

Bank of America Merrill Lynch Consumer and Retail Tech Conference

Company Participants

- Doug McMillon, Mart Stores, Inc.

Other Participants

- Robby Ohmes, Analyst, Bank of America Merrill Lynch
- Unidentified Participant, Analyst, Unknown

Presentation

Robby Ohmes

(audio in progress), the CEO of Walmart stores with us here today, especially on a day like this and we appreciate all of you making it in on a day like this with the weather.

Most of you are very familiar with Doug. He has been with Walmart since 1984, working in many, many different roles. He was a summer associate in a Walmart DC. He's been an assistant store manager. He started as a buyer trainee when he entered the merchandising organization.

Before taking over the CEO role of Walmart in 2014, Doug was President and CEO of the Walmart International Division. He's had multiple leadership positions at Walmart during his career.

He is also on Walmart's Board, I think as most of you know. He's also on several other boards. He's on the Consumer Goods Forum. He's on the US China-based Business Council. He's on the Crystal Bridges Museum of American Art Board. He is also on economic and business school advisory boards.

I don't know how he does all this stuff and he comes to conferences in the middle of snowstorms; so extremely busy guy. We really appreciate him making the time to be here.

Also want to thank Brett Biggs, the CFO of Walmart, for coming and also Steve Schmitt from Investor Relations. Both of them made the crazy trip as well. So let me turn it over to Doug for some comments before we go into Q&A.

Doug McMillon {BIO 3063017 <GO>}

Good morning, everyone. It's really a relief to see other people here. Brett and Steve and I thought we were going to be talking to each other this morning, which wouldn't have been all bad. We have some things to talk about. But it's really nice that you made it. Appreciate that.

We will make some forward-looking statements today. So please refer to our website for our safe harbor statement.

Let's start with the customer, Robby, because I think that's ultimately where all this change is coming from enabled by technology in particular. It's helpful in an environment where the world is changing so much to break things into pieces.

And if we were to quickly characterize some of the pieces we think about, as it relates to price, value is only going to increase. The product itself, quality is going to improve. Prices are going to be under pressure over time. The Internet brings efficiency.

It's also going to be increasingly transparent. You can see a lot of that today. That trend is just going to continue and intensify.

Assortment has changed. There is a lot more choice out there. The world now has access to just about everything, which is exciting as a retailer. Then on the experience side, maybe there's more change happening there than anywhere else. Technology, in particular, is being used to get rid of friction, make things simpler and easier and customers just expect that, as a company, you are innovating all the time and making things more enjoyable for them.

We've got to get faster. We've got to make our customers' worlds simpler and we are excited about doing that and feel like we've just started to make some changes that will help us win in the future.

So thinking about the customer back into the Company; what that means is, inside the Company, we've got to change a lot and we have a history of changing. But I think, in today's world, it's larger and faster than maybe it was in some past periods.

Inside the Company, this is a one-pager we use to talk to our own associates. At the top, you'll see the purpose of the Company. We save people money so they can live better. When Sam Walton said those words, he was on a stage receiving the Presidential Medal of Freedom from George H. W. Bush and what he said after he uttered those words was our customers will have a better lifestyle. And so, today, we don't just think about saving them money, we do also think about saving them time and creating a more sustainable company so that they benefit when they shop with us.

That next row refers to our four core values. When you are in a people business like we are with 2.3 million people around the world working for the Company, it's important to constantly be talking about culture and values and behavior equals culture and we want behaviors that are consistent with the four core values that you see on this page and they have been timeless for us and we believe will be our four core values for a long, long time.

Those four middle points I'm going to come back to in a second and break them down piece by piece. These are the four things that this year in particular we are most focused on and what I'm going to share with you is very consistent with what we would tell all of our associates.

Last week, we had the Walmart US store manager team, about 7,000 people together in Orlando. We also had the Sam's Club US meeting in Orlando at the same time. So we had all of our management team from around the country assembled and these are the things that we talked about with them while we were together.

As we do those things, we believe in shared value. We believe that multiple stakeholders can benefit from this Company. At its size and scale, we can make decisions that will help local communities that will help shape systems to be more sustainable, deliver for shareholders, win with customers and create opportunity for our own associates. And as we design our system, if you want to think of it that way, we are working to solve for all of the stakeholders that benefit from Walmart.

So as it relates to these four objectives that we are focused on this year, I will start with making everyday easier for busy families. This relates, as I mentioned just a moment ago, to time and not just money. We really do believe that the omnichannel model is the winner and we believe we see quantitative evidence to support that. We are not just saying it because we happen to own and operate a bunch of stores. Our data indicates that the customer is going to want to have a personal experience and want to have some interaction with stores. But they also want an e-commerce capability from the Company. They want to be able to have access.

They want to be able to do it easily and as we work together to figure out how to take all the seams away, we see a path to winning. And in the future, customers won't think as much about the seams that we see today -- stores, e-commerce. Today, you are starting to see voice emerge. There will be a great virtual reality, an augmented reality experience. They will order on their mobile device. All those things are going to happen and we believe if we work hard enough, we can erase all the seams and customers won't even think about it.

I personally experience this at times today when I'm shopping. My wife and I shop at Walmart and Sam's Club, as you would expect and now Jet and a few other places like Hayneedle and Shoebuy and Moose Jaw that we've acquired recently. But I don't really think about the channel as much. Sometimes we pick merchandise up at the Sam's Club in the local town that we've ordered on the mobile app the night before. Sometimes we go in the club. Sometimes we place an order on e-commerce and those lines are starting to blur away.

We are working hard now to erase those for all the customers and you can see it with this acceleration in our e-commerce business. You can see it with our grocery pickup business that we are building.

Recently, you may have heard about announcements related to payment with Walmart Pay, or our scan-and-go capability at Sam's Club where, as you are going through the Club, you put it on the flatbed or the cart, when you get up to the front, you completely skip the checkouts. You just go to the exit; an associate there has a tablet; they look at what's in your cart, say thank you and have a good day and you are gone.

We are also figuring out how to do that within the Walmart Stores, not just the Sam's Clubs. And in the last week or two, we made an announcement that this year we will be rolling out some digital experiences with financial services in the store and also at pharmacy.

Today, it's too cumbersome to do a money transfer in our stores. You have to fill out a paper form that looks like it came from the IRS. Tomorrow, you will walk up, go to a line and if you've been with us before, it will be incredibly fast. All those kinds of changes have got to be delivered for our customers and members and we are on it.

As it relates to changing how we work, we were born with a low-cost mindset. But as time goes on and a company gets bigger and older, you inherit bureaucracy layers and expense that, in some cases, we don't need. We've been trying to chip away at that. But we've got more of a transmission to go through.

We will keep working on the more conventional ways to reduce costs. But we are really excited about changing how we work inside the Company to be digital inside, not just with the things that customers see. But how we actually do work.

So if you just simply took the concept of designing for change for a customer and instead thought about it as designing change for an associate, we can do a better job of building new tools inside the Company, enabling them to have better access to data, to be more digital.

Sometimes when I'm talking to our folks, I will say the phrase please go run that report for me. It's going to go away. It's just there. The data is just there and the way we have designed the work inside the Company is more like work would be designed for an app for a customer.

And we do some of that now and I can tell some success stories about different parts of the business where it's being deployed. The great news is that makes you faster. It also reduces costs because you just don't need as much overhead. And in addition to taking costs out at store level and being more productive with technology and other things, we also must do that in the home office, which will increase our speed.

So there's a bigger change that is really in its very early stages. We've been this past year as a leadership team reading about design thinking and talking with each other about what it means to be a digital enterprise and having guest speakers come in from digitally native companies to talk to us about it and I'm really excited about it.

I've been around Walmart for a long time. I got to see Sam Walton work a little bit and all the leaders from Sam to today and we like change and there are so many things you can do right now to improve this business that one of my biggest challenges is not flooding the engine with ideas. We've got to also be able to execute. But it's really been an exciting time to be part of our business and I think our team is starting to feel the same way.

As it relates to the next one of delivering results and operating with discipline, Brett talked about this financial framework when some of you were in Northwest Arkansas in October. Strong efficient growth. We don't want to waste anything, whether it's expenses or capital. We want to deliver growth that delivers a return.

Our time horizon and yours don't always match up. But we have the same objective. Strategic capital allocation. I think in Walmart you run this risk that because you have so many resources and cash flow, you feel like sometimes you can do everything. But you can't and I think we've been more deliberate and more choiceful recently as it relates to where we are putting capital. You can see it in the reduction in the number of US supercenters that we are opening for example.

Then on the operating discipline side, managing all the costs as I was speaking about earlier. Comp sales are increasing in importance within the Company. We want to get our growth from comp store sales growth and e-commerce growth and as you well know, comp store sales growth has a really attractive return.

So investing in price for comp stores, investing in remodels, those things are deliberate to over time lift the comp store sales number. We are experimenting with different types of stores, different formats of Supercenters. And by the way, we like the Supercenter format, particularly in this country. It's a very effective vehicle and we believe will drive traffic over time if run well.

A couple of stores we've open recently in the Orlando area, Lake Nona, Florida and in the Houston market, Tomball, Texas or the Woodlands area represents some of our latest thinking in terms of Supercenters and if you are in those markets, go check them out. That will give you some idea of where we might allocate some of our remodel dollars going forward.

We are focused on working capital. I think the inventory and payables performance you've seen recently is vital to us being able to generate the money that we need to invest and really pleased with the job that Greg Foran and the Walmart US team have done in particular as it relates to that.

So going forward, this is the framework that we will be using as we talk to you and we think about how we run the business.

Being the most trusted retailer is the next one. We do believe we are in an era of increased transparency and trust is really important and with all the things that we do, we want to earn trust.

A few years ago now -- I guess it's been about 10 years ago -- we started on a sustainability journey; we started working on energy and eliminating waste in different ways and we've made progress. We recently announced that we had achieved a goal of eliminating 35 million metric tons of greenhouse gases as reported through our supply chain.

In 2011, we set a goal of sourcing $20 billion from women-owned businesses and just recently announced that we have a US manufacturing program that we started in 2013 where we said we want to go out and find an additional $250 billion in US manufactured goods. We put a team together. We are bringing states together with manufacturers and investors and parts suppliers to help deliver against that goal and we are on track as it relates to that.

We are hiring US veterans. We've hired 169,000 since 2013 and we've promoted 20,000 of them. In October, we announced a new set of targets around greenhouse gases and science-based targets and continuing to try and lead in that area and it's good business. It helps us reduce costs. It helps us be more efficient. It helps as it relates to people understanding the Company better, demonstrates a heart and again, we've become convinced you can do multiple things at a time, serving multiple shareholders and actually create a higher quality and stronger business. And it's one of the reasons why I like working at the Company and why I think we've been able to attract and retain great talent.

So in summary, our plan to win is getting clearer. Our team is becoming more confident in it. This last year, we generated over $31 billion in operating cash flow. So we have resources to invest. But we have to be choiceful to get positioned for the future. We are moving faster. We are trying to do a good job of balancing the short term with the long term. And what I would like to have this leadership team accomplish is that when we are a few years ahead here, we've been through these changes, we've positioned the Company to win for a long, long time, culturally and in terms of positioning and what we've done with technology.

It's fun. It's challenging. The world is changing quite a bit. But it creates great opportunities.

Robby Ohmes

Thanks, Doug. I'm going to kick it off with the questions. You are going to get I think a lot of questions on the e-commerce side. But 2016 was actually a really good year for the US Supercenters. You guys had positive comps. You had a great Fourth

Quarter, particularly relative to the rest of retail and your traffic comp was really standout.

The question I get a lot. So as we are moving into 2017, you begin to anniversary a successful year. What would you say to someone that says, hey, you are up against tough comparisons there, you increased wages, gas prices were in your favor? How do you guys keep that core US momentum going?

Doug McMillon {BIO 3063017 <GO>}

What goes through my mind first is that we are controlling the things we can control better. The job that Greg Foran and the US leadership team are doing to create a better experience for customers is real and I get into a lot of stores and almost all the time unannounced. The store standards are higher. The in-stock is better. Inventory is way down. The comp store inventory being down 6% or 7% is a big deal. If you work in a store and you can find merchandise in the back room and you are not moving things twice, it just creates this positive morale and feeling in the store that you can do what you need to do.

Then they layered on training and technology. We went from these old handhelds we've been using forever to tablets and store managers today can run their store to some extent on apps and it feels more like a contemporary experience.

We can't control fuel prices. We can't control some other things that are in our environment. But from what we can see, if we just continue to make improvements like the ones I just described, layer on an intelligent price investment to help move the productivity loop, customers are going to find faster checkouts, technology to help them check out, improved in-stock. Steve and the team are working hard on new items and being exciting.

What I'm confident about is that, as a team, we can keep making these Supercenters better as the weeks and the months go on and then the external environment will be what it will be. But we should outperform as it relates to competition. And as long as we don't get too shortsighted and try to manage the short term too much, we are going to keep seeing that improvement.

Then the way that Greg and Mark are working together as we build the e-commerce business to find ways to save customers time and have experiences that you can only create by having an e-commerce business and a stores business, all the better.

Robby Ohmes

Another question I get all the time or more recently, Lidl is coming. How would you tell us to think about the deep discounter threat?

Doug McMillon {BIO 3063017 <GO>}

Yes. We've had Aldi here for a long time, as you know. So we are familiar and then in the UK, we've been through the Lidl and Aldi growth over the past few years and that certainly focuses you.

As it relates to what we offer, I think it starts with assortment. We've got to make sure that the quality of our merchandise, not just the price, is right. So that takes a little bit of time and we've been working on that for some time.

Sizing of a product so that it's easy for a customer to compare one item against another, which is harder with private brand than brand or offbrand than brand, first-tier brands like we sell. So product engineering comes to mind first. Price comes to mind second and we have been, as you know, making some price investments.

Then in the Supercenter, what we can't do is have too much friction. Part of a small stores benefit is getting in and out. We certainly see that with neighborhood markets. So finding ways to innovate for speed so you can find an item and get out of a store quickly is also a really important part of the offer. So we are going to try to take away advantages the discounters have and then play to our strengths.

Robby Ohmes

I know a lot of people are going to ask if I don't ask it. Can you just talk a little bit about the outlook for food inflation and deflation and how you are thinking about your grocery business for 2017?

Doug McMillon {BIO 3063017 <GO>}

Sure. Deflation has been an issue. We think it will moderate some this year. But we still expect when the year is over, all in, there will be some deflation. We don't worry about that too much. We are tracking units and tonnage. We want to see the trips continue to increase in the Supercenters and in the neighborhood markets. So managing all the things I've already spoken about, including price, come to mind.

Again, we try not to get too distracted by things we can't control -- currency, inflation, fuel prices. Be aware of them. Understand their impact on the business. But nail what you can.

Robby Ohmes

So on e-commerce, you mentioned a few of the acquisitions you've made. Can you give us a little more color on how you are thinking about the potential for future acquisitions in the e-commerce business?

Doug McMillon {BIO 3063017 <GO>}

Yes, sure. It's not very complicated. Customers want a great assortment, great prices and service and we haven't been delivering for a number of years on those things as well as we have to. So assortment is driving a lot of these acquisitions.

We can pick up some of these companies that are great in terms of the assortment and the service they provide. But they don't have enough money to lose to go market their brand and scale it and in e-commerce, scale is obviously very significant. So by joining Walmart, they get some benefit as it relates to the halo of marketing. They can sell through the brand that they've established. They can take their assortment and make it available to customers through Walmart or Jet and we can scale faster and we get some synergies as a result of that. So the acquisitions are largely being driven by assortment.

Robby Ohmes

And in grocery, how important is -- how do you think about pickup versus delivery over time?

Doug McMillon {BIO 3063017 <GO>}

It's cool. Customers love pickup. Our customer satisfaction scores related to online grocery and the pickup experience are amongst the highest that I've ever seen and they've been that way really for quite a while now.

I was in this Orlando location I was mentioning earlier last week and given the time that we've had to plan now, the physical store is improving as it relates to pickup. We are learning how to manage the outside experience so it's faster. We are learning how to build a backroom so inventory can be moved from in-store pickup to exterior pickup quickly and easily.

The systems are getting better. On-hand accuracy is getting better. We are starting to learn how to put refrigeration close to the pickup area that our associates can use so that it's fast. And ultimately, we want to make that a great experience and when people come into the store through the portfolio, Walmart will make money. But if the customers don't want to pick it up, we still want to be able to deliver.

What we've learned from the UK where we've been doing grocery delivery for a long time, well over 15 years now, with our own trucks, our own drivers, a really good experience, is that we are still doing well, over 90% of our volume in store.

So there's a role for delivery. There's a role for pickup. And by the way, the on-hand inventory management for pickup is the same as it would be for delivery. You just have to sort out last mile, whether you want to do it or have somebody else do it. So the capabilities are being built within the Company.

Then she will decide. The customer will decide on that moment what she wants. There will be times when she wants to come into the store. There will be times when she wants to pick up and increasingly you can order it on a mobile device or whatever technology you want to use and it will be faster and then if you want to have it delivered, you can have it delivered.

And humans won't have to decide a week ahead or two days ahead on something; you can decide faster how you want to shop. The delivery times are becoming shorter. So we want customers experiencing our brand, Walmart. And as long as you are in the Walmart ecosystem, whether it's delivery, pickup or in-store, we will be there to serve you.

Robby Ohmes

And the economics of those choices, do they become very similar over time or --?

Doug McMillon {BIO 3063017 <GO>}

Yes. As you scale pickup, the economics become favorable. But you've got to get the orders up to a certain number and what we've learned is that not every store needs to pick. It actually does make sense in some cases to have a hub picking and delivering to other stores and to the home. So it's just math. It's capability and math and we are figuring out where to do it and where not to do it.

Robby Ohmes

How should we ultimately think of walmart.com versus jet.com and do these come together over time or how should we be thinking about (multiple speakers)?

Doug McMillon {BIO 3063017 <GO>}

They are coming together behind the scenes now. But on the front end, we want to keep them separate. Jet attracts a slightly more affluent, more urban and younger customer than the Walmart brand. The Walmart brand, when you think of the Walmart brand, just think of the US demographic. There's so many transactions there and it's largely true for walmart.com, as well as stores.

When you think of Jet, just shift that demographic a little more towards urban, more affluent, younger clique. But there are some suppliers that don't want to sell on Walmart that will sell on Jet. Mark's got some ideas, which I'm excited about, on what Jet might be in the future and it will be different than Walmart.

Recently, we decided to do shipping without charging for it for two days, which is different than a membership model. So having multiple brands gives us the opportunity to make different choices with those brands based on our best ideas and what customers want.

Robby Ohmes

Let me just stop there and give a chance for some in the audience to ask a question.

Questions And Answers

Q - Unidentified Participant

Could you talk a little bit about the marketplace side of the Jet and walmart.com business to the extent that there's 3P. What is the strategy; how are you thinking about referral pricing; how are you thinking about ultimately fulfillment for the 3P part of the business just overall? Thank you.

A - Doug McMillon {BIO 3063017 <GO>}

Yes, building a 3P capability is obviously really important because of the breadth of assortment and we don't want to own all the inventory and many of you that have been following us know that, for a while, we were telling you we have foundational things to take care of. We need a new operating system and we've got to get these fulfillment centers built.

I got tired of saying that and I think I went around saying that for about a year or two. And those things finally got taken care of and then along comes Jet and we see this opportunity to drive up units per basket and really step on the gas here.

And so as it relates to 3P, once we got that operating system and fulfillment center foundation in place, we could really scale it. So it came later than we wanted. But if you look back almost 12 months ago now, we started really seeing the item count and the sellers go up and we started gaining traction and it drove growth each quarter as we went through last year.

We will continue to build a 3P business and we don't currently have plans to do fulfill by Walmart. But we wouldn't rule it out. Ultimately, we believe that managing first-party inventory is a core competence that we should take advantage of. And so tying up fulfillment space for others may not be in our best interest because we may want to own the inventory.

When you own the inventory, you control the customer experience more effectively. It feels to me like that this rapid expansion of enormous assortment is going to play out. There are only so many items in the world and then we will move into a period of time in coming years that's more about optimization; and that mathematical optimization may cause us to want to -- I'm just thinking of the US here in particular -- may cause us to want to have more first-party items than we might have imagined a year or two ago.

So it's a fluid situation. We are seeing the math every day every week and we will make decisions as we go along. But it's important. We need to have third-party. But first-party is hard and that creates opportunity for those that can do it well.

Q - Unidentified Participant

Just a follow-on to that. While you don't disclose your total GMV, you do disclose GMV growth. It seems to us that the size of your GMV positions you right now, including your 1P, as the third-largest GMV overall retailer in the developed markets, or at least in the United States. Can you just comment on that a little bit?

Then also on the 3P side, can you just comment on referral pricing? It looks like you are 15% across the board where some other marketplaces may be on certain items -- except in electronics, which you are (11.7%) -- other marketplaces may be little bit more competitive. Just how you think about competitive pricing in 3P. Thank you.

A - Doug McMillon {BIO 3063017 <GO>}

Yes, yes, I don't want to get into too much detail on third-party pricing. But we will do over time what we need to do to be competitive because we've got to grow that assortment.

As it relates to our position in this market and in others, we just have a great opportunity. This e-commerce business is not magical. You can build it and I think, today, we understand a lot more than we did in the past about how to do it and really excited about the talent that we have in the Company helping us figure that out. So I think we've got a great opportunity.

The question that I think is on all of our minds is how fast can you scale it and what does that mean to profitability over time. And if we look back at the past, I think most, if not all of us would say we put too much pressure on short-term profitability and didn't really drive the J-curve like we should have.

And as I look back, Brett, just at the last few years, we made some choices and I regard them as being truly strategic. They were intentional, we thought about it and as a team, management and the Board, we decided that the Supercenters are running really well. We have cash flow and time.

So phase one was go make the Supercenters strong, particularly in the US. So how do you do that? Well number one, this is a people business and your people have got to be with you. They've got to know their jobs. They've got to be excited about their opportunities. They've got to have the resources they need, including technology to be successful. Go do that. That took a little bit of time and took some money and so all of you, or a lot of you came back and said too much money, not enough return, it's tough. And we said, yes, it is. But we are not running this business for one quarter. So we are going to go do that and I am really pleased with how all that is coming together. We've got to manage it every day. There's a lot to do. But I'm pleased with that.

Then we came back to you, particularly in October. And we said now that we are operating from more of a position of strength there, we see the opportunity to step on the gas as it relates to e-commerce. We have the people, we have the plan, we now have the fulfillment centers, we now have the operating system, we are going to bend that curve a bit more.

This is a fluid environment. Competition is not sitting still. Customers are changing. It's faster cycle time than I can ever remember in my history and I think it's only going to get faster. So we are going to be really thoughtful about what we commit to you and say to you and try to leave ourselves enough room to make the decisions that we need to make to ensure that Walmart wins.

And part of winning is generating a return. But that return doesn't have to be delivered in one quarter. It's got to be delivered over time and I'm not trying to say just hang with us and in a decade, we will make money. I'm not saying that. I'm saying that as you hold us accountable, you'll see progress. But we are not going to be shortsighted. We are going to do what we need to do to build the capabilities to when.

So those things were on purpose and again, I think in summary to your question, we have a great e-commerce opportunity. We have a great e-commerce opportunity as it relates to food and nonfood. We have a great opportunity in this country and in the other countries where we operate. We have learned a lot.

Q - Unidentified Participant

I just wanted to follow up. So first, get the house in order was the communication and now you are saying we can go a little bit faster with online. I also want to understand the other half of that of what was going to happen in the stores was price investments will be made. If we get the prices right, we are going to win versus -- I think the theory behind it was we can get right and win versus Aldi and Lidl over time.

At this stage, we've made some cost reductions in the store to try to drive some fuel to make those price investments. But the price investments continue. So how are we funding lower prices for Pop Tarts, Tide, Chunky Soup, very specific, lots of items are clearly lower price? Are we asking vendors to lower prices as we see in the media a little bit? Are we able to get money out of them by charging them for late deliveries or not full delivery or being in the -- what's happening, or are we looking at just gross margins under pressure?

A - Doug McMillon {BIO 3063017 <GO>}

Yes. We had some pretty big opportunities with private brand and with sourcing. So we've resourced private brand. We have more talent there than we've ever had before. On the floor of our store managers meeting last week in Orlando, for the first time I can remember, they wore lab coats. Some scientists and suppliers and some of our own merchants that were showing how we had built some of these private brand products and we wanted our store managers to see quality.

We had examples from food. We had examples from footwear and apparel so that our own team would know we are really investing and ensuring that our specifications here are strong. So that opportunity is still in front of us. We've started to see some momentum in private brand and we will still sell brands for less. But for the space we allocate to private brands, they've got to be great. And we have some really big private brands and some that have a great reputation. But we have a lot of upside there too.

We had some opportunities as it relates to sourcing. We've reengineered our sourcing team. David Cheesewright has been leading that. We are making some progress there.

As it relates to supplier funding, we had drifted away from a more pure EDLP model and you guys probably look at it and say, well, no, you really didn't drift away. But through our lens we did some. We were running too many print ads. We went through a year of comp store pain. My first year in this role where we told you we were cutting our tabs back and we cut them back from I think it was over 100 to 12 or 13 or something like that. The suppliers were funding some of that.

So there were dollars in that first year that had been going towards advertising that we told the suppliers we no longer want for advertising. We'd like to talk to you about an off-invoice price, working through that math together to figure out how to get the price into the invoice lowers the cost and we get back to a more pure EDLP model, which helps us get the store inventory down because when you advertise something, you've got to ship in a feature because you promised customers you are going to be in stock. When you stop advertising it, you stop sending the extra inventory in, it helps reduce labor, it helps reduce markdowns. So some of the funding that we will experience and are experiencing just comes through operational efficiency by getting back to the model that we had always built and it works for the stores.

Dynamic pricing and e-commerce are a different thing to figure out and how we put it altogether is other work to make sure that all of this ultimately builds trust with the customer and through inventory flow, builds a lower cost operating model. So we are creating oxygen from a number of different places and we are not hitting 100% max on our ability to do that.

Q - Unidentified Participant

Just to follow on to the private label comment you made, Walmart has always been a house of brands. So I know Walmart is cheap because Tide at Kroger is X and at Walmart it's X minus 10% or whatever.

A - Doug McMillon {BIO 3063017 <GO>}

Right.

Q - Unidentified Participant

Why then is private brands a focus? So maybe you can wrap that into -- I think the Lidl model has a lot more private brands in it, they are showing a price that's 20%, 30% less in some cases than a branded product. So should we think that private brand has become a much bigger part of the assortment at Walmart over time?

A - Doug McMillon {BIO 3063017 <GO>}

Yes. It should and things have changed. Let me try to explain this in a way that's brief. Let's take Tide. If Tide is available on the Internet and you can see pure e-commerce sellers, store retailers, all of the above and we are all selling the same size Tide, that margin over time is going to be compressed.

So having a private brand from a margin mix has always been important -- margin mix point of view -- has always been important. But it's even more important now and the sourcing capability is even more important now.

Then layer on that loyalty. If you can get Tide anywhere. But you can't get Sam's Clubs' Members Mark or Equate or Great Value anywhere and we have engineered the specs such that you just really love our granola, then there's a loyalty there that passes not just through the store. But through into the e-commerce business as well.

So product-driven royalty becomes even more important going forward than it was in the past. That doesn't mean we want you to walk into a Walmart store and if we've got an 8-foot section of something, we don't want you to see 4 foot of private brand. But for the space that we do allocate to private brand and we don't have a target set by category to say each category has got to be X % of a private brand, we are letting the product itself and the customer pull that through.

As we do it for whatever space we do allocate, it needs to be great. And we had to get out of this binary are you private brand all in or not into let's be more specific. Can we be great at selling brands for less and resource private brand so that when we do sell a private brand, it's great? Yes. We can do both at the same time and that's what we are doing.

Q - Unidentified Participant

Amazon has shown the ability to create ancillary profit streams through recent 10-K advertising, obviously, the cloud, credit. It's allowed them to subsidize in effect retail pricing. How do you think about ancillary revenue streams or profit streams to continue to support your pricing?

A - Doug McMillon {BIO 3063017 <GO>}

Yes. Within the Company, the language that we use is where to play and how to win and the management team and the Board regularly are thinking about the where to play side of that equation. Where are we in; where are we out? Which geographies are we in on? Which categories are we in on? Which formats are we in on and are there other things we need to do that will help generate profitability if we are in a situation where retail margins are suppressed because someone has a different model? All of those things are being actively discussed.

We need to be really thoughtful about that and not try to do things that are not in our DNA and are too far from the core of what we do. But there are things that are closer to the core of what we do. Financial services would be one. Health and wellness is an area where we think we have an opportunity that we probably need to be more aggressive and resource in a different way to capture those opportunities.

So it could be in the future that you see us be more deliberate about creating additional profit pools. That's certainly on the agenda and we are thinking about lots of things, many of which you can probably guess. But we will be really thoughtful and deliberate about those kinds of choices, including managing our existing portfolio.

Q - Unidentified Participant

Just had one unrelated question. But a follow-up to the other person's question. So if you look at the margin structure of your Company or other large mass retailers and your suppliers in the last 10 to 15 years, there's been a huge divergence in terms of margins. One is going up; the other is going down. How do you think about that longer term and is that right? Does that need to be corrected or is that just the state of the world?

A - Doug McMillon {BIO 3063017 <GO>}

That's hard to predict. I think we have to -- first of all, as we've looked at the years that are closest to us here, we've already said some things about how we feel about our operating margins from where it's going to come from. Longer term it's really harder to call. I do believe that technology and the Internet will make the world more efficient period and that some of these ecosystem or where-to-play questions that you raised earlier will factor into the longer-term future of business, not just retail. But business in general.

What's going on in the supplier community -- let's just say it this way. I hope that folks continue to invest in R&D and innovation and our supplier community doesn't become too short-term focused either. We need them to think longer term and to create exciting new products to drive demand. So as we are talking to suppliers and I talked to leaders from suppliers, I'm encouraging them to make sure they've got the right short and long-term balance.

Q - Robby Ohmes

And with that, we unfortunately have run out of time. I want to thank Doug and Walmart for coming to the conference.

A - Doug McMillon {BIO 3063017 <GO>}

Thanks. Thank you.

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