduce the prices on.

And I went, huh? And the other buyers went, okay. And they walked -- they were more experienced -- they walked away. And I was like, how do you do that?

Well, through the blend of margins, if your average is 25, and you've got items that are over 30 and items that are under 15, you can roll prices back on above-average items, and you can mix the place up and drive more sales. So when we talk about investing in price, I don't want you to overreact and think something dramatically different is going to happen quickly.

What I'd like you to think about is: we know what the numbers are, a lot of different numbers, actual numbers, perception numbers, by item, by category, got all the data. We can just kind of methodically start working our sales to a position where that productivity loop starts to spin, support the traffic, eventually drive dollars after you've gotten over the deflation that you've caused for yourself.

And yes, I'm sure some competitors will react. That's what the marketplace is intended to do, and the customers at the end of the day will all benefit from it. But a well-run supercenter with a good mix of rollbacks and a terrific price position and price perception, with that breadth of assortment, even in a world where e-commerce and all these other things are happening which are vitally important to us, too -- even in that world they create a runway, and a cash flow, and an opportunity for us that we don't want to miss.

So to make that the very best investment, we've got to put these pieces together in a sequential order. And that's what we're doing. And Greg, you can elaborate more on price if you want to.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO, Walmart US

Oh, I think you pretty much covered it. We pulled together the plan. We shared it with you last October. It's a pretty simple plan, and it is built on the Walmart wheel, the productivity loop.

And part of that equation is: are you sure that you are driving volume? You increase your sales, selling more units. You start to buy better. You start to put that into even slower prices. It helps you leverage; you drive more top line.

And a lot of our discussion in our business is: what are we doing to get that top line going? And I like playing offense much better than I like playing defense. I like it when Steve and his team are out there actually leading on prices rather than reacting to someone's prices, setting new benchmarks, and it puts a spring in our step. It puts a spring in the step of the associates in the stores, Judith, because they are confident that we are out there doing what we believed in, which is saving people money so they can live better. And it's really that simple. I like the approach.

Steve Schmitt - Wal-Mart Stores, Inc. - VP of IR

Yes, last question, Dan?

Brett Biggs - Wal-Mart Stores, Inc. - EVP and CFO

I actually had one more thing on that. Don't just think about food and consumables. Think about the whole supercenter. Think about what's happening in hardware, with light bulbs, or windshield washer fluid in automotive, or -- you can walk through any department in that store, and you can find consumable items.

So sometimes when we say food and consumables, we pause and say, we are talking about all the consumables -- not just dry grocery or something else. It's about blending the mix. And a supercenter can sometimes be like a boat: if you don't blend the mix and have price leadership all over the box, and you are just investing in KBIs or food and consumables, you tilt the boat over too much. So we want to be smart about how we manage the entire box and let customers save money in all the departments, including general merchandise departments and apparel. We can hear you, Dan.

Dan Binder - Jefferies LLC - Analyst

Dan Binder, Jefferies. Since I have the last one, I'm going to make it a two-part. (laughter)

The first is just a follow-up on the earlier Uber question. As I recall, when you tried home delivery for grocery before, it didn't seem like you guys were that enthusiastic about it. Is this just about lower CapEx investment to make the economic model work?

And then my second question, for Greg: during our tour yesterday, you said that you thought you were probably about a third of the way on the journey or through the journey in terms of getting stores to where you want them to be. Just curious -- when you think about the other blocking and tackling, other things that you want to do to get store standards up, what are sort of the -- and two-thirds to go is still quite a bit. What are those big things that you need to do?

Doug McMillon - Wal-Mart Stores, Inc. - President and CEO

Do you want to take Uber first?



Neil Ashe - Wal-Mart Stores, Inc. - President and CEO, Global eCommerce and Technology

Yes. Doug, was it you who made the joke this morning about the fact that the UK is not that big, or was it James Gordon?

Doug McMillon - Wal-Mart Stores, Inc. - President and CEO

Yes, I probably shouldn't have done that. I'm sorry. That was not planned, really. It was good though.

Neil Ashe - Wal-Mart Stores, Inc. - President and CEO, Global eCommerce and Technology

In a compressed geographic area route, you can make route-based delivery work the way we have at Asda. In a broader geographic area, it's very difficult to make route-based delivery work. And so we tested it in San Jose, and we tested it in Denver, and it's very, very difficult to make that work in the US. In fact, we don't think it will work in the US.

So we focused on -- so that's piece A. But piece B, and more importantly, as -- what I said earlier, which is: one of the core key characteristics of user satisfaction with your grocery order is that you got it when you wanted it. Route-based delivery for groceries, no matter who is doing it, is a little bit like the cable guy. You've got a time; you should be there for -- and there will be innovations in packaging, and this will get better over time. But today, basically, you need to be there.

With what we are rolling out here, you are by definition going to be there, because you request that it comes to you. And so we think it's a -- and we don't know yet, because no one has done it effectively at scale. So we are going to test this and see, but our intuition is that we will be delivering a much better customer benefit.

And Ros, you've got a little bit of experience with it.

Rosalind Brewer - Wal-Mart Stores, Inc. - President and CEO, Sam's Club

We do. So we introduced a relationship with Deliv at Sam's, and it's been in a pilot in the Miami area. And so far, just early indications is that our members like -- and these are specifically targeted towards our business members -- they like the sort of on-demand. And so it's direct delivery to them, and we've been able to meet their delivery times and expectations.

So it's more of engaging your member where they want to engage with you. And when they place the delivery times, it can be exact and deliver exactly when you need it. So so far, early indications, we think we can deliver upon that demand with this one-to-one relationship that's not so much route-based, as Neil talked about.

Doug McMillon - Wal-Mart Stores, Inc. - President and CEO

I hope you will give us some leeway to try things. I don't know if these tests are going to work or not, but I'm glad we are trying them. And being at Walmart, we need to tell everybody everything we are trying to do, it seems.

There are going to be some things we will try to do that won't work, and I'm good with that. So we'll keep communicating what we are doing, what we are learning.

In the case of delivery, when we move freight at truckload level, we own some of the trucks, and we don't others. So, hybrids and blends and tests -- that needs to be part of our life. And I'm trying to create an environment where we are willing to try some things and be comfortable with intelligently laid plans that don't work. It's all right. And didn't move onto the next thing. So I'd like to see more of it.



Greg Foran - Wal-Mart Stores, Inc. - President and CEO, Walmart US

I guess in response to your question, I would tackle it in sort of three phases. I think we've got probably the best part of at least 12 -- maybe 18 months, Judith? -- of just blocking and tackling what we've put in place literally over the last nine months.

It's easy for us to sit on the stage here and say, I'll tell you what, we've just rolled out a new CAP process, Customer Availability Program. If I had the time, I'd be happy to take you down to a store now, and stick you through the CAP process, and I suspect you would after about an hour say, okay; can you take me through that first four steps again? Because I've actually forgotten them, because you've given me about nine things to do. So there's like 10,000 hours worth of practice around CAP, around top shelf, around how you handle markdowns in stores. Basic stuff that we are rolling out through the buying teams, where we are expecting people to lay mods out, etc.

So let's assume that we just focus diligently on making that happen over the next sort of 18 months. Riding concurrently with that, we've got a program of work that we internally refer to as legacy, which is around things like assortment discipline, around private label, around better buying, around more development around store operating models, academies, those sort of things.

So there's a piece of work happening right now -- 12 to 18 months' worth of hard blocking and tackling. At the same time, we are improving through how we are thinking about assortments, how we are thinking about pricing, how we are thinking about private label, how we're thinking about better buying, store operating. So let's assume that's about three years' worth of work, which it probably is.

So 18 months of the same planned three months. So we are -- after 18 months, we are up to three years. What do I see after that? If you and I went down and walked the neighborhood market right now -- and we were in it yesterday -- I think we would probably say, you know, that's a pretty good step change from maybe where we were with the neighborhood markets.

I could take you to a whole group of stores that would be a lot better than that store. And this is where it gets really hard. This is -- I'm not sure we are actually going to be able to do this, but I would love to get our stores in the US to a point where the managers of the stores are able to merchandise those stores to achieve a result of that really drives sales and the customer experience.

It won't be -- it will be difficult, but it won't be impossible for us to create a pretty disciplined cookie-cutter-type approach that will actually still sub-optimize where an exceptional retailer gets to. So what are you going to do to achieve that? The third piece is about your people. It's about your training; it's about their length of service. It's about their ability to communicate with buyers -- and, Steve, you having a team that reacts and says, wow, those stores rang me up, and they can do something exceptional with Hispanic. How can I help them get the right merchandise?

In the years that I've been doing this, and some of you heard me say this before -- you give me a really good store manager, and you give me a poor store manager, and there will be about a 30% difference in the sales result out of that store, which will translate into bottom line. Now, I wasn't in Walmart 20 years ago or even 10 years ago, but I suspect Walmart managers, going back in time, were probably the best managers in the United States.

I know when I first started coming here, they were pretty good merchants. We've got an opportunity to achieve that, but that, if you like, is a third stage. And if you do that, you achieve something pretty special with your store. And you can travel around the world. You can travel around the US, and you can see chains that do achieve that third level. We aspire to do that.

Steve Schmitt - Wal-Mart Stores, Inc. - VP of IR

Thanks, guys. This concludes our webcast. I want to thank you again for your interest in Walmart. See you in October.

Doug McMillon - Wal-Mart Stores, Inc. - President and CEO

Thank you all.

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