Deutsche Bank Global Consumer Conference

Company Participants

- Brett M. Biggs, Mart Stores, Inc.
- Paul Elliott Trussell, Analyst

Other Participants

- Unidentified Participant, Analyst, Unknown

Presentation

Paul Elliott Trussell {BIO 20732173 <GO>}

Good morning. Welcome to the dbAccess Global Consumer Conference 2017. I'm Paul Trussell, the U.S. broadline and apparel retail analyst. I'm very happy to have you all with us today.

Very glad to kick the conference off with Wal-Mart Stores, Inc. Very happy to have with us today the Executive Vice President and Chief Financial Officer, Brett Biggs. I also want to definitely acknowledge Steve Smith of Investor Relations right here in the first row.

This morning, Brett will kick things off with a few opening comments around the financial framework. And then we'll go into a fireside chat conversation that will also have some time for Q&A from you guys. We just ask that if you have a question, to raise your hand and wait for the microphone.

And with that, Brett?

Brett M. Biggs {BIO 17414705 <GO>}

All right, yes, thanks for having us this morning. Appreciate your interest in Walmart. If I can get -- do I need to point it at something specific, Paul? There we go. You all want to see the forward-looking statement, I know that. That will get the conference kicked off in an exciting way. This is in -- on our website. If you have any questions about our forward-looking statement, you can go to our website, as I might be making forward-looking statements this morning.

I want to start out this morning just a little bit talking about our recent results in the context of our financial framework, which you would have seen and we introduced last October. Start with, as we always do with the company, start with growth and strong, efficient growth. And what we mean by strong, efficient growth is, we're going to grow as a company. As a retailer, you need to grow. But we want to grow in the right way. We want to grow in a way that's capital-efficient for the company and return-efficient for shareholders.

As you have seen in the First Quarter, good comp sales, particularly in Walmart U.S.. And that's continued really for a couple of years in the U.S. business. And that's what we want to do, we want to grow comp sales. And you would -- that includes e-commerce growth. And you would've seen a very strong e-commerce growth of 63% in the First Quarter. Now there's acquisitions in that number. And as we have opportunities to make acquisitions that are helpful to us from an assortment standpoint or from a capability standpoint, we want to take the opportunity to do that. But the majority of that growth was still from our organic business. So we were really pleased with the growth numbers in the First Quarter.

On operating discipline, you've heard us talk quite a bit about two things. One will be expenses and another will be working capital. From a working capital perspective, over the last couple of years, we feel good about our discipline from that standpoint, both on the inventory side as well as the payables side.

And so we feel good about cash flow. We had a record level of operating cash flow, as you know, last year. So we're pleased with that.

From an expense standpoint, we still have work to do. We've been talking about this for quite a while. And we've taken the opportunity in the last couple of years to invest in technology and e-commerce and wages in the stores. But we know, over time, we've got to get back to leveraging expenses. And we did leverage expenses in the stores in the First Quarter. And we're glad to see that. So I think it's a good start to what we want to continue to do from an expense standpoint.

And we know capital allocation is very important to you as investors. And there's a number of things that I think are showing progress there. Back in October, we talked about, if you went back a few years ago, a great majority of our capital was in new stores and particularly in the U.S. and we've slowed down new store growth in the U.S. Now you're seeing more of our capital go toward remodels, ensure that we keep our fleet with a good customer value proposition. You've seen us put more money into technology. And that's technology both to help the customers. So front-facing technology as well as back-end technology will help us work differently as a company. As we look at leveraging expenses, that kind of technology is really important for what we do going forward.

And you've seen us make decisions. You've seen us take our e-commerce business in China in Yihaodian and partner with JD.com, which has been a really good partnership for us in China. And you've seen us make decisions in a country like Mexico, where we've sold a bank, we've sold a restaurant chain, we've sold an apparel chain; all 3 of which were good businesses, just not core to what we want to do in a country like Mexico. So we want to be smart with how we spend our money.

And hopefully as investors you're getting a sense that we're taking some steps to do that.

So with that, I'll just turn it back to you.

Questions And Answers

A - Paul Elliott Trussell {BIO 20732173 <GO>}

Well that's helpful opening, Brett. And you touched on it. But going back to same-store sales, you guys have had some momentum of late. First quarter showcased, once again, positive traffic, with strong e-commerce growth. If you can narrow it down to a few factors, what have been the main drivers of that sustained comp momentum, especially in a backdrop across the U.S. where a lot of your retail peers have not been able to have the same level of success?

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

Yes. Traffic certainly is key for us, key for any retailer. And you would have seen in the last -- take a 2-year stack, would've been about a 3% comp in traffic, which is unusual a bit today in the retail environment. And I think there's a number of different things. And I'd go back to a lot of the work that Greg Foran and the team -- just speak specifically about the U.S. -- Walmart U.S., that they've taken over the last few years. Greg is a retailer. I mean, he is -- I've described Greg before as maybe the closest thing to Sam Walton in quite a while in Walmart. He just knows how to run stores and how to motivate people. The amount of work that we put in being in-stock, it's important. You need to be -- you have product on the shelf. It's amazing, it sells when you have it on the shelf.

And despite taking inventory down 6%, 7% really a couple of years in a row on a comp basis, having in-stocks go up is incredible performance. What we put into wages and in training over the last couple of years, I think sometimes the training piece gets missed on that. But putting that -- those -- that investment into training has made a different associate experience. And along with that, we have more associates back on the floor with some of the work we've taken out of the back end and some of the work we've taken out of the front end has allowed us to put most department managers back in. If you go into a Walmart today in the U.S., you will see more people on the floor as you go around. That helps with the customer experience as well.

Being sharp on pricing. We talked about we're -- we always -- pricing is not an on/off switch for us. But 18 months ago, we talked about that we were going to put several billion dollars into pricing. Price matters and it will always matter. And so customers noticed that as well. But I think it's just an overall experience. Fresh is much better than it was a couple of years ago. Fresh is a big traffic driver for us, any food retailer. And will continue to do so. So I don't think there's any one thing, I think there's several things that have helped us on the comp side.

A - Paul Elliott Trussell {BIO 20732173 <GO>}

Absolutely. And as we drill down into the comp performance in the First Quarter, e-commerce, walmart.com, aided the comp by 80 basis points, which was surprising to The Street. And really hands (sic) hats [ph] off to the team on that type of performance. Walk us through how you've built the infrastructure to generate that level of performance. And also, does your success on your e-commerce platform, does it alter the thought process around store count and how you utilize the stores? And maybe you can just discuss also how we should be thinking about the longer-term profit algorithm, given the success you're having in e-commerce.

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

A lot in that question. Go back a couple of years ago, the growth rates in e-commerce were -- and we came out and said this, is not what we wanted to be. It was single digits. But we said we are laying the foundation for what we think is going to be good over time. And that was putting money into the systems, putting down our fulfillment center network. At that time, over two years, we put in 5 fulfillment centers. And we said be patient a little bit. And there's a lot of that, that is starting to play out. And where it plays out -- so the fulfillment center really allows things like the 2-day shipping, 2-day free shipping over $30. It allows us to get the assortment in the right place to be able to do that in an efficient manner. The systems work that we did allowed us to dramatically increase the marketplace on our site. So back about a year ago, we had around 10 million items online, now we have over 50 million items online. Now 50 million is still not as much as some of our competitors would have.

The difference between 10 million and 50 million is a big difference. Over time, I think we'll figure out what the right number of SKUs would be online. So having that foundation put in place. And then you combine that with acquiring Jet a little less than a year ago. And the team that Marc Lore has brought with him, along with the team that we had at walmart.com, has allowed us to accelerate some things and do some things -- you're talking about, how do you put this together with your stores, that's where we win, long term, it's putting this together with our stores. So Marc, working with Greg Foran, things like Pickup Discount. So items that aren't in our stores that you can go online and we'll give you discount to pick it up in the stores. Gives the customer good value, also gets you in our stores; one of the types of things that only we can do. The trial of associate delivery is something that, again, we think that only we can probably do and have the scale to potentially do it at scale at some point.

All those things are unique to us. And that's what we want to focus on. We want to play our game, which is a combination of these businesses. From a profitability standpoint, we've got to look at it from a holistic standpoint as Wal-mart, Inc. Certainly, we know what the profitability is, the pieces of how we do this. But as a management team, what we're focused on is how do we pull it together in a way, how do we pull the right levers in a way that, as investors, you're happy with what you see from an earnings perspective and a cash flow perspective. And over time, we've just got to make sure that, that works together in a way that makes sense. But we want to be there for the customer. And we just got to ensure that we're doing it in a way that's investor-friendly as well.

A - Paul Elliott Trussell {BIO 20732173 <GO>}

So to continue on the e-commerce conversation, talk to us then maybe about the positioning of Jet.com relative to walmart.com. And how we should think about some of the bolt-on acquisitions that have been made over the past year and where this can go.

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

Jet, obviously, was the big acquisition in that. And Jet and walmart.com are separate today, particularly from a front-end perspective. And anticipate that being the case. Jet has a different customer base, not entirely different. But a little more urban, a little more higher income. And so the interesting thing, too, about having another website -- now we have several more with Moosejaw and choose.com [ph] and ModCloth, is you can try things with a brand that you may try on one brand, you may not try on the other. It gives us a way to test and do some other things. But Jet, from a technology standpoint, from a talent standpoint, from a capability standpoint, I think from a customer standpoint, was a differentiator for us. And it did accelerate some things that you've seen us do on walmart.com.

The 3 smaller acquisitions that we did subsequent to that, we do get some questions on those. And certainly, you like the sales you get out of it. But for us, it's more about the capabilities of the people inside those companies, the ability to have maybe different brands than we would have had. By having those brands, it then potentially has other brands that think differently about you, having a different assortment, having category experts. So if you think about a company like Moosejaw, that's an outdoor gear company. We brought in people that really know that category. In addition to that, over time, it does allow you to mix out differently. We believe these acquisitions are in categories where we're a bit under indexed as a company. You can do at marketplace. But we felt like we were a little under indexed where we should be in these categories. And they're categories with somewhat higher margins. And so if you can bring that into first party versus third party, it does allow you to have a little bit of a margin mix inside your e-commerce business, getting back to your profitability question. So a lot of different aspects to those acquisitions.

A - Paul Elliott Trussell {BIO 20732173 <GO>}

Makes sense. So your biggest category, grocery. Talk a little bit more around some of the initiatives that Greg and team have put in place to drive success in Fresh, in particular. Maybe give us an update on the Pickup that you all have been rolling out from a grocery standpoint. And maybe for the investors here in the room, discuss a little bit more around the competitive environment around grocery. You obviously have some foreign entrants that is quite a bit of the buzz in conversation. To what extent is that something you're very mindful of? And how do you think about assortment and price and strategy given the rollout of those new concepts?

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

Fresh has been and will be a very, very important part of our business going forward. You -- as a big box retailer, you need food, I think, to drive traffic into your stores. And we've put a lot of effort in that. In the last 2 or three years, Greg Foran, Steve Bratspies and his team, a number of initiatives over the last couple of years, which have now rolled out to pretty much all of the chain. And one would just be how you merchandise Fresh. When you come in, does it pop? Do you have good sight angles, where you can see Fresh and is that the thing you notice when you come in our stores? It needs to be the thing you notice. So that's important. But more importantly are what we've done around training with our Fresh managers, what we've done around training around calling a product. Also, we've been able to take 1 to two days out of the supply chain over the last couple of years, which is a big deal, because not only does it -- is it fresher in the store and you have -- and actually, you've culled a lot of that Fresh before it even gets to the store. But more importantly, when you take those bananas or grapes to your house, they should stay fresh for a couple of days longer. And customers notice that. That's where they really notice it, is in their home. So we put a lot of effort, a lot of work and a lot of resources into the Fresh business, because it has to be a huge part of what we do going forward.

It is a very competitive business, as you know. You mentioned a competitor coming in shortly over on the East Coast. We're very mindful of them. We're mindful of anybody, actually, that would like to compete with us. But there -- specifically about Lidl, they're a great competitor. ALDI has been in the U.S. for quite a while and they're a really good competitor as well. We -- just a little bit north of here, in the U.K., I think anybody in the U.K. has learned some lessons about discounters and about how you compete better with those discounters. And we've had the opportunity to know that they're coming. So as we think about price, as we think about assortment, it's got to be tight. It's got to be really in a good place with the customer. That's always been the case with us. But usually, we feel like good competition just makes us better. And I think that's likely to be the case here as well.

A - Paul Elliott Trussell {BIO 20732173 <GO>}

And so this is a little bit kind of big picture. But obviously, we're always talking about the productivity loop. And what are some of those puts and takes as we think about factors that are going to impact margin going forward? Obviously, at the recent shareholders meeting, you, yourself spoke about still a need to get better on the expense front. What are those focus areas and opportunities for the team going forward?

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

Yes. It's -- there's a lot of pieces to that puzzle as you think about gross margin, you think about expenses. And we know that investors are certainly mindful of our operating margin and what that might be longer term. We think there's a lot of different ways to kind of get to the same answer of what your operating margin might look like over time. A number of things go into gross margin. And there's several that we've talked about in the past few years. One is we've gotten better at buying product. And that's helped our gross margin even as we've been investing in price. We're buying better than we used to. And that helps. We're always looking for efficiencies and logistics. And a good piece of that ends up rolling through your cost of goods as well. We're focused on gross margin rate, more focused on gross margin dollars. And you were talking about the productivity loop. And the productivity loop is really about lower expenses. So reaching lower prices so you can grow sales so that you can lower costs. And over time, I think the market, to some degree, will determine, within reason, what gross margin should be in any kind of business.

And I think you have to be prepared for gross margins to be at different levels. And I think we are and will be prepared for that. Our SG&A is around 21% as a company. It's -- we've invested in some things; we talked about, wages, technology, e-commerce, intentionally over the last couple of years. And SG&A has gone up. But we know, over time, that number needs to be lower than 21%. And as you get that number lowered, just gives you even more options about how you manage gross margin, how you manage your operating margin. And eventually how it flows to free cash flow, which is most important to shareholders. So we're very mindful of the productivity loop. I think you saw it -- you've seen it back in action again a little bit in Walmart U.S. stores in the First Quarter. And so that's a good data point for us.

A - Paul Elliott Trussell {BIO 20732173 <GO>}

So a little bit earlier, you alluded to experience, obviously, competing with the hard discounters in the U.K. Maybe let's just talk a little bit about the international business. The performance and kind of new team in Asda, maybe just give us an update there. And also some other data points maybe that we should be mindful of across some of your other countries.

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

Sure. Yes. As you heard us talk about, we're extremely focused on North America. And particularly the U.S. That's our biggest business. We continue to have a very strong business with Walmex in Mexico. I think Walmex is one of the best retailers in the world. Candidly, it just happened to sit inside of Walmart. Canadian business continues to be good, pleased with the progress there. And we'll continue to be very focused on China. We continue to build stores. Sam's Club has a really good format force in China. We think there will be room for stores for quite a while in China. Some of the bigger cities, you're seeing move much more quickly to e-commerce. And that's why we made some of the decisions we made around the alliance with JD.com. And that we had a nice e-commerce business in China. But when you looked at the scale of what JD was doing, what Alibaba was doing, just felt like we're better off with a partnership from an e-commerce perspective, which also gives them access to our stores and Sam's Club and like I said, we've been really happy with that. But China is going to continue to be an important market for us.

India is a market, over time, that I think, whether it's 10 years, 20 years, 30 years from now, we'll be glad we're in India. And I think there's a lot of growth opportunities there. The U.K. has been a tough market, everybody knows that, particularly for the big 4. The discounters have made an impact in the U.K. We're happy with what the management team at Asda is doing. Really, just a number of things that we did in the U.S. is getting back to retail basics. It's making sure you're pricing is right, making sure your stores look good, making sure you're in-stock, some innovation around merchandising. And we're starting to see the gap between us and the market close.

And so we have a ways to go, still in the U.K., to where we'd like to be. But glad with the progress there.

A - Paul Elliott Trussell {BIO 20732173 <GO>}

And with that, we'd like to open it up to any questions from our audience. A microphone is coming up. Thank you.

Q - Unidentified Participant

Curious about how you've been taking inventory out for the last -- you've done such a great job for the last few years, 6%, 7%. Curious, how did you get back into stock, taking all that inventory out. And where are you on that kind of cycle? Are you finished? Are you, kind of, is that an ongoing initiative?

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

Yes. It's always an ongoing initiative. I think, if Greg were sitting here, he would say he still has more work to do in the stores. It's really -- it seems counterintuitive that you can lower inventory and actually be better in-stock. It's actually pretty much exactly how it works, in that as you lower inventory, you move it less; associates can find it, you can get it closer to the shelf; you're having less in the back room; more that's sitting on the shelf. And some of that's come from some of the disciplines that Judith McKenna and Greg have put in the stores of using more technology in the back room. It goes all the way back to the DCs and how you're flowing goods a little differently, holding a little bit more back in the DCs, not pushing so much out to the stores and ensure that they can handle it when it gets there. And so what -- a lot of times merchants will say, "I need more merchandise to increase sales." That's not always the case. You need the right merchandise to increase sales. But just having more of it in your stores actually can be very counterproductive to trying to get more sales. So it's a number of different things. I think there's still things that we can do better. But the last couple of years have been pretty spectacular as far as inventory performance.

Q - Unidentified Participant

A question about the pickup in-store initiative that's been rolled out to, I guess, a little less than 20% of the U.S. store base. Can you update how that initiative is trending so far?

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

I missed it. I think it was part of your 3-part question that I missed, was Online Grocery. So we're in a little over -- almost 700 stores now on Online Grocery. It's still a fairly small part of our overall business. But it's been some of the best NPS scores that we've had in, I think, any initiative we've done inside the company. I think it's given us a bit of a halo impact as well with customers. Think about particularly busy moms with kids in the backseat that don't want to come in the store. The ability to order groceries, come up and within 5 minutes you've got your groceries, once you pull up, in your trunk. So we like what we see. We're putting -- we'll continue to roll this out. We're trying to make it even more efficient as we put into new stores, we're making sure the sightlines are good, the drives are good. And as we build new stores, it's a big part of what we do is looking at the pickup element of the store. But really excited about it.

Q - Unidentified Participant

Is the expectation (inaudible) to roll it out nationwide?

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

We'll continue to roll it out where it makes sense. And there's some stores that -- these stores weren't built with this in mind. Every once in a while you have a store that just doesn't work as far as the ingress and egress of the store. But where we can, where it makes sense, we want to do it. I don't think you have to do it in every store to cover an area. I think we'll look at what makes sense to make sure that we can cover different areas.

Q - Unidentified Participant

In the U.S., you've done a great job driving same-store sales. And also in the U.S., you've done an even better job driving e-commerce growth. And if we take current trends, it's not too hard to envision a scenario in the future where e-commerce is more than 100% of the same-store sales growth. Do you agree with that? And if so, can it be done in a way that's economically attractive?

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

We -- again, I'll go back to what I said earlier. What we want to do is put it together. The customer, over time, is going to determine how they want to shop. And we want to ensure that we can be there on all those occasions. There's people that are going to want things shipped to their house, people are going to pick up online groceries, people are going to want to come in stores. I think stores are going to play a part in this company and in retail for a long, long time. We've got to make sure that we're as efficient as we can be in each one of those parts of the business. I think, over time -- I can't remember, Paul, whether you and I talked about this, over time, it's going to be more difficult, actually, I think for us to breakout exactly whether it's coming from e-commerce, whether it's coming from the stores, because where we win is where it comes together. Then we've got to ensure that the profitability of that mix works and that it's investor friendly. So we don't give -- we haven't given guidance, I think the kind of thing that you're looking for there. But what we want to do is have an expense structure, a margin structure in place that allows us to be flexible in how we win with the customer and how we win with investors as well. So I know I didn't exactly answer your question. But we need it to come together.

A - Paul Elliott Trussell {BIO 20732173 <GO>}

And maybe just to continue along that discussion though, Brett, maybe talk about some of the more specific items you all have tested and rolled out of late, such as the discounts to pick up some of the online items in-store. You obviously did mention the 2-day shipping a little bit earlier. Just some of those efforts to really integrate the stores and dot-com, Ship from Store. Maybe if you can just elaborate a bit on some of those efforts.

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

Sure, it's a great partnership. And I've had investors ask who came up with these ideas. And it really takes both of the groups, both the stores business as well as the e-commerce business. And also within Sam's, e-commerce business at Sam's sits within The Club business. But I would say the same thing for Sam's Club. This is where we win, is getting the stores and e-commerce store together. 2-day shipping has -- it's really good, I know even from a personal standpoint. If you look at -- if you go back a year ago to shopping at walmart.com to now, the 2-day shipping, you have 50 million items instead of 10 million items. It's hard for me to find something now that I can't find in walmart.com. Big difference from a year ago. The Pickup Discount, we want you, as a customer, if you're willing to go to the store and save yourself some money, we're good with that, because the best way -- the most efficient way for us to get a good delivered is to the store. We're sending full truckloads, palletized. And if I can send that along with a truck that's already going to the store, that's incredibly efficient. And if you want to save money, then we win and you win. If you want it delivered to your house, we'll do that as well. So however you want it, that's how we're going to get it to you. And we're going to let you share in the benefits of that. So it's just -- any way that we can run our play, I think, in the past, we probably have been a little bit responsive to some things in the market. And now, I think we're playing a little more offense.

A - Paul Elliott Trussell {BIO 20732173 <GO>}

And just a follow-up in terms of something that you actually tried and walked away from with ShippingPass and Jet.com, obviously, when it started had a membership.

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

Membership, right.

A - Paul Elliott Trussell {BIO 20732173 <GO>}

That is no longer the case. Amazon recently rolled out an initiative to kind of provide a discounted prime membership to individuals on government assistance. I mean, does that -- what are your thoughts on that from them and their efforts to really penetrate a lower-income consumer? Because it seems like you didn't find a membership rewarding.

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

We have a membership in Sam's Club. So we have a -- we do have a piece of our model that's membership-based. We're going to try things. We're going to -- I think, as a company, we're better than we used to be at trying things. And if you stop it, it's not failure, you tried something. And from ShippingPass really came 2-day shipping. And go back to even 30 years ago as a company, one of the worst formats we ever had was the hypermarket -- or the hyper -- we had 3 or 4 of them, maybe, they were terrible. But it led to the supercenter, which ended up being one of the best retail formats in the history of the world. So we're always going to try things. You have to ask the other company what they wanted to do with what their recent announcement. One thing that I think people forget about with Walmart a bit. And we talked about maybe a couple of years ago at our analyst day, is that when you look at our customer base, whether it's age-based, whether it's income-based, we pretty much mirror the U.S. We're not into just one part of this or one segment or one age. We really -- our customers really do mirror the entire U.S., which shouldn't surprise you, given we have 140 million customers a week in the U.S. And so I can't comment specifically on what they did. But...

Q - Unidentified Participant

How does the arrival of the Lidls and ALDIs influence your policy in terms of SKUs and also of own-label?

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

Yes, great question. We, over the past few years, have put a lot more effort into private label. And you've seen us get -- I'll use Sam's Club as an example, you've seen us get more focused. We have, basically, now one private label in Sam's Club. We used to have several. In the U.S., you're seeing more penetration of private label. The Great Value brand, which we -- which is in several countries as well, is a big brand. There would be -- a lot of companies would be happy to own Great Value and have the business that we have in that product. The U.S., I think, is today still quite a bit different from Europe, in particular the U.K., as far as own label, is just not as penetrated in the U.S., certainly compared to the U.K. But it's an important part of our business. We're a house of brands and believe our customers want brands. Brands are the best place to show price differentiation as well with your customer. But if you can get a strong -- following a strong loyalty with a private label, that can be a very important part of a retailer's offering and it's important to us. Lidl and ALDI, certainly that's been their trademark over the years. And we'll get a sense of how well that works when they come to the U.S.

Q - Unidentified Participant

I have 2 questions. First question on the U.S., could you come back to your strategy on proximity stores and your square meters growth? So with the brick-and-mortar, on the brick side, what is the growth you expect? Proximity fits better with pickup than having to drive miles away for a pickup. So can you elaborate on this? Then my second question would be on international. Are you ready to maybe divest, for example, some countries that doesn't fit anymore with your strategy?

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

So I'll start with the kind of the square footage strategy. So today, in the U.S., about 90% of U.S. population lives within 10 miles of one of our stores. So we're very close to the customer. And we think that's a benefit for us going forward, whether that's brick-and-mortar, whether that's e-commerce. We've talked about that we're building fewer stores in the U.S. We'll have a couple of handfuls of supercenters that will open and about the same number of Neighborhood Markets. We want to -- I think there will always be places where stores will make sense. I think you'll continue to see us have some stores that we'll add. But the ability now with pickup and e-commerce and having those hubs where customers can come pick up grocery -- I mean pick up groceries, pick up general merchandise is really helpful to us, we think, going forward. And so as we build stores, we're very thoughtful about how to serve the customer. It's not just, well, there's a place to put a store, let's put a store. It's, if we put a store there, does that help us with our e-commerce strategy, does it help us with our online grocery strategy? It's a little bit of a different discussion, as you would expect, than five years ago.

On the international front, the markets in which we're in today make sense for what we want to do and serving the customer. We have some great businesses do a fantastic job of serving the customer. I think you've seen, with actions we've taken and a little bit of a smaller scale, that we're rational about our investments, though. And we've got to have our investments put together in a way that's good from a return perspective, good from a profitability perspective. And to the extent that businesses continue to make sense in our portfolio and help us serve the customer globally, then that's what we'll do.

A - Paul Elliott Trussell {BIO 20732173 <GO>}

We have time for just one last question from the audience.

Q - Unidentified Participant

Could you just touch on how you're working with brands in terms of shelf space allocation? Is there going to be increased focused on category captains [ph], #1, #2 market shareholders compared to #3 brands? And also, how you're working with smaller, higher-growth brands.

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

Yes. All pieces of that are important. Certainly, the big multinational suppliers are very important to what we do. They're a big part of our business, we're a big part of their business. But we also want to ensure that we have innovation in our stores and that we have the ability to have local suppliers or regional suppliers in our stores to be a store of the community. And our merchants are good with that. Our store managers have some ability to influence that as well. If there's a brand that makes sense in the Western part of Texas, they can go work with our merchants to get those brands. We've got to make sure we're in compliance and the safety and all that gets met. But we want to do that and be local with that community. Can you repeat the first part of your question? I want to make sure I answer the very first part.

Q - Unidentified Participant

Yes. How (inaudible) -- how are you allocating space, shelf space? Are you working with the #1, #2, maybe rated #3, #4 brands. Is there going to be increased focus to the category captains really?

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

Yes. As you mentioned, we have category captains for our categories inside the U.S. It's a mix. And it's always a balance, too, of branded products versus private label; the number of SKUs that you want to carry in a store, you want to have -- you don't want you to have too many SKUs, because you then get inefficient from a logistics and merchandising standpoint. But if you don't have enough SKUs, then your customer has options elsewhere. And so there's some categories where 40 kinds of mustard, is the 40th kind of mustard important to your customer? Sometimes it is. And you've got to -- and we have the data to ensure that we're thinking through that. But all the various pieces of that have a place within our merchandising strategy. And it hasn't changed dramatically in the store.

A - Paul Elliott Trussell {BIO 20732173 <GO>}

And with that, I want to thank the audience for participating and Brett for being with us this morning. Any closing comments?

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

No, just appreciate being here. We're excited about what's going on in the company. And always more work for us to do. But we're working hard.

A - Paul Elliott Trussell {BIO 20732173 <GO>}

Thank you. That concludes our Wal-Mart Stores, Inc. presentation.