Walmart Inc 2018 Q&A Session with the Investment Community

Company Participants

- Brett M. Biggs, Executive VP & CFO
- C. Douglas McMillon, President, CEO & Director
- Gregory S. Foran, Executive VP, CEO & President of Walmart US
- John Furner, Executive VP, President & CEO of Sam's Club
- Judith McKenna, Executive VP, President & CEO of Walmart International
- Kary Brunner, Unknown
- Marc E. Lore, Executive VP, President & CEO of Walmart eCommerce US
- Unidentified Speaker, Unknown

Other Participants

- Benjamin Shelton Bienvenu, Research Analyst, Stephens Inc., Research Division
- Daniel Thomas Binder, MD and Senior Equity Research Analyst, Jefferies LLC, Research Division
- Edward James Yruma, MD & Senior Research Analyst, KeyBanc Capital Markets Inc., Research Division
- Gregory Scott Melich, Partner, MoffettNathanson LLC
- Karen Fiona Short, Research Analyst, Barclays Bank PLC, Research Division
- Matthew Jeremy Fassler, MD, Goldman Sachs Group Inc., Research Division
- Peter Sloan Benedict, Senior Research Analyst, Robert W. Baird & Co. Incorporated, Research Division
- Robert Frederick Ohmes, MD, BofA Merrill Lynch, Research Division
- Robert Scott Drbul, Senior MD, Guggenheim Securities, LLC, Research Division
- Scott Andrew Mushkin, MD and Senior Retail & Staples Analyst, Wolfe Research, LLC
- Simeon Ari Gutman, Executive Director, Morgan Stanley, Research Division

Presentation

Kary Brunner {BIO 20114316 <GO>}

Well. Good afternoon. Thanks for being with us. I'm Kary Brunner from the Investor Relations team here at Walmart. And we're really happy to have you with us here today for a Q&A session with the investment community. We want to thank those who have traveled in for this meeting today. And we also want to welcome those who are joining on the webcast.

Before we get started with the Q&A session, we'll have some opening remarks from Brett, Doug and Judith. Then we'll spend the majority of our time on questions.

Before we begin, I have a few legal disclaimers I need to talk us through. Let me remind you that we may make forward-looking statements during today's remarks. Forward-looking statements are subject to certain risks, uncertainties and other factors identified in the safe harbor statement on our website at stock.walmart.com as well as in our quarterly and annual SEC filings. In addition, please reference our First Quarter FY '19 earnings materials for non-GAAP information that may be discussed today.

So with that, I'll hand it over to our Chief Financial Officer, Brett Biggs.

Brett M. Biggs {BIO 17414705 <GO>}

All right. Thanks, Kary. Welcome to Bentonville. For many of you, it's a -- you come -- we've been here a number of years and hopefully, enjoyed the show again today. Well we're really excited to have you here and thankful for your interest and support of our company and those of you on the webcast as well.

It hits me every year. I've -- this is my 18th shareholder meeting and to be able to stand up on that stage and be able to interact with the associates and see that -- see the company is an amazing thing. And I'm -- you would think this maybe obvious coming from the CFO. But I'm just proud to be a part of this company. I'm proud of the results we have of course. But just proud of who we are as a company. And it's -- I think those things are on the show when we have a day like today.

So I'll make just a few brief comments. You would've seen the First Quarter or the release. I'm happy overall with the progress we're making, really good momentum across all parts of our business. Walmart U.S., with another good quarter, 2.1% comp sales. John, you guys at Sam's Club are really getting some good momentum. We were helped a little bit, obviously, with clubs that we closed, some last year. But really good momentum at Sam's Club. We continue to use technology in a way to help the members. And so great results there as well. And Judith, another strong quarter in International. I just -- that keeps being what we see every quarter from International. So we're pleased with the results there. Then Marc's seeing e-commerce accelerate again back in the First Quarter, which we knew and planned and -- but glad to see the growth we're seeing in e-commerce. And what that underlying health of the business allows us to do is to take -- to do some big things to the company. And you've seen us do that over the last few weeks and few months. And we're so strong financially. When you look at our credit rating, you look at our balance sheet and look at the P&L, that just gives us the confidence to be able to do the things that we've been doing and certainly, we'll talk about that this morning. We'll get questions from you about some of those things that we've done. But really, really pleased that we have that capability to make big moves as a company. We talked this morning a lot about being disruptive. And we've always been a disruptive company and we'll continue to do that.

So with that, I'm going to turn it over to Doug.

C. Douglas McMillon {BIO 17082935 <GO>}

Hi, everybody. Thanks for coming.

I'll start with just introductions. I'm really thankful to be able to work with the team that I get to work with, all the people who are present in this room and beyond and my direct reports. But there are folks back in the back, Mike and Steve and others around that are doing a great job and have big roles. Three folks that report directly to me that they are not up here on stage at the moment are Jacqui Canney. Jacqui leads our people area. Dan Bartlett leads communications, corporate affairs, sustainability, those areas. And Rachel Brand is our newest member. She leads global governance and legal has hit the ground running for sure. She's been with us for a few weeks. Then you know these folks up here I think. Judith's relatively new in role, although you wouldn't know it because she's changing the world so quickly.

There is a lot going on. We are in the process of working on our framing of how to win, which relates to the customer experience, price, assortment and experience, using digital and using new tools to change how customers interact with us and create a better environment from them -- for them holistically at the same time that we're working on what we refer to as where to play, what positioning do we want to have in the company, which businesses are we in, which businesses are we out of, how do they complement each other. We're learning about retail ecosystems and how they work around the world. We're learning a lot from China. We'll be learning even more from India. But the concepts that we're learning are somewhat common. And we're seeing them everywhere that we operate. There seems to me to be more common around the world at this moment than even in the past. And so that's helpful. It enables us to use some global leverage.

If I take the businesses kind of in pieces and just quickly give you a thumbnail. Walmart won't work without our very strong U.S. business, U.S. stores business. And Greg and the team are doing a fabulous job of making that business stronger. Those of you that follow us closely know that since he's taken that role over these last few years, we've just gone from strength to strength. The customer scores are going up. The prices are in a better position. The experience is better. Inventory is managed very well. Just very pleased with everything related to the Walmart U.S. stores, including associate engagement. So we have that big, strong foundation that gives us flexibility to do other things. So that was like a step 1. Then that gives us flexibility to make sure that we're being aggressive in U.S. e-commerce. And I'm thankful that Mark joined our team and excited about what he's done since he's gotten here. What he's doing now, you can see the string of innovations that are happening. And recently, the website redesign would be one example of what Mark and the team are doing. Customers like the new redesign. They like our new app, which is exciting. So U.S. e-commerce is really important. And as you know, we're trying to bring these businesses together so the customer sees those themes. They can do returns easily. They can have a digital experience in-store. They can shop however they want to shop. And we've built the rails for that to work. So seamless omnichannel is still an objective there.

So that's kind of step 2. Then I'll talk about Sam's Club next. Sam's Club needed some work. John and I and others in the company know from all the years that we've invested there that because we grew Sam's partially through acquisitions, we didn't relocate some of those clubs over the years like we should have, that we needed to deal with some clubs and so we now have. So John and the team have a position of strength to operate from. And we've asked him and the team to focus on sales without fuel and tobacco. We'll still have a tobacco businesses that we'll manage over the years. But we're going to be talking about our comps without fuel and tobacco because that's what we're focused on with him. We'll be appropriately transparent with all of you so that you can see the puts and the takes as it relates to that. The progress that you -- Gisel highlighted today in fresh is really encouraging. The progress actually in Member's Mark in private brand is exciting. And the way that Jamie Iannone and John and the team are working together differently in an agile fashion in digital is also very encouraging. I think it's a bit of an incubator for the company in terms of how we can become more member-centric, more efficient faster and hit the market -- hit the mark as it relates to serving members in Sam's Club.

Then International. It's really great to have our big businesses like Walmex in Canada performing well, Judith. In International, we've got such different size markets. If the big ones aren't doing well, it's really hard for the portfolio to do well. She's leading some changes that relates to the positioning of that business. And we basically want to be in places that have a tremendous opportunity, which is what led us to Flipkart in India. And when you -- I mean, you know the numbers. And when you look at the size of the market, $1.3 billion, you look at the GDP growth in the market, look at retail growth in the market, look at e-commerce growth in the market. And then you start to understand that Flipkart has a strong management team. They built out an ecosystem. Back to my reference earlier, it's not just a pure e-commerce business. But there are complementary platforms within that business. We are excited about learning, in an emerging market, what that can mean for us over time. And we'll use that learning around the world. So yes, moving pretty fast, making some changes to reposition the company, changing the wheels on the car as we're driving it. We are trying to do a good job of managing the short term and the long term. And I know that you want to talk about that. We're happy to answer your questions as it relates to it. Balance does matter to us. We don't take earnings dilution lightly. But our time horizon may be a little different than some of you may want it to be. But we have a view that a good investment should be made even if it takes a little bit of time to pay back. But it should be big enough to matter. So we'll be much more interested in doing a few big bets than lots of little things as we try to maintain focus for the company.

Judith, I think it'd be good if you repeat it or elaborate it a bit more on India or anything else you want to say about International.

Judith McKenna {BIO 4806787 <GO>}

Yes. Good afternoon. It's from -- it's certainly been a busy four months since taking the role. We -- the strategy for International has always been around disciplined growth. And I think everything that you've seen us doing is absolutely in line with that strategy in creating unique solutions for the markets that we operate in. With regards to India, in particular, I think you did a great job of articulating the size of the opportunity in that market, particularly for the long term. And I think if you're in international business and growth is one of your objectives, then it is a market in which you want to operate. It was the right time for us to go in now as e-commerce is still developing in that market, in addition to the fact that it's a growing quickly economy. E-commerce, we've still got penetration of a roundabout 2%. And that's forecasted to grow rapidly. And as many of you know, those forecast curves that you look at, virtually everywhere around the world have accelerated faster than their original curves said they would in terms of in adoption of online shopping as well.

But what's really unusual about Flipkart is that it's not just an e-commerce retailer. What we're really interested in as we've got to understand this business better is it's actually creating a platform, an ecosystem, if you like, of operating within that market. And we think that's one of the areas that gives it a true advantage. And if you could just put that slide up for me. Just to give you an idea of the different elements of Flipkart because I'm not sure it's always completely understood. There are 2 trading arms. And you can see those under the general e-commerce flag of Flipkart itself, which is primarily a general merchandise site and, by far, the biggest part of the business. But then there's Myntra and Jabong. And Myntra and Jabong are apparel, clothing retailers. They're really interesting in the speed they're growing at and the mix that they provide with the overall e-commerce business as well.

The other part of it is the infrastructure. That's the trading part. You've got an infrastructure part, which is eKart. eKart is the logistics arm of Flipkart. It operates over 800 cities already. It is about 0.5 million deliveries a year. But it's the unique to Flipkart, in that it's got its own logistics network that sits behind the trading platform that it's got.

And the final part of the equation that creates the platform is called PhonePe. PhonePe is the payments business. Now its primary function is to facilitate payments within the Flipkart group. But it's actually also an open system. So one of the things you're able to do with it is just start to pay outside the Flipkart area. And it's linked in to the banks in India as well. And as India is digitizing and the ability to make mobile payment is increasing all the time. This enables PhonePe not only to connect more broadly across India. But it also helps a huge amount of personalization back into the total and helps drive the e-commerce business as well. Lots of other parts to this. But I think that gives you a sense that it's not just one thing that we're looking at. And that's one of the reasons we think there's learning to be taken from this business back into other businesses around the world.

Questions And Answers

A - Kary Brunner {BIO 20114316 <GO>}

All right. So let's go to questions. We have a number of volunteers around the room that have microphones. Once you are called upon for a question, if you could wait for the microphone (inaudible) for the webcast...

A - C. Douglas McMillon {BIO 17082935 <GO>}

Here, you can pass it around the tables right there.

A - Kary Brunner {BIO 20114316 <GO>}

Yes. Looks like -- we got (inaudible) here. Let's just start right up here in front. And we'll get to as many as we can.

Q - Simeon Ari Gutman {BIO 7528320 <GO>}

Simeon Gutman, Morgan Stanley. And thanks for the detail on Flipkart. And that's my first question. Big acquisition, game changing to the narrative. But consistent with winning for long term. Wondering if you can share with us more detail on the debate the board had not just on price. But on some of the operational concerns, scaling it, further investments that you have to make. And one more for Marc. Before Walmart and Jet got together, we used to talk that there was some GMV bogey at which Jet would scale. I don't know if it was $10 billion or $20 billion. Curious if there's a bogey for Walmart.com or how the cost base is evolving and maybe there is no bogey as the cost base evolves?

A - C. Douglas McMillon {BIO 17082935 <GO>}

Yes. I'll start off from the first one if that's okay. And you guys can chime in. And then you can answer that one. We had a debate around given the amount of investment that would be needed to win in India, what the plan was that Flipkart had, the contingencies that could happen as a result of our entry, would that put pressure on our ability to win in the United States, which is our most important market. So that was one of the key debates. When it comes to the time horizon, we have a plan. We've seen Flipkart's plan as it relates to how we would scale it and what profit and loss would look like that we're comfortable with. And we ultimately decided that we could do both of these things at the same time. And we did that, I think, largely because we feel so good about the ability to run great stores, the job that Greg and Judith and others have done to build this strong foundation is good. We really believe in omnichannel and seamless. We think that's what the customer wants. We really believe we've got a network as it relates to the supply chain in the U.S. and other markets that we can build upon. So that confidence gave us -- that -- the resulting output of that was we had the confidence to take on more than one thing at a time. And sometimes, you don't get to pick the timing of these things. They emerge. And you either do them or you don't do them. In the case of India, it's worth it. If it had been a smaller market, we may have passed. But this is a unique opportunity. And when you look out 5, 10, 20 years from now, time will tell. But we're confident that we'll look back at it and say, "Yes. That was a big bet. It was a bold bet." Timing might have been earlier than we had wanted it to be otherwise. But we're glad we took it. And as you heard us say this morning, we're not running this thing for one year. We're -- we understand that retailers come and go. I mean, you may have heard me say before, I carry around all the time the top 10 retailers in the world by decade, which is a great reminder that retailers don't last. Why don't they last? Because they don't change. When you get focused on doing something, you do it well. And you want to keep doing it. It's comfortable. You can see the cash flows. That's what will kill you. So we're trying to make sure that doesn't happen to Walmart. Anything you want to add on Flipkart before we go to...

A - Judith McKenna {BIO 4806787 <GO>}

The only thing I would to say is from an operating model perspective, how do you operate a business like this from Bentonville? We did spend some time on that. And what's great about Flipkart is they're incredibly India -- Indian customer focused. And they run very successfully today with the board. And their run through the board, we'll continue to do that with the appropriate control. However, that board with the minority interest that is still part of that is a really important part of how we're going to operate and let them continue to be successful within the market in a way that they have been already.

A - Marc E. Lore {BIO 3597588 <GO>}

In terms of answering your question relating to the bogey. There's really 2 components to it. So there's the leverage on your fixed expenses. And I think we have a good idea of when we get enough scale to cover and drive down fix as a percentage of GMV. The other piece is more variable and dependent on what happens to lifetime value. And that's the marketing component. So we're looking at $1 of spend and saying, "Okay, it would require a new buyer. Is that a good return on marketing spend given the lifetime value that we expect from that customer?" And as we're making changes to the value prop and increasing the habit score and the delivery score and redoing the website, you're seeing the lifetime value of a customer increase, which gives us the license to spend more money efficiently on marketing. And so it really is -- it's not an easy answer to know exactly when. It's really dependent on how well we can do to increase LTV.

Q - Robert Frederick Ohmes {BIO 1541955 <GO>}

Robbie Ohmes, Bank of America Merrill Lynch. So actually, 2 follow-up questions. First, for you, Marc, you guys have -- keep reiterating that 40% or around 40% growth in the U.S. dot-com business. Can you just remind us how predictable that is? And why it's so predictable? And also it would require at least 1 quarter of better-than-40% growth. And how predictable is that? Then a separate question is just on Flipkart. Is it -- does it lose more money the more successful it is from a top line standpoint generally? And does it lose less money if the India market for dot-com ramps up less fast? So basically, what I'm asking is you've sort of guided us to dilution of $1 billion plus of EBIT losses. What's the variability around that? Are there scenarios where it could be quite a bit more than that if India comes on in that curve that you mentioned, Judith? Or also if it doesn't come on, could it be less dilutive in the near term than you've guided?

A - Marc E. Lore {BIO 3597588 <GO>}

Sure. With respect to 40% growth. So in the First Quarter, we were at 33%, as you know. And we were on plan. So we've got a plan for the year that gets us to approximately 40%. And we feel good. We're making great progress. We're executing against all of the initiatives that we had set out to execute. And so yes. But it would -- your math is correct. We would need a quarter of above 40% to get to 40%.

A - Kary Brunner {BIO 20114316 <GO>}

Robbie's asking about predictability.

A - Marc E. Lore {BIO 3597588 <GO>}

Yes. There's 2 components. It's really the revenue from new buyers and the revenue from repeat buyers. And so the repeat buyers, you're looking at historical cohort curves, how they've shopped in the past and how you would expect them to shop in the future; and then how much money you're spending in marketing, how many new buyers do you expect. And so there's definitely inputs that go into the calculation. It's not just something we've sort of picked out of thin air. But of course, we have to execute.

A - C. Douglas McMillon {BIO 17082935 <GO>}

It is interesting, isn't it? That a brick-and-mortar retailer that grew up with a certain set of metrics has been learning new metrics as it relates to CAC, customer acquisition costs, lifetime value of the customer and understanding their behavior in cohorts to know if you make this investment and you get this behavior, it's a good investment; if you have to invest this much, it's a bad investment. And tweaking those dials is something that e-commerce companies do, that we do here in the U.S., that Flipkart does in India. And so if you're one of us, you're learning these new metrics balance with old metrics and blending them together with a customer view and an operational view. So that's one thing just to keep in mind as you think about how we might be making decisions.

A - Judith McKenna {BIO 4806787 <GO>}

And as regards to the accuracy of that dot in terms of how we look at it. If you think about due diligence, one of the things clearly that we did is model a whole different range of scenarios and different things that happen. We're comfortable with the trajectory that we've given in terms of where we believe with the management that business is going to perform over the next few years in the -- in addition, in that trajectory, we're set up for success given that what we know today.

A - C. Douglas McMillon {BIO 17082935 <GO>}

And just from a -- Robbie, from a macro standpoint, a lot of time we spend together as an executive committee team is thinking through all of the various pieces of the business and how they add up. And so with a new -- fairly new market like India or bigger. We're getting bigger in a place like India, we're always going to sit back and say, "It could be a little bit better than we think. It could be -- loss could be a little bit more than we think." It likely won't be exactly the number we think. But within that range, there's a lot of things we can do as a company because of all the assets that we have. And I talked about it this morning, that we can say, "If we need to, let's invest here right now." Maybe you delay something a little bit. But there's pieces and levers that we can pull that we feel comfortable that when we add it all up, that it will be something that we can feel good about both in the short term, midterm and long term.

A - Brett M. Biggs {BIO 17414705 <GO>}

We've described it before. But we -- the world is moving fast these days. We used to have this annual strategic planning and financial planning calendar. We still have that kind of discipline. But things are moving so much faster. So we're together monthly going across, thinking about where are you at, what's happening here, what are you experiencing here. And we're toggling, as we need to, to manage the total, trying to balance the short term and long term, the top and the bottom.

Q - Matthew Jeremy Fassler {BIO 1509751 <GO>}

It's Matt Fassler from Goldman Sachs. I've got 2 follow-ups as well. First of all, as you think about the long-term end of the expectations range, you probably have a sense for when you would expect the losses to peak and, perhaps, the business to turn profitable in India. If you could give us some sense of are we talking years or decades or some framework to thinking about when the economics of this business start to become accretive to the firm. The second question. Marc, you spoke about GMV. Most of Walmart's GMV is still at this stage 1P. Some of your largest global e-commerce competitors have large 3P businesses. How do you see 3P developing within Walmart broadly? And if you could think about India and Flipkart in that context.

A - C. Douglas McMillon {BIO 17082935 <GO>}

Do you want to?

A - Marc E. Lore {BIO 3597588 <GO>}

Yes. And that would just -- I think Matt, just to remind everybody, we don't own Flipkart yet. So we've got an October Analyst Meeting coming up. Obviously, we have models built. We've done some work there. But I think in October, we'll talk a little bit more about how we see things playing out once the deal has been closed and things like that. So just please keep that in mind.

A - C. Douglas McMillon {BIO 17082935 <GO>}

Yes. I'll -- Matt, I'll go back a little bit to what I was just saying to Robbie. There's -- as we look out into the future, this is a big opportunity we've taken, similar to what we did with Jet. We're going to make this work. This is a big opportunity for us. And it may -- it's hard to look out a year, two years, three years, four years out. We have an idea of what we think it's going to do and what we think it -- where we think it's going to go. But within that, we've got to leave ourselves flexibility. And you guys want us to have flexibility to be able to move the pieces like I talked about earlier. We've given you guidance into next year as far as what we think is going to happen. And that's as far as we'll go today. But it really is just having all these pieces come together and giving you as much transparency as we can about how that fits together.

A - Brett M. Biggs {BIO 17414705 <GO>}

Without telling competition everything.

A - C. Douglas McMillon {BIO 17082935 <GO>}

Yes.

A - Marc E. Lore {BIO 3597588 <GO>}

Matt, with respect to the GMV on Walmart.com. So the third-party marketplace is growing faster than first party. So we're working really hard at expanding this assortment. We're now up to 75 million SKUs on the website. But we're equally focused on really the brands that matter. And so that was one the big reasons why we sort of upgraded the look and feel of the website to really -- not only for customers. But also attract brands that were not previously wanting to be on Walmart.com. So it's a combination of both. Brands people want, that are most often purchased and then also that long tail.

A - Kary Brunner {BIO 20114316 <GO>}

We'll go to Dan next.

Q - Daniel Thomas Binder {BIO 1749900 <GO>}

Also on the topic of e-commerce. You've added millions of SKUs. A lot of them -- most of them I think are 3P. And you have 2-day delivery. But not on a lot of those SKUs. And your biggest competitor does a lot of fulfillment by Amazon. And I'm just curious how you think about competing longer term and the importance of that 2-day delivery, will you ever move towards fulfillment by Walmart or somehow incentivize these third-party sellers to offer competitive two days free shipping?

A - Marc E. Lore {BIO 3597588 <GO>}

Yes. So we're -- I mean, we're currently expanding the number of SKUs that we offer 2-day delivery on every day. So we're continuing to aggressively bring more, more SKUs into the warehouses. Actually, the first stage is make sure that all the first party is -- in our warehouses in mirrored. So we can get 2-day, even 1-day, delivery via ground in a single box. And that's really our primary focus right now.

Q - Daniel Thomas Binder {BIO 1749900 <GO>}

Is that just Walmart SKUs? Or...

A - Marc E. Lore {BIO 3597588 <GO>}

Right now, it's just Walmart SKUs, yes. We also think there's a big opportunity to leverage the 4,700 stores to do same-day delivery. So we started to roll out Greg's team same-day delivery capabilities out of the brick-and-mortar stores. And that's 100,000 products that are now available for same day in some stores.

Q - Daniel Thomas Binder {BIO 1749900 <GO>}

Do you think it's important to get more 3P ultimately fulfilled by Walmart? Or at least to get them to 2-day delivery on their own to be more relevant?

A - Marc E. Lore {BIO 3597588 <GO>}

Yes. I think ultimately, the goal is to get as many SKUs as we possibly can in 2 day, which would include what you just said there. But the primary focus right now is to get all the first-party SKUs mirrored and able to reach customers in 1 or two days.

A - Kary Brunner {BIO 20114316 <GO>}

Let's go to Bob next.

Q - Robert Scott Drbul {BIO 3131258 <GO>}

Bob Drbul from Guggenheim. First of all, Brett, that was another long hug you got today. So...

A - Brett M. Biggs {BIO 17414705 <GO>}

I thought when I got off the stage, I thought I was good. But he told me last night, we had a dinner and he goes, "Get some rest. And the way he looked at me, I told my wife, I said, "Hi. something might happen." I thought I was good. But just wait until next year. It was special.

Q - Robert Scott Drbul {BIO 3131258 <GO>}

So my questions are on the fashion business of e-commerce, can you talk a little bit about the Lord & Taylor relationship in terms of structure of it, sort of the game plan there, how it should help you with the fashion and apparel business on Walmart.com? If you could just maybe give us some details and elaborate a little bit from that perspective. Then the second question is in the India on the Flipkart piece, omnichannel is a big part of what's happening with Walmart globally. Is there a plan to add a store base, a more extensive store base in India over time?

A - C. Douglas McMillon {BIO 17082935 <GO>}

I'll take the -- yes, with regards to Lord & Taylor, we're really excited about. That just launched this week with about 50% of the traffic. Next week, it will be at 100% of the traffic. We've got over 100 premium brands that weren't previously on Walmart.com that are now available. And we think this is just the beginning, this idea of having a store within a store is really compelling. And we're certainly talking to lots of other companies at the moment, looking at doing similar types of deals. So super excited. We're really happy the way it came out, the way it looks. Shoppers like it. And we're excited to see what happens.

A - Judith McKenna {BIO 4806787 <GO>}

So on India physical stores, we've got 21 cash-and-carry stores today in India. And we've already announced that we're going to do about 50 more stores over the next couple of years. So Walmart India, the cash-and-carry stores in Flipkart in the medium -- short to medium term will remain separate entities and will trade separately, although clearly sharing ideas and getting synergy where we can. I think around the world, what you are seeing is a trend to omnichannel. And you've heard us talk about it extensively from the U.S. perspective. But U.K., different market. That is clearly something that in the longer term, we're going to be interested in, in terms of how we can have an omnichannel offering pretty much in every market that we operate in around the world.

A - C. Douglas McMillon {BIO 17082935 <GO>}

The multi-brand FDI rules have changed some. And we hope that the government decides to open them -- up more over time. But we'll be restricted in some ways until then.

A - Kary Brunner {BIO 20114316 <GO>}

Peter?

Q - Peter Sloan Benedict {BIO 3350921 <GO>}

Peter Benedict with Baird. My question is around the buy online, pick up in-store systems as well as the pickup towers. Are they running on the same system? Are there 2 separate systems? And as the pickup towers continue to scale out at -- I mean, is that a more efficient, better way to do buy online, pick up in-store as we think out 3, 4, five years?

A - C. Douglas McMillon {BIO 17082935 <GO>}

I think this thought is actually changing and moving pretty quickly. Our view at -- is at the moment, that's what we want to do. And so we've committed to continue to roll that out. Probably, about every -- almost every quarter, (Mark Evertson), who's just sitting over there. Stick your hand up, Mark. Mark looks after that part of the business. And he's got a team. And they head off to all interesting countries around the world. And it's astounding, actually, as you start to understand what's being developed in other countries. And we look for new technology. At this stage, we're pretty happy with what we're seeing with the tower. So they're efficient, the tech does all connect and work. And we measure Net Promoter Score based on what it's like when you have a tower and when you don't have a tower. And clearly, it's a really good performance when you have a tower. But I would never sit here and say I think that's what it's going to look like even in two years' time. But it's convenient for customers a bit to have that option, isn't it? Sometimes, you want it delivered to home. Other times, you want it delivered to a store. And you want it picked up. And we even see differences in terms of the geography of the U.S. So we like it.

Q - Peter Sloan Benedict {BIO 3350921 <GO>}

And one follow-up for Brett. A year ago, you kind of talked about trying to do better with expenses. And I think you did a great job last year. Where are you today as you look out maybe the next 12, 24 months, the opportunities you see?

A - Brett M. Biggs {BIO 17414705 <GO>}

Yes. When you take out some of the onetime items, last year, we did leverage the expenses first time in a while. So it was good to see the cost curve bend. There's a lot of initiatives going on throughout the company. If you were sitting in our meetings today versus a year ago, you sense the EDLC culture kicking back in again. It's not that you -- that we lost it. But it just wasn't I think at the center like it had been. But the discussions are different than they were a year ago. We're making progress in really just every part of the business. There are some big things that we need to tackle over time. I'll give you a couple of examples. One would be we've taken shared services kind of -- I think of an old way of looking at shared services and combine it with the back end of technology. And Clay Johnson, who's sitting here somewhere, Clay's right back here. Clay runs what we call now Walmart Enterprise Solutions. So we want to take a different approach to shared services first in the U.S. and then more globally. Those are the kind of places where you can take out larger buckets of costs. But also serve customers better internally and externally. Then on things like goods not for resale, we, as a company, we buy tens of billions of dollars of things that we don't sell to the customer. We haven't been as aggregate as we should have been in that. And so we're taking a different approach to that as well. As we come out over the next quarters and months, I think we'll be able to talk more about that. But I'm encouraged by what we can do from an expense point -- standpoint going forward.

A - C. Douglas McMillon {BIO 17082935 <GO>}

It's -- sorry, just to add. I think the management of expenses from an overhead point of view and all the things Brett mentioned are important. The store wage number is the big number. And I think it's hard to predict exactly how the unloader that Greg showed today, the pickup tower, the robot that goes up and down the aisles looking at the modular, the work we're doing on the front end to skip the checkouts or automate the checkouts, you think of a store as simply front, middle and back, there's automation happening in all 3 pieces. And so these tests are moving and, in some cases, being scaled. And I'm excited about how that can drive productivity as they start to really gain traction in addition to all the work we're doing that's above store level.

Q - Gregory Scott Melich {BIO 22796815 <GO>}

Greg Melich with MoffettNathanson. Two questions. One, I wanted to follow up on that and profitability and margins. Then also -- but John, on Sam's Club had a follow-up. A few years ago, you talked about the reinvestment necessary to really drive traffic. And it's worked, right? You've taken -- EBIT margin's come down and started reinvesting in gross margin, investment in SG&A. What level of comp are you comfortable at where we'd start to see U.S. margins, which, I guess used to be 7 plus and are now 5 and change, start to see that flat and turn. If there was a point where the comp was 3 or better, would you say, "Look, let's -- let some of that turn." Or is it more of a lean into it. I'm just trying to get a greater sense of that. Then, John, a big decision earlier this year to close clubs and reallocate them. I'd love to hear the reaction from members, how many you've been able to keep, if BJ's coming public again. And as Costco continues to ramp with that's -- what you're seeing competitively as you make those closures?

A - John Furner {BIO 19351533 <GO>}

Yes. Good -- thanks, Greg. Well first, it was a big decision to decide to address some of the issues we had in the real estate portfolio. And like we talked about last fall, a number of locations that had either not been successful as a result of an acquisition or a relocation we did over time, we're weighing down some of the choices we intended to make. And remember, last fall, we narrowed our target consumer down to a specific target in the income range of $75,000 to $125,000. Then we went through a price, location, product, a number of things to ensure that we were doing the right thing for those members. And as you can see, the results in the First Quarter were good. Traffic was probably the more encouraging number even than comp as traffic grew slightly higher than comp. And that's as we managed the tobacco portfolio down a bit and worked on the rest of the box. But overall, the First Quarter was encouraging. Areas like fresh food were really solid. Our members' smart business continues to gain. And the majority of the comp was coming from the base of the business more than the transfer.

A - Unidentified Speaker

I would say in terms of your question, there are many variables that you need to take into account. You need to take into account the competitive nature of the market. You need to take in account not just cost inflation. But retail inflation. But assume those things are on some sort of par, what I've learned over the years is that generally, a business of some scale if you can run at 3-plus % comp, it gives you an opportunity to leverage. And if you do that well, you can get both your P&L turning and you can get your balance sheet turning. So as Michael and Steve and Mike and the team, we will get together and we discuss that, that's sort of what's on the back of our mind. But as I said, we've reserve the right, as you would expect us to, to always do what's right for our customers. And if that means that we need to lean in and invest in being competitive, then we will. And if we have to deal with external factors that are sometimes not of our making, then we'll also deal with those. But -- (inaudible) I feel that we've got a reasonable handle on what we're doing.

A - Brett M. Biggs {BIO 17414705 <GO>}

And Greg, you saw -- I mean, you've seen U.S. stores lever in the First Quarter even at the 2.1% comp. I've said this before. And I'll keep coming back to it, that the old productivity loop that we've talked about for years inside of Walmart, that really hasn't -- that math hasn't changed. One thing we know going forward is that the environment is going to be incredibly dynamic, competitive environment is going to be dynamic. We need to be ready to operate different types of environments. I think gross margins over time are set somewhat by market, somewhat by competitors. And we have a say in that as well. And it goes back to Peter's question on expenses. There's no scenario on which getting your expenses in a better place doesn't help. Because it allows you to potentially throw money back and to get sales going. Once you can get sales going on the top line, your rate can stay the same, your dollars get bigger. And we, as you, are concerned about dollars as much or as more than we are rates. So it's really getting this flywheel going and you're -- again, you're starting to see it over the last year inside of all different parts of the business.

Q - Benjamin Shelton Bienvenu

Ben Bienvenu with Stephens. I want to ask a follow-up about assortment. You mentioned 75 million SKUs today. You guys ramped really quickly to that 75 million SKU mark. I'd be curious to hear a little bit about your expectations around the velocity of the continued ramp. And any particular categories that represent meaningful opportunities? Then as a follow-up to the Sam's Club questions, transitioning to e-commerce fulfillment centers, where are you with respect to e-commerce fulfillment distribution capacity? And does it necessitate any additional moves around transitioning former brick-and-mortar stores to fulfillment facilities?

A - C. Douglas McMillon {BIO 17082935 <GO>}

While we're focused on increasing the breadth of the assortment, I think our primary focus right now is really on quality of the assortment. So there are thousands of brands that we don't currently carry in the top million best-selling SKUs. So we're really focused on getting those brands. And we think that will make a much bigger impact to the habit metric and to the overall customer value prop. With respect to the 3P side, we've been also -- at the same time, we're adding new merchants, we've also been culling merchants back that haven't been delivering an exceptional experience. And so we're really focused on making sure that each SKU that we sell and each merchant we bring onboard can deliver a great experience.

A - John Furner {BIO 19351533 <GO>}

And on the fulfillment center question for Sam's, one of the things that Doug mentioned earlier as we were looking at Sam's to innovate and be an incubator. But also learn to move at speed. And we made the decision in January when we announced some of the club closures that we needed some facilities for fulfillment around the country. And it took about 46 days from the day we made the decision until we were shipping packages out of the first center, which is in Memphis, Tennessee. It's just a few miles down the road from FedEx field. And it's up and running, doing well. Over the course of the year, we're evaluating, we'll probably need a few more of those. But that gives us ability to have the core of the assortment. And with Sam's Club being a curated assortment, just down to a few thousand items, it gets the core of our assortment where we can deliver -- and as just like Marc said, really efficiently within a couple of days by ground all around the country. But JB and the team that are working on it are doing a great job of moving at speed and getting us up and running in just a couple of months.

A - Marc E. Lore {BIO 3597588 <GO>}

Overall, in the U.S., as it relates to e-commerce fulfillment, just remember, the role that the stores can play. The teams made a lot of progress learning how to pick more efficiently. Really good progress on those metrics. And the SKU count that we're picking from in the stores is growing over time. And as we said to you in October, we think we have a big advantage as it relates to fresh and perishable food with the right assortment at a great price so close to so many Americans. And when I think about a store being able to pick efficiently -- and it's also a profit center because people shop in it, that's a winner as opposed to more capital for e-commerce fulfillment to be built out that nobody shops in. It's actually an advantage. So we're trying to make the most of that.

A - Kary Brunner {BIO 20114316 <GO>}

We'll go to Karen next.

Q - Karen Fiona Short {BIO 7215781 <GO>}

Karen Short, Barclays. So a couple of questions on the U.S. I guess the first question is when you look at the business today, I'm wondering where you're at in terms of where you have not met your goals would be the first question or where you're behind plan. The second question is just looking at the U.S. core and -- forgetting this year, fiscal '19, because it's an investment year, as we look to the next several years, what are the main levers you can really pull to get operating profit? It sounds like it's expenses more than anything. But what are the main levers? Then I just had a question for Marc. I know you guys don't want to say this or give this number. But could you give us some color on where you are relative to the million SKUs that you need to have in terms of the 2/3 of sales or million SKUs and how long you think it'll take to get there?

A - Marc E. Lore {BIO 3597588 <GO>}

Why don't I take the store piece work -- first. This isn't side-stepping your question, it's actually just the reality of a retail business. There is always more. There is always more you can do to sell items. There is always more you can do to do better months. There is always more that you can do to improve your deletion process. There's always more you can do to save fresh waste. And I could go on and on. And what we endeavor to do is set ourselves goals. And we then build plans against those and we just sensibly and logically attack them. In the main, we're actually achieving the goals that we've set. But as soon as we achieve them, we just raise the high jump bar more. What happens in the business like ours is that when you can start to get various components of those working, then the combination of those actually give you a disproportionate upside. Equally, it happens if they don't work, you get a disproportionate downside. So I don't feel and I'm sure my team who are here would -- that they would support this comment. I don't think we're anywhere near achieving what we can achieve if we can get all of these things really working well. We've made progress, there's no doubt about that and I think most people would acknowledge that when they get around the stores. But realistically, there would not be almost any part of our business that you could not lift the covers, dive in deep and see opportunities to achieve full potential. We suboptimize on almost everything.

A - Kary Brunner {BIO 20114316 <GO>}

Can we talk about operating...

A - C. Douglas McMillon {BIO 17082935 <GO>}

I think SG&A is the #1 lever. This gross margin, we want to stay in an offensive posture. And Greg and the team have done a fabulous job on inventory. I hope you're paying attention. But over the years now, quarter-after-quarter, comp store inventory, deleted inventory have been coming down. Cash flow generated by

Walmart U.S. has been outstanding. So they're nailing that as it relates to a lot of those levers. So associate productivity and the automation that we're using to make the jobs better and drive efficiency is the #1 area of focus.

A - Brett M. Biggs {BIO 17414705 <GO>}

And Karen, from an operating income -- for a business to be really healthy, you need to grow operating income over time. And we certainly understand that and it's something that we talk about all the time. You go back to the days when we're really rolling out supercenters. Supercenters were pretty predictable, having a leverage point that almost at Day 1, supercenters are profitable in the day you open them. The types of businesses that we're investing in today, whether it's e-commerce or it's Flipkart, India, it's a different leverage point. And it's a different cash flow model. And we're having to adjust to that as well and balancing out everything that we can. But operating income growing for us is something that's very important.

A - C. Douglas McMillon {BIO 17082935 <GO>}

Karen, to answer your other question. We're right now probably around 50% of the SKUs that we ideally want to have. So all of you who took the all sort of top best-selling brands and SKUs, we're about 50%. So a big opportunity, big breakthrough with the new website redesign. And I think bringing Lord & Taylor onboard certainly helped. I think the fact that we've got the full assortment of Apple on Jet is also a big win. And so we're starting to see momentum. And we're starting to see brands pay attention. So we're excited about the opportunity ahead.

A - Kary Brunner {BIO 20114316 <GO>}

Scott?

Q - Scott Andrew Mushkin {BIO 7138867 <GO>}

Scott Mushkin from Wolfe Research. So I wanted to dive more into the EBIT and the cash flows as we look at the company. 5, six years ago, there's $28 billion of EBIT. My calculation is anywhere near correct, it's going to be more like $21 billion next year. Like the Asda move. But obviously cost you from a free cash flow perspective then Flipkart is going to cost you the other way. So it looks like you're going to flip about $3 billion there. So I guess, as investors, where does it stop and when do we turn the corner? The second thing is a follow-up to Flipkart as we model Amazon's losses growing in India over the next couple of years as they really pile investments. I'm just trying to understand Walmart's tolerance to sustain increased losses as you compete head-to-head with Amazon.

A - C. Douglas McMillon {BIO 17082935 <GO>}

As it relates to tolerance in India, we factor that into our models. As it relates to where does it stop, I think you can step back and look at the world and ask, "How many opportunities are there in the world with a population and growth rate like India?" And the answer is, not very many. We're in China. We like our position in China. We'll keep working on that particular market. But if you step back and ask priorities, it's the U.S., Canada, Walmex, including Central America, China and India. Those are our priorities. So then the question becomes, right in your kind of core operations, can you deliver an operating income increase, how do you leverage. Then the question becomes, now talk to us about what happens with e-commerce, U.S. and India, in particular, given the size of those investments. And your calculations got to be, do I believe that they can scale these businesses, reduce losses and achieve profitability in those businesses. So those are the kinds of things I'd be thinking about. There is still more work to be done in the portfolio as we sit here today. And I hope what I've just described gives you some sense of where we might be going, given what the priorities are.

Q - Scott Andrew Mushkin {BIO 7138867 <GO>}

Just as a quick follow-up. Priorities in the U.S., obviously, Greg and his team have done a tremendous job. Aren't there big opportunities in the U.S. to leverage that supercenter beyond e-commerce, which we've beaten to death at this stage to drive more market share or maybe adjacent categories? As you said, more -- that more, more, more is his answer. It seems like the best company asset is sitting over there in the supercenters and being run by a great executive.

A - C. Douglas McMillon {BIO 17082935 <GO>}

It is. And there's been a lot of investment there as it relates to price, as it relates to wages. But Greg, you might also talk about the work you and Steve are doing in the box. You know, you don't need to share necessarily what the merchandising investments are in capital. But you're changing inside the box at the same time, we're doing this other work.

A - Gregory S. Foran {BIO 4687375 <GO>}

Yes. So it's -- thank you for your comment, by the way. I appreciate that. And I'm lucky to have such a good team. And you understand the scale of this business. So this is not a one-man show by any means. It's every single person that pulls us together. And thank you, Judith, because you are absolutely integral in getting us some momentum. Here, we are looking at -- when we look at the supercenter, it's a great asset in the U.S., isn't it? The corner of Main and Central, effectively 30 acres. It's not just stuff you sell in the box, it's services that you can offer. We can see what happens when we start to get drive-through and pickup working well. We've got a great pharmacy business. We've got a lot of people who get scripts in our business. So between reworking the real estate and the box, thinking about the box as an ecosystem, thinking about the fact that you've got 30 acres, even thinking about what's happening with real estate wider in the U.S. So when all of us get around stores. And Mike and I had been talking about this, we turn up to places and we've got a supercenter or it could be a neighborhood market that's there. And we've got some empty real estate there. All of those are things that we continue to talk about and see as opportunities. And I -- but clearly, for competitive reasons, I'm not going to get into it. But there's always more. And that's the way we look at it. It's a really interesting time.

Q - Edward James Yruma {BIO 4940857 <GO>}

This is Ed Yruma from KeyBanc. It was maybe three years ago where you added -- in your little circle, you said, we're about saving family's money. And then you added time. On the time component, how should we measure how the consumer values that investments you've made around time? And how do we think about the balance between value or price and time as you move forward?

A - C. Douglas McMillon {BIO 17082935 <GO>}

Yes. Yes. Price assortment experience are all being redefined. Price still matters. There are a lot of Americans that are counting every penny and every dime. And we have them on -- yes, on our minds and are doing our best to serve them. So price investment is important. Assortment's been redefined incredibly. Customers can get access to anything. That experience component as you work your way up, the way you want to earn business from new customers, in our case in particular, is a combination of merchandising quality and Greg and the team were doing great work, for example, on fresh categories, including produce and beef. John and the team were doing great work on fresh and Member's Mark. But that quality enabled by a fast, easy experience for the customer is the way that we're attracting more new customers and keeping the ones that we've got. So you just can't have friction. The checkouts can't be that long. You've got to help people find items in the store as well as online. You've got to manage the technology to drive in-stock levels up. We know for sure every customer cares a lot about time these days. And what we're trying to do, both with mobile and in the store, is attack any form of friction that we can find using product management in an increasing way to isolate that problem, solve that issue for the customer, leveraging technology along with the business leader and try and do it quickly. And I think one thing you should keep an eye on is anecdotes. We've shared in the past, the work that John did at the membership desk in Sam's with Jamie and Gisel. That's a great anecdote. But those are happening across the business. I tried to share some of them today. I think it'll be a million little things, they won't be 2 big ones.

A - Gregory S. Foran {BIO 4687375 <GO>}

I think the other thing we see, Doug, is that this country is so big. So often what we see happening in California is not the same as what's happening in Louisiana or Mississippi. It doesn't mean that it won't happen at some point. But it will remind you to that quote that the future is already here. But it may not be equally distributed. And so we try and, I guess, also put into this piece something called community. And I think that's a big part of Walmart as well and the role of the store manager and the community in which you operate, the personal contact. So we're going to have some stalls and Marc, we already see this currently, that are -- really strong in terms of delivery to home. And we have other over stalls that are really strong in pickup. And there are always reasons why that occurs. And the obvious one, the traffic conditions. So we try and be as thoughtful as we can without adding complexity because that can add cost. But America is not, in many cases, peanut butter spread for us. You've got to be little bit more precise.

A - Kary Brunner {BIO 20114316 <GO>}

Okay. And with that, we're going to wrap up our Q&A session. Any closing remarks?

A - C. Douglas McMillon {BIO 17082935 <GO>}

No. Thanks for coming.

A - Brett M. Biggs {BIO 17414705 <GO>}

All right. Thank you for coming.

A - Kary Brunner {BIO 20114316 <GO>}

Thanks for coming. We will conclude our webcast, have a great day.