Management Update for the Investment Community and Q&A Session

Company Participants

- Bill Simon, Mart
- Carol Schumacher, VP-IR
- Charles Holley, CFO
- Doug McMillon, International
- Jeff Gearhart, Ethics
- Leslie Dach, Company Representative
- Mike Duke, CEO
- Rollin Ford, Haul Leverage
- Susan Chambers, Company Representative
- Unidentified Speaker, Company Representative

Other Participants

- Budd Bugatch, Analyst, Raymond James
- Jason DeRise, Analyst, UBS
- Joe Feldman, Analyst, Telsey Advisory Group
- John Lawrence, Analyst, Stephens
- Peter Benedict, Analyst, Robert W. Baird
- Tim Goodman, Analyst, Hermes
- Unidentified Participant, Analyst, Unknown

Presentation

Carol Schumacher {BIO 2078735 <GO>}

We're going to start the webcast right away. Good afternoon. I'm Carol Schumacher, VP of Investor Relations for Wal-Mart Stores, Inc.. And thank you for joining us this afternoon. We appreciate all of you who have come, some from very far away, to attend our shareholder's meeting today and also this session with our executive team. We really value the time that you dedicate to our company.

As you came in, you should have received a sheet of paper that provides you a little information about the fact that we may be making some forward-looking statements today. Please refer to our website for additional information about that and for our filings.

And with that, we're going to get underway. You heard this morning from some members of the executive team some of the news that we have out there. If you have not had the opportunity to see and participate in the webcast of our shareholder meeting today, we did announce a new share repurchase authorization of $15 billion. That press release is also available on our website. And you can find that under the Investor tab at stock.walmart.com.

So I think most of you who are here with us in Fayetteville, Arkansas, know our full executive team up here. So we won't take time to introduce everybody. But with that, we're going to have two remark sessions first, one from Charles Holley. And then -- our CFO. And then from Mike Duke, our CEO. And then we will go to open Q&A.

And with that, I'll turn the program over to you, Charles.

Charles Holley {BIO 3319796 <GO>}

Thanks, Carol. And thank you, everybody, for joining us today. Am I on?

Carol Schumacher {BIO 2078735 <GO>}

You are.

Charles Holley {BIO 3319796 <GO>}

First of all, we're not going to be resetting any guidance right now for the Second Quarter. So we'll keep our comments around what we said in the First Quarter. But I just want to reiterate a few things about our priorities, which are growth leverage and returns.

Hopefully you got the message today that we're very strong financially and we're -- we are very -- we strive very much to be consistent in how we perform. When you look at growth, we know in the First Quarter we were soft. And you saw our guidance for the Second Quarter. We weren't quite as soft in that guidance.

And I think that speaks to how we feel about the First Quarter, where there was a lot of noise in the US. And we did see some global slowdown. And I think that the guidance hopefully speaks for itself, that there's not going to be as much softness as we saw in the First Quarter.

We're also very focused on expanding our global e-commerce business around the world. As a reminder, we have put out there that we'll invest an additional $0.09 per share this year in ramping up our global e-commerce efforts, including $0.02 for the Second Quarter. Then also very focused on capital discipline, being sure that we're building the right kind of stores and investing the right way.

The second one, leverage -- the second priority, leverage, just as a reminder, we're still very committed to our over 100 basis points over five years to get our SG&A to sales ratio down by 100 basis points. We didn't probably leverage as well as we would have liked, due to the soft sales in the First Quarter. And I think it's going to be, as I've said in our call, it's going to be a little bit tough in the Second Quarter. But we are very committed to do it for the year. And we still feel like there's a lot of cost and efficiency that we can get in our business.

Then, last, returns. I think we've been very consistent the last few years on our -- how we give back to the shareholder, whether it's the dividends. And you -- if you watched my presentation today, how we on average have increased our dividend 18% per year for over the last 10 years. And 18% this year, also.

In addition, the share repurchase. We announced the new share repurchase of $15 billion today. And we retired the remaining $700 million of the old share repurchase authorization. We don't have a timetable for that. But if you look at our track record, I think that you see that we have a very good cadence of how we use that share repurchase.

So with that, I'll turn it over to Mike Duke, our CEO.

Mike Duke {BIO 3510931 <GO>}

Thank you, Charles. And first, let me welcome you back to Bentonville, Arkansas, for this, another historic event. I know some of you have been here for many years at the shareholder meeting. And sometimes some of you have stayed over for a Saturday morning meeting. And some even may still stay over and still go on your own float trip, like was done many years ago. But I do welcome you. And it's great to see some of you back again.

I'm really just going to cover four critical areas that, frankly, I'll tell you, areas that I spend a lot of time on, because I think they are so important to our business, because I don't -- I don't want to repeat what Charles has already said.

The first area that I'm just going to comment on, because I think it is so critical to success today and in the future. And that is about people. You could see this morning, hopefully more than any shareholder meeting you've ever been to, that we spend more time focused on people, talent. So I think having the best talent and the most engaged associates is such a critical part of Wal-Mart's success and, frankly, we are in such great position.

You know, I've only been here 18 years. But in the 18 years, first, we've got the strongest leadership team. I mean, those of you that know the individual members of the senior team, the -- it goes far beyond, down to the store level of engaged associates serving customers like some that we highlighted in the meeting this morning. But if you get a sense of that overall energy, I know we get to feel that energy when we go out and visit stores.

I mean, every week, I feel the inspiration to some degree like we felt this morning from our own people out on the front lines serving customers and having the most engaged associates, not just in retailing. But in business. And the best talent in business.

Best talent, I'll give you examples from the associates to store managers, we now -- I sat through a discussion this week on merchandising -- and from Wal-Mart US to Sam's Club to the international, we have the best merchant talent that we've ever had and, I will tell you, the best merchant talent of any mass merchandizing large retailer anywhere in the world.

Then if I look at areas like e-commerce and -- the ability to recruit the kind of talent, I am amazed at the quality of -- and the level of talent that we're bringing in of people that want to join Wal-Mart. They want a challenge. They want to be a part of this biggest data that I mentioned this morning. And so the thing that I am so excited about is our ability to recruit and develop the very best people in the world is what gives me such great excitement about the future of our company.

The second thing -- I'll go back to our founder again -- you heard so much this morning, also. Even though our primary focus is on people, you heard throughout the meeting about the productivity loop, EDLC, EDLP. You just heard Charles mention that again.

This was -- this business model that was created years ago was just a fantastic business model. It's simple. It's straightforward. We try to operate with as low expenses as we can. We try to drive down SG&A expense. As I've said, we've done that three years in a row. You know, as we've said at this meeting last year, we'll have quarters where we may not on an individual quarter, or we may have quarters where the gross margin may go up a little bit for some reason. But our overall focus is the business model. And that's across our businesses.

And even -- as we even go into new markets and we make acquisitions, there is a way over time to develop the business model that works so well here in the US and in the U.K., in Canada, across the world. And I really still more than ever believe in our business model.

The third area that you can see we are absolutely committed to is to win in the e-commerce, multi-channel, this digital space that -- today the way customers are shopping. And we want to let customers shop how they want to shop, when they -- where they want to. We just want them to think about Wal-Mart.

It may be by driving their car. But it may be picking up their smartphone. So we are absolutely committed. And I'm really, really pleased with the progress in e-commerce. You heard a couple of numbers this morning. I said that we'll do about $10 billion this year. Neil mentioned I think we had a 30% increase in the First Quarter. So obviously, you can tell, we're starting to gain traction, not -- I say starting, because we know that it's an area we still have a long ways to go.

Then the fourth area that I just mentioned that is critical to me and it's critical to everyone here and to our organization, is doing business the right way, doing business with integrity, absolute compliance. And then the areas of responsibility that Wal-Mart has really put great emphasis on in recent years, whether it's sustainability, women's economic empowerment, hiring veterans, the -- our goal to eliminate hunger in America you can just see this area of responsibility along with doing it with integrity and full compliance, is I'd just simplify that, too. And say doing business the right way, because I think that is the right way. And that's the Wal-Mart way.

So I said as we were talking before we walked out, I know you're really here because you've got questions. You didn't come to see a long presentation. So Carol, I'd like to at this time open it up for questions and go right to see what's on everyone's mind.

Carol Schumacher {BIO 2078735 <GO>}

Okay. Before we get the Q&A underway, I do have one thing that I think -- we would like to recognize Leslie Dach. Most of you who have been attending our meetings for a while have certainly seen and heard from Leslie a lot.

And over the last seven years that he has been participating in our analyst meetings, especially over dinner at the October meetings, I think you have come to also appreciate the work that Leslie has done and contributed to our company. And this is Leslie's last meeting with us. So I'd like to recognize and also thank Leslie for all his work.

And with that, a couple reminders for the Q&A. Quick introductions, on the right side facing you, Susan Chambers, people; Neil Ashe, dot-com, or e-commerce, global e-commerce -- sorry, Neil; Ros Brewer, Sam's; Bill Simon, Wal-Mart US; Mike and Charles you already know; Leslie -- and Leslie's going to take all the questions, because it's his last meeting; Rollin Ford, who heads up our haul leverage area; Jeff Gearhart, legal and compliance and investigations and --

Jeff Gearhart {BIO 16355444 <GO>}

Ethics.

Carol Schumacher {BIO 2078735 <GO>}

-- ethics, yes; and last but not least, Doug McMillon, international. So you're free to direct your questions to any of our executives.

Because we are on the webcast, I would ask you to wait for a mic so that everyone here and on the webcast can hear the questions. If you'd also please state your name and your firm, we would appreciate that, as well. So with that, hands? Robbie, I think you had yours up first before.

Questions And Answers

Q - Unidentified Participant

Thanks. I guess this is a Wal-Mart US Bill Simon question. But anybody that would want to chime in would be great. The question is just, can you maybe tell us how you think about driving sustainable customer traffic?

So we're in a world in the US, customer traffic's clearly hard to come by for most retailers. There's one out there, Costco, that seems to be doing a great job at it. But could you maybe enlighten us and tell us, is -- has the world changed, where it's -- you know, you maybe can't get back to a sustainable, positive customer traffic trend? Or if you can what -- what is it going to take for Wal-Mart US to get there?

A - Bill Simon {BIO 1907361 <GO>}

Yes, I think we can. You know, I think we had, until this last past quarter, I think it was six quarters in a row of positive traffic. This last quarter that we just finished was a bit of an anomaly. There was a lot of strange things going on, the income tax refunds, the weather issues, the 2% withholding thing.

Our strategy longer term -- in traffic driving strategy -- is the productivity loop, the ability to lower prices, primarily focused on food and consumables, that are the traffic velocity, traffic-driving areas. And then leverage the traffic from those areas into the rest of the -- into the rest of the building. And that allows us to kind of continue to -- to fuel the productivity improvements that we're making and, by the way, continue to make all across the business so that we can invest back into price.

And as we stay in that sort of virtuous loop, we see traffic continue. And I think we'll -- you know, we'll continue to work on it. And don't expect another quarter like the First Quarter.

Q - Unidentified Participant

But do you think there are new external factors that have changed that generally will make it more difficult to drive traffic?

A - Bill Simon {BIO 1907361 <GO>}

I think it'll make it different. Is it difficult? I think if you take the number of doors that exist today compared to 10 years ago, retail doors, there's more. So the -- the number of doors are growing faster than the number of shoppers or shopping trips. And so it's a difficult, continuous, sort of virtuous difficult cycle of improvement. You invest, you improve, you grow traffic. And you have a quarter like we did the last time or you don't. And you figure it out again. And you move forward.

I think you'll see the strong get stronger. And I'd like to put us into that category. And I think you'll see some of the people who aren't weak suffer mightily from -- from traffic issues.

Q - Unidentified Participant

Thank you.

A - Carol Schumacher {BIO 2078735 <GO>}

Okay, next question, we'll go to Michael.

Q - Unidentified Participant

Following up on Robbie's question, you mentioned more doors. But there's another thing going on, which is many of your competitors have followed your lead into consumables and food. And in point of fact, would it make sense for you to start focusing a little less on consumables and a little bit more on the rest of the store, as a point of differentiation? Because I think that's one of the things that Costco may have done differently.

A - Bill Simon {BIO 1907361 <GO>}

Yes, please don't misinterpret the focus on food and consumables is a lack of focus on everything else. But the velocity of a pillow is one time every year or two years or a sheet. The velocity of bananas or milk is once a week or twice a week. You have to drive velocity through food and consumables.

And with the traffic that we get in our business and in our building, we're able to leverage that traffic on the other side. If you -- if you -- if you double your traffic on sheets and towels, you won't be able to -- you won't have any measurable impact at all on bananas because of the raw numbers. So focusing on food and consumables is focusing on the balance of the box. It's the same thing.

Q - Unidentified Participant

But if everybody's doing the same thing, how does anybody get an advantage?

A - Bill Simon {BIO 1907361 <GO>}

You have to do it better than others. You have to have a supply chain that can get it there faster, fresher, less expensive. And then be able to continue to invest and lower your price.

Q - Unidentified Participant

Thanks.

A - Carol Schumacher {BIO 2078735 <GO>}

Okay, we'll go to Greg. Miguel, if you could reach Greg, please.

Q - Unidentified Participant

Hi, thanks. Maybe just broaden that a little bit more. Charles, you mentioned that growth, leverage, returns still a focus. I'm sure, Mike, you'd agree with that. But I wonder if it -- if it comes down to a point, like we've seen the last few quarters where you have to make choices -- like, would I give up a little bit less EBIT margin rate or give up a little bit of ROI because there's more growth overseas. But the reality is maybe in overseas markets, margins are just going to be lower.

How do you think about balancing those three when they come into conflict? Would you rather let returns slip or growth slip or leverage slip?

A - Unidentified Speaker

Well I think you have to look and take market by market when you look at our business, because each market is totally different. We've got some great opportunities in every one of our markets. You look at a Canada, has probably dug some[ph] of the highest returns in the world for us.

So with what you just said, that means if I do a store that has a very good return in the US, I've somehow impaired Canada. And I haven't, or I've made a choice for a lower return. I guess you could say that. But these are all value added to the shareholder. We don't -- we don't make a capital decision on new stores unless we think we can get well above our WAC[ph], which would provide value to the shareholders.

So I don't -- you know, we don't look at it as I'm giving up my ROI. We look at it as, we want to add value to the shareholder. And that adding value is going to add cash flow.

Q - Unidentified Participant

And maybe, Doug, could you elaborate on between -- when you're allocating capital between countries, how do you think about that?

A - Doug McMillon {BIO 3063017 <GO>}

Sure, yes, again, it's hard to talk about the whole division. I'll try to get to the answer by talking about some of the markets. You know, we have made decisions by market on what we think is best relative to capital investment and the number of stores. So if you take the recent decisions that we made fairly recent in China and Brazil to slow down, each one of those decisions were independent in nature based on what we were seeing at the moment.

So for example, in China, as I've mentioned before, we were being too accommodating on some of our store layouts. And as you know, the super-centers are in malls. And we really needed them on one floor. We needed good customer access from a parking point of view and a great layout. And when we gave on too many of our principles, we found that our performance was not as strong.

So then you go to Brazil. We had some format issues. We stopped. I guess it's been more than a year ago, proving any maxis[ph] in the cash-and-carry unit, because that format's not approving -- not performing. So when you add up those individual decisions, you end up with the total division having a lower new store growth number.

When I think about growth, the first thing I think about is comp store sales. And we're trying to grow comp store sales everywhere. And the tradeoffs that we make aren't as cross-country as you might think, maybe not as orchestrated as you might think, in the short term. Over time, because of the capital decisions, it is coordinated. But in the short term, for example, we decided to invest in price in Japan to try and get the level of growth up a bit. So we took a shorter margin to make sure that we were building customer loyalty in that market. And we didn't make a decision to raise margins somewhere else because of that.

We just make independent decisions, because each one of these markets has to grow share over time and deliver return over time. And if we make too many tradeoff decisions, we'll harm one of our investments in a market.

Q - Unidentified Participant

Okay, that's helpful. Thanks.

A - Mike Duke {BIO 3510931 <GO>}

I do think -- I might add something to that, Carol, before we go to the next question, to Greg's question, because this morning, Charles' presentation on consistency. So looking at the Wal-Mart as part of the Dow over the last five years. But over the last 10 or 20. And that word consistency, I would love to say that it's all because of the senior leadership team.

But I will say there's some other big factor that helps to contribute to that consistency. And it's the fact that Wal-Mart is a portfolio of businesses, both the mature markets and the developing markets. It's a portfolio of geographies. The business formats, like a Sam's Club, along with Wal-Mart US. And I -- and I think that's what gives us a great long-term strength.

And we manage the business long term. We don't really try to focus on something very short term. And by having a portfolio, it allows us to be really a managed business long term. But at the same time provide that annual consistency that Charles displayed on the slide this morning. So this range of portfolio is a real strength that Wal-Mart has that no other retailer in the world has.

A - Carol Schumacher {BIO 2078735 <GO>}

Okay, Miguel, we'll take Peter in the back.

Q - Peter Benedict {BIO 3350921 <GO>}

Thanks. Peter Benedict of Robert Baird. For Mike, Mike, last year at this meeting, you alluded to some plans to bring down the new store capital costs. I think you may have said 10%. But can you just give us an update, what's your latest thinking there and more opportunities for efficiency?

A - Mike Duke {BIO 3510931 <GO>}

I'll ask Bill and Doug to both give a little more by market, because particularly -- and, frankly, Sam's is, too -- but particularly I think the US Wal-Mart and the international, where we've had the greatest square footage growth, I'll tell you, since we had this meeting last year, I've really seen exciting progress.

We talked about CapEx productivity. And in this very meeting, we talked about the productivity loops. I appreciate you teeing it up, because we said there is a productivity loop, also, for capital when we build new stores that we can build a store that can produce the same sales. But at lower capital. And we wanted more productivity out of every capital dollar that we invest.

And I guess to sit in those real estate meetings. We do -- once a month, we do all the US business, where we'll sometimes take a half a day, sometimes a whole day on our US projects. The following day, we do the international projects. Charles and I and others will sit and go through each project and go through and look at -- I have been extremely encouraged by the discipline, the challenge of the way to find efficient ways to take -- take cost out from fixturing, to the engineering of the building, to even how we site projects.

And I see it in the US. And I see it in the international markets, too. So -- Bill, you might -- you might even have some more specifics you might want to share, or Doug.

A - Bill Simon {BIO 1907361 <GO>}

Sure. In the US, I think we're in our third consecutive year of flat CapEx growth. So the -- flat CapEx dollars, actually. And we're building more stores -- real estate -- from real estate CapEx with flat dollars. We're able to do that by focusing on things the customer wants.

And interestingly enough, Ros' team at Sam's has taught us a lot. If you look at Sam's Club and Costco, they appeal to a higher income demographic than Wal-Mart does, yet we were spending more on fixtures than they are. You know, their warehouse rack. And we're not. We're spending more on sign packages than they were. Our sign packages was very expensive, for example. We were able to lower that by about $150,000 a store.

Simple things like putting colored pigment in the concrete floor instead of having it be natural concrete saves you a lot of money. So there's a lot of work that's going on in engineering, the building, the things the customer doesn't value in putting the money into things the customer does, like price and more stores, more doors.

The shift in strategy from higher -- higher cost geographies into lower cost geographies, equally as good sites in markets where we have mid; to high share, allows us to spend less on the site itself. So we can -- we can build for a lot less in Alabama than we can in Maryland, for example. And in New Jersey.

So if you look and you cite the stores effectively and you build the building so that you get everything that the customer wants and remove the things that don't add value to the customer, you can continue to do that. And I think that there's a fairly long runway for us there.

A - Unidentified Speaker

And an international benchmarking across the markets has helped taking apart what a building costs for a specific format and looking at it across markets helps you understand why steel might be different in one market than it is another, refrigeration might be different in one market than it is another.

And we're coordinating buying efforts for equipment more frequently, fixtures, including refrigeration, creating a standard number of specs, working with the sourcing team that Rollin leads to migrate the markets towards a cafeteria choice, rather than just buying whatever they want to buy in their local market. And that's helping us reduce cost.

Q - Peter Benedict {BIO 3350921 <GO>}

Thank you.

A - Carol Schumacher {BIO 2078735 <GO>}

And I think, Budd, you had your hand up next. We'll go to Budd.

Q - Budd Bugatch {BIO 1504748 <GO>}

Yes, let me -- Budd Bugatch with Raymond James. There are a couple of issues, obviously, that are out there that are not retail related. But industrial-related and obviously with Wal-Mart-related, once Obamacare -- or the new health care coming down the road and like to get an update of what the strategies are maybe what the impact is financially and how you're -- how we should continue to model that.

And the other one is, obviously, FCPA, if there's any -- any way to give us an update on the process and when that might be coming to an end, the whole review that you've been going through, which has obviously been very, very extensive.

A - Mike Duke {BIO 3510931 <GO>}

Susan, you want to take over?

A - Susan Chambers {BIO 5718119 <GO>}

Sure. Relative to the health care Affordable Care Act, we're in good shape financially. There is some moderate increase that will incur. But our plans already exceed from a testing perspective the affordability and quality requirements. So we're already well positioned to begin with.

We have a few additional changes to make in January. I think we got to the 90-day eligibility for full-time hourly. But other than that, we are already positioned and have our plans up to date. So we're in a good position.

Q - Budd Bugatch {BIO 1504748 <GO>}

Any quantification of what that might -- additional cost might be?

A - Susan Chambers {BIO 5718119 <GO>}

No. But it's -- it's given --

A - Charles Holley {BIO 3319796 <GO>}

It's not significant.

A - Susan Chambers {BIO 5718119 <GO>}

It's not significant. It has been --

A - Charles Holley {BIO 3319796 <GO>}

Wouldn't call it significant.

A - Susan Chambers {BIO 5718119 <GO>}

Thank you, Charles.

A - Unidentified Speaker

So on FCPA, as you know, there is an independent investigation that's occurring under the auspices of our audit committee. Investigations are ongoing in Brazil, China, India. And, of course, Mexico. Those investigations will go on as long as necessary and will go where the facts lead us. People up here don't really have any control over that, because I've said it's independent.

I think you should assume that the -- we spent in the last quarter $73 million. About $30 million of that was on compliance efforts. The remainder was on the investigative activities. You should assume that kind of run rate will continue through the balance of this year.

And we have as a company put significant resources towards compliance, including anti-corruption. I think as Mike said, that starts with people and talent. We've added a number of positions around the world. Chief -- a new global chief compliance officer and international compliance officer, as well as chief compliance officers in every market, anti-corruption directors in every market. We've invested significantly in systems so that we can have a uniform approach to compliance issues around the world.

And we still -- it is true, we still have a meaningful number of outside experts. To date, we've had over 300 third-party legal and accounting experts who've dedicated in excess of 100,000 hours to these projects. Our goal over time is to -- obviously, as we build up our compliance infrastructure, to ramp those activities down and not have to rely on the external experts so much. And therefore hopefully you would see the costs come down. But I think we'll see these continued costs throughout at least at a minimum this year.

Q - Budd Bugatch {BIO 1504748 <GO>}

And what about the extended timeframe? Is there -- beyond this year, do we have any feel as to when this might --

A - Unidentified Speaker

Hard to know. You know, there's -- as I said, we don't have a lot of control over that. And our view is we'll continue to fully cooperate with the government. And it'll take as long as it'll take.

You should also know that we've broadened -- if you look at anti-corruption and FCPA, that's one dimension. And that leads you towards looking at permitting processes and the systems that support permitting and those kinds of things. But we've taken the opportunity to really broaden and improve our global compliance effort across 14 different dimensions, including fire safety, food safety. And other types of compliance beyond just anti-corruption.

So that means subject matter expertise for those compliance areas. It means human resources, program design investments, systems investments across all of the markets that we operate in international. So there's a lot of effort, a lot of management time and attention that's being focused on this right now. And it's making us stronger.

Those costs that I referred to are for the -- run the gamut of not just anti-corruption compliance. But these other compliance efforts, as well.

Q - Budd Bugatch {BIO 1504748 <GO>}

No. I agree with that. And I think last -- at this meeting last year, I suggested to Mike that this was a great opportunity to kind of set a benchmark that's really a high watermark. And I hope your doing that. And I think you're doing that with 14.

We don't know what -- what all those 14 are. And I think I've asked that question and I haven't gotten an answer. But we'd love to know some -- at some point in time a really good case study of how this works worldwide.

A - Unidentified Speaker

Yes. And I think the word we use and the word you'll hear Doug and Mike use is world-class compliance. That's our goal. And that's what we intend to achieve by this process.

We're not missing the opportunity. And it's a multi-year project.

Q - Budd Bugatch {BIO 1504748 <GO>}

Thank you.

A - Unidentified Speaker

You know, I might add to that, too, because I started off this discussion today talking about doing business the right way, which included the area of compliance and integrity. In the long run, I say we run the business for the long term. And in the long term, doing business the right way leads to a better business.

So by having very disciplined real estate strategies and the way that we build new stores and work with landlords and develop property, by doing that all exactly the right way and fully compliant, transparent way, in the long term, you end up with better real estate. By buying from factories that operate very safe factories, in the long term, you have better quality merchandise.

You know, I think when we work with partners and do business in every aspect in a fully compliant, right way, it helps us run a better business in the long term. So in some cases, we may choose to invest in something now. But it's because we may not be able to see exactly the ROI, like we would a new store. But we know by doing this, in the long term, we end up with a much better business that will be better for the shareholders.

A - Carol Schumacher {BIO 2078735 <GO>}

We'll go to John Lawrence in the back, please.

Q - John Lawrence {BIO 1496495 <GO>}

John Lawrence, Stephens. Would you talk a little bit about e-commerce and give us a little update on the investment? How much of this is short term versus long term returns, where we are on that investment? And obviously, you're making progress. But what's the step function as far as getting a higher return on those investments?

A - Unidentified Speaker

Sure, I'll take that. As Mike said, our growth has begun to accelerate. And we've added in Nihaodiyen[ph] in China. So -- so we took our estimate for this year up from $9 billion to $10 billion.

The dollars that we're investing are really in three areas right now. The first is for the development of a global technology platform. So that powers our sites around the world so that we get leverage of two kinds, innovation leverage most importantly. So that the benefits we develop for a market in the US are realized by our customers in Brazil and other markets as an example, as well as financial leverage.

Obviously, we have the opportunity to run this thing once and serve customers around the world. So we're in the -- we're in the -- I'd say the middle stages of that --

of that development effort. And we'll start to realize benefit from that in the next couple years to come.

Excuse me. The second area of development is around fulfillment networks in these local markets. So we're developing next-generation fulfillment networks that combine e-commerce-dedicated aegis[ph] facilities. So -- where you pick a single item, put it in a package. And ship it to customers, as well as integration with our existing world-class logistics systems from warehouses to our transportation fleet. And finally using our stores as the -- as the last node in that delivery network. So a very uniquely Wal-Mart solution to this problem.

We will be investing for years to come in those -- in that fulfillment network, in each of the important markets that we -- that we serve. But as we invest incrementally, we realize benefit from that. So our cost to serve on each one of those packages comes down. We're excited that over time we think that this uniquely Wal-Mart solution to e-commerce distribution can be significantly more efficient than what you see out there today.

Then, finally, the third area of investment is developing the markets in which we want to compete, which includes driving marketing dollars and local assortment into each of these -- each of these markets that we've described.

Now, you asked a question about retail traffic and stores. It's the same -- traffic is the -- it's the same game online. And I'm proud to tell you that we've accelerated our growth in traffic around the world. So walmart.com is growing in the US and Brazil. comScore, which is the external benchmark, rated us number eight in site traffic a little later than this time last year. And we were number two this month, number one last month. So -- in about five months, we went to number one. That's a precursor for where we're going with those.

So taken together, those allow us to serve more customers on a common technology platform with lower -- with lower cost to serve from our distribution capabilities. So I wouldn't expect us to stop this investment over the next year or two. We're -- as Mike said, we're at the beginning stages of this. So $10 billion is not our final aspiration. We are -- we're doing this for the long term.

You know, we've said -- I've said in other venues that, if you look at our company, we've built capabilities to succeed at every stage of retail. And then we've done things for customers that no one else can do. We're doing the same thing for e-commerce. And then e-commerce can be the next growth engine for the company.

A - Carol Schumacher {BIO 2078735 <GO>}

Okay, we'll come down. We'll go to Joe next and then Scott in the front.

Q - Joe Feldman {BIO 4772233 <GO>}

Thanks. Joe Feldman, Telsey Advisory Group. So wanted to ask if things more broadly in the economy seem like they're getting better -- you know, labor numbers today were decent -- and yet the lower-end consumer remains under so much pressure -- and I guess I'm just trying to understand how you guys deal with this conundrum and how you're going to capture them.

I mean, it's not just you, right? It's the dollar stores, your bit competitor up north. I mean, everybody's having this pressure. So is there anything -- you would think in this environment, if they're -- that part of the market's so under pressure, they'd be shopping at Wal-Mart with more regularity than they were during the recession. I'm just trying to understand where you see the consumer right now.

A - Unidentified Speaker

I think the US consumer is very resilient. We see -- you know, we see the numbers. And the numbers would suggest that at least a segment of the economy's getting better. I would tell you the middle and down and the areas that are our core customers are -- are finding a way to deal with the difficulties. They report that it's not getting any better. But it's not really getting any worse, either. And so they've become adapted -- they've become able to adapt to the -- you know, to the current situation.

Interestingly, we see things like -- you know, Christmas and Thanksgiving and Valentine's Day and Mother's Day, they spend like they would. They take care of their families. And they enjoy themselves. In the interim, they figure out how to make ends meet, buying more pork and chicken than they do beef because of the price, trade from a brand to a private label.

And I just think it's -- it's starting to settle in, at least in the -- in the thinking that this is the way that it's going to be. And I think you see the customer start to respond to that.

Just one comment on that from a Sam's perspective. We're seeing it play out with our small-business member and the way they're treating their spending habits. And Bill's right. They learned a lot in 2008 during that downturn. And they're much smarter. They're managing well, though, from a small-business perspective. They're not investing and adding on additional loans to their business. But they're pretty smart and really shopping from a list.

But we do see there -- there is some stress when we get feedback from our small-business members and they're -- they're still pretty cautious right now. But they're -- they're shopping very smart right now.

But it is encouraging, to be honest with you, that they can figure out how to operate in an environment like this.

Yes.

A - Carol Schumacher {BIO 2078735 <GO>}

Scott?

Q - Unidentified Participant

Yes. Thanks. Scott Mushman[ph] from Wealth Research[ph]. Kind of an extension of the last question. You know, obviously, the First Quarter was tough throughout the businesses. So it's actually to all three of the operators. You know, as we look towards the end of the year, what materially changes to make you a little bit more optimistic? I mean, if I looked at Sam's business, I would think your small; and medium-sized businesses are probably petrified by the Affordable Care Act. They don't know what their expenses look like. How are they going to go out and, you know -- you know, up their spending into that?

I look internationally. Most of the economies you're dealing with are actually slowing down for the most part. Then I look domestically. And we're not really seeing any improvement in the mid; to low end. I mean, you look at the jobs report. I mean, everyone's cheering. But you need 200,000 jobs just to keep steady with the people entering the job market.

So I'm just trying to understand where the optimism comes across the businesses as we get to the back half of the year into '14.

A - Unidentified Speaker

You know. So I'll start off with that question. So for Sam's we have sort of a bifurcation with our membership. So we do have that higher household income and then we have that business member that's stressed.

So for us, the equation is, we're -- we're investing in price right now to make sure that we're meeting our members where they need to purchase. The second part of that, though, is that we're adding to our merchandise portfolio. And so we're adding exciting merchandise just coming into the clubs in May. And that's adding to some of the growth on our -- on our higher-end member.

The other piece is we just entered this new membership fee. While that is a membership fee increase, we also introduced the new instant savings book at the same time. And we're getting good feedback from that. And so we feel like we're responding to where our members are and -- and in delivering great price, value and good merchandise. And our merchandise shift is what -- is -- we're accounting for in the second half of the year.

And our business in the US stores, three -- three factors drove virtually all the miss to our projection in the First Quarter. A substantial portion of it came in the first two weeks of the quarter. And that was in the income tax refund checks. We don't -- clearly don't project that to continue.

The next big chunk came in really, really unusual weather anomalies, flips in weather year on year, whether -- we certainly don't project and hope -- maybe hope -- maybe don't project it to be 20 degrees colder this summer than it was last summer. Keep your fingers crossed.

And -- and the third was a variance in inflation to our projection by about 60 basis points, which was responsible for about 60 basis points of our -- of our comp miss. And that would probably be the one that will continue, although we expect that to abate a little bit in the back half.

And so if you take those three factors, two of them which we don't expect to occur, one of them which we expect to improve. And you put it up against more favorable comparisons for us in the back half of the year leads us to a pretty optimistic back half.

From an international point of view, I agree with you. I don't see the economies in the back half of the year getting substantially better. And there have been some things that surprised us. And we got surprised in China in the first part of the First Quarter. We were expecting a much stronger Chinese New Year. And the latter two weeks of the event really fell off. And we saw a lot of softness in the market that we weren't planning on and weren't able to get expenses out fast enough to be able to react to it.

Lately, Mexico has been surprisingly soft. I think if you look at our numbers (inaudible) it tells you that that's actually happening and didn't have that in the plan as we started the year.

Let's see. In terms of surprises, South Africa has been a little softer lately than we expected it to be when we built our plan. The other markets are tough. But we knew they'd be tough. I mean, it was nothing going to drive growth in the U.K.. And our plan reflects that.

Of the good news is, across the markets, we're taking share. We're taking share in the overall -- in most of our markets. We're taking food and consumable share in China. We're taking food and consumable share in Brazil. And I think from a relative point of view, we can outperform.

And what we've got to deliver on is getting more expense out of our business so that we can deliver the bottom line and drive the return improvement that we expected when we began the year. It's hard to do that in some of our international markets. We don't have all of the disciplines in place, in terms of process and systems that more developed markets have.

We have some wage inflation that's putting pressure on us. And we're seeing about 10% wage inflation in China, 9% in Brazil. And even Mexico has got about 5% wage inflation. In most of the markets, the wage inflation is outpacing product inflation. And in some cases, they're union contracts and we're not able to adjust what the hourly wage rates are. So we've got to get more hours out of our business to be able to deliver leverage.

So we didn't anticipate Mexico to be as sot. And you probably know, if you look at the division, Mexico, the U.K. and Canada are driving most of our profitability. And with the bad weather we had in Canada, the market situation in the U.K.. And now this softening in Mexico, it puts the pressure on the division.

So we just need to -- to get all the things in place to be able to get our costs down. And it's a little difficult to do in international with as much speed as we'd like. But we're making progress on that.

So the First Quarter last year was our strongest quarter. I think on a reported basis, our profitability grew by around 20%. The comparisons get easier in the back half. And if we can get those expenses out. And that's what we're focused on doing, I think our quarter's performance will go through the year. But it won't be because the economies are getting better.

Q - Unidentified Participant

If I could follow up with Bill just quickly -- and thank you for those answers, they were great -- inflation, competition, we're hearing a lot more news from people that compete against you. Hi. we have to invest back in price. I think it was said up here, Sam's is going to invest back in price. You mentioned you think inflation will actually -- the deflation, really, what we're seeing will ebb. What gives you that confidence?

Then on the US consumer, are you seeing any better -- you know, paycheck cycle that's making you feel a little bit better about what's going on in the low end? Then I'll yield. Thank you.

A - Bill Simon {BIO 1907361 <GO>}

Just for clarity, I think we all use inflation a little bit differently. You know, commodity inflation is what -- I think what we're talking about. Then the inflation that -- what I was trying to describe in the First Quarter was the inflation compared to what we projected in the plan, not -- not inflation rising or lowering.

I don't think we'll miss our inflation projection as badly in the second half as we did in the first half, not that it'll change substantially in either direction, there doesn't appear to be anything from a commodity pressure change that would -- that would impact inflation. We see some growth in beef and produce pricing. But that's offset in our -- in our business by dry grocery. That's flat to slightly deflating in certain areas.

And so two of those things from a commodity perspective may or may not -- we don't expect those to change. But what we expect to get better is our projection against those to the plan in the back half.

And the second part, I forgot, again?

Q - Unidentified Participant

(technical difficulty)

A - Bill Simon {BIO 1907361 <GO>}

About --

Q - Unidentified Participant

(technical difficulty)

A - Bill Simon {BIO 1907361 <GO>}

Oh, others investing in price. I think that's the business. I think that's what we do. We try to find leveragable points of difference. And as everybody invests in price, I think the customer wins. And in that scenario with 140 million customers a week, we'll win. And that's a place where we feel pretty comfortable.

A - Carol Schumacher {BIO 2078735 <GO>}

Michael, we'll go to Tim and then we'll go to Jason. Tim, in the back. And then Jason down here.

Q - Tim Goodman {BIO 16545974 <GO>}

Thank you. Tim Goodman from Hermes in London. Excuse me. I just wanted to ask -- to follow up on the FCPA work that you're doing, whether the board has studied the Woolf report, which was commissioned by BAE Systems, which faced existential problems with bribery and corruption a few years ago and commissioned a report and made a very public commitment to implement all its recommendations before the report was written. And it really stands as a template for ethical best practice globally.

Clearly, some of the recommendations relate to defense companies rather than international retailers. But have you studied it? And are you implementing what you can?

A - Unidentified Speaker

I will tell you that that report has been studied by our anti-corruption compliance team very closely. And as we implement a number of our -- our enhanced processes around the world, we're taking the provisions of that report into account. So it is in the hands of our professionals and experts who are working on our anti-corruption controls, processes and procedures.

Q - Tim Goodman {BIO 16545974 <GO>}

Thank you.

A - Unidentified Speaker

Yes?

A - Carol Schumacher {BIO 2078735 <GO>}

And Jason? Michael, Jason in the middle here.

Q - Jason DeRise {BIO 15745016 <GO>}

Hi, it's Jason DeRise at UBS. So I wanted to ask questions about e-commerce. But it really relates to multiple parts of the business. So first, I guess, the $10 billion versus $9 billion. Where did the surprise come from that led you to opt that? Obviously, it's maybe rounding, that it's only $9 billion to $10 billion. But which divisions maybe are surprising positively?

A - Unidentified Speaker

So as we said, it's accelerating growth pretty much across the board. So we're taking share in every market in which we compete. So Brazil is very strong. China is strong. The US is strong, as well as the addition of Nihaodiyen, which wasn't in our -- wasn't in our original expectations. So it grew over 30% in the First Quarter. And the vast majority of that was accelerating -- accelerating growth.

Q - Jason DeRise {BIO 15745016 <GO>}

Then when you think bigger picture, which of the divisions do you think will benefit the most in terms of sales uplift? I mean, obviously, the US is very large. So I don't mean in absolute dollars. I guess I mean in % of the business, where could you see the biggest uplift?

A - Unidentified Speaker

You know, I'd tell you genuinely we're pretty excited about all three. So the work we're doing at walmart.com is pretty substantial and very exciting. So every time we -- we give the customer good -- an additional good product, we -- we sell more of it. So traffic is very strong. We've doubled assortment in the first half of the year. And it looks like we'll be doing more in the second half of the year, which is driving a fair amount of growth.

On the international side, China is obviously very strong. Latin America is very strong. It's a great e-commerce market and a very good market for us. So we're really excited. We're growing over twice the rate of the market there.

Then Ros and I are both extremely excited about the prospects for Sam's Club going forward. We can deliver an integrated member experience with e-commerce as a core element of that and truly differentiate Sam's Club from -- from its normal competitor, obviously, Costco. But also as we jointly compete against traditional e-commerce competitors.

So I don't want to sound all rosy. But we're really very excited about -- about all three of the areas, because we believe that the tide is rising, we believe that we have the capabilities, as Mike indicated, the talent necessary to really make a difference. And you're starting to see it in the results.

Q - Jason DeRise {BIO 15745016 <GO>}

And in terms of --

A - Mike Duke {BIO 3510931 <GO>}

I was just going to say, I think in the future, you can think about e-commerce as just -- if you're in retailing, it's the air we breathe, because I like to think about all commerce will be e-commerce. So customers shopping in a store, buying produce, buying apparel, or buying online, or in a Sam's Club, or anywhere in the world, e-commerce will just be like the air we breathe.

Q - Jason DeRise {BIO 15745016 <GO>}

Okay. Then the last part of this is payback period, again, if -- do you think that it will be different than your online competitors, where the payback period may be a decade away? I mean, no one really knows what the main online competitor thinks will be the long-term profitability there. Is that something that's just the cost of being relevant and -- or is there something you could share that maybe in five years we'll see profit from it?

A - Unidentified Speaker

Yes, I'd say -- I'd say the fundamentals of the business are going to be as follows. We're going to grow faster, obviously, than the rest of the business. And probably materially faster than the rest of the business. We'll probably settle at a slightly lower operating margin than the rest of the business. And we will deliver a higher return on investment.

So even as you look at the projects, Mike walked you through how we approve real estate, is we think about the fulfillment networks we're building, they're all high ROI investments for us. So that -- that will yield -- yield real results. And so think of that business model as faster growing top line, slightly lower operating margin. And higher return on the capital that we're deploying there.

As opposed -- as far as when I'll let the boss answer that question if he doesn't like what I say. But I think as long as we keep growing, we're going to keep investing. So it's a great, big market. It needs to be taken by somebody. And we're in a position to take it. And so as long as we can prove that the business keeps getting better, we'll continue to invest in it.

A - Mike Duke {BIO 3510931 <GO>}

Being an engineer, I don't like to take completely different geographies and models and blend them all together and come up with one answer. So a market like China, where there's just an amazing opportunity in terms of the scale and growth, Latin America, we were talking about yesterday, as -- or compared to the U.K. market. So markets will be different in e-commerce, like they are in retail.

So I think of e-commerce as a portfolio of e-commerce businesses also. So there will even be different timeframes. So I would even be hesitant to try to average a timeframe and tell you some single timeframe, because I think it'll vary based on the opportunity of the market.

Q - Jason DeRise {BIO 15745016 <GO>}

Can I just follow up? Sorry, I'm extending this out for everybody. Sorry. But is it fair that maybe the US, that is where it's really extended out, because of who your main competitor is and what margins they're willing to operate at? Or is that not the right way to think about it?

A - Mike Duke {BIO 3510931 <GO>}

I'm not sure that is, because we think about it as, how was it -- how do -- because our business is already a very established business. And it becomes a complementary opportunity to the business we already do in the United States. So I really like to think of the advantage we already have with the 4,000 stores of 600 clubs and all the points of distribution that we already have in our infrastructure that allows us, then, to have a different model than the particular competitor you might be referring to.

A - Unidentified Speaker

Mike, may I add one thing to that? Which is you heard us say two things. One customer, one Wal-Mart. So we're serving a customer who wants to shop at Wal-Mart, whether they want to shop with us online, on their mobile device, or in one of our stores. And we collectively can do things that others can't do.

And still, I'm the Internet guy. And I will -- I will acknowledge that 90% of commerce is not done online today. So pulling those two things together in a way that no one else can is our new vision for commerce, just like the integrated member experience at Sam's delivers for the Sam's members something that Sam's traditional competitor can't do.

So thinking holistically about how we grow the whole pie, as opposed to try and split between the two of them, is our focus, because at the end of the day, there's one customer. And we want to serve her better than anyone else in the world.

Q - Jason DeRise {BIO 15745016 <GO>}

All right. Thank you, everybody.

A - Carol Schumacher {BIO 2078735 <GO>}

Robbie, we'll go down front.

Q - Unidentified Participant

This might be a question for Rollin, actually. I mean, a lot of confidence in the SG&A ratio coming down over the next five years. It sounds great. But can you maybe tell us what sort of the biggest rocks are that give you the confidence in that SG&A ratio coming down?

A - Mike Duke {BIO 3510931 <GO>}

I'd refer to Rollin and maybe even Bill and Doug might want to say some of the things that they see.

A - Rollin Ford {BIO 3510945 <GO>}

Yes, I would tell you, first of all, we don't do anything in my area without great partnership with the business segments. But we're really excited about some of the things that we're working, one particularly. And you would think that Wal-Mart the size that it is -- and as long as we've been around -- we worked on shared services before. But we really haven't. And so we've really got an initiative going in our shared services. And that includes both financial. It can include shared services relative to H.R. Just a lot of different opportunities.

What we're learning around the world is we're more similar than what we realize. And that back office capability is -- is a real opportunity for us. And we're going to take full advantage of it.

A - Unidentified Speaker

Just think about engineering. You know, in some of our markets, we have not had good process discipline. And what Rollin and I together in the international area have been working on is -- is having thought leadership be global. But have the capabilities in markets from an engineering point of view to really deliver on process.

And it's process first, followed by system. It creates maturity. And in some of our markets, in some cases because integration work hasn't been completed, we've got to do some of those things first so that we can get to a more advanced level of operation.

We've been calling it a maturity model. And we're trying to move everybody up the maturity model. And that'll take a while. It'll show up in associate wages. It'll show up in inventory. It'll show up in lots of places as we do it. It's pretty holistic, actually. It's just a process of moving them up that curve as fast and as well as we can.

Q - Unidentified Participant

And Doug, do you think -- over time, do you think store formats globally will start to converge? Or do you expect to maintain this variance you're seeing in the international (inaudible)

A - Doug McMillon {BIO 3063017 <GO>}

There may -- you know, it's interesting. I hadn't thought about it very much. But there could be some convergence. I mean, the Internet and e-commerce is going to change everything in a -- in a huge way across the whole world. And as we think about stores, people are still going to want access to pick up some things. We think of fresh food first. But that could go anywhere the customer wants it to go, with our logistics capabilities over time.

And this discount compact hyper format is the first one that comes to mind. You know, we've taken that Mexican format to Argentina successfully. Chile has something like that. That's one to keep an eye on as we think about the future, because it's got such a low cost of operation. It's (inaudible) others to talk about the importance of local relevance.

And the key is to integrate the back end. Well I still feel that's true. But when you think about how the customer's going to view Wal-Mart over time around the world, there probably will be some convergence towards the Wal-Mart brand, as well.

A - Unidentified Speaker

At the US, we've worked -- we're working on some -- continuing to work on some process engineering things, little things that make -- amount to big dollars. And we're starting to work on some big things. We've always had some big projects underway.

And one of the things that's fascinated me always is just how absolutely productive our supply chain is. So if you tour our DCs, you see some incredible, incredible management of inventory. And yet when that truck backs up to the dock of a store and opens the gate, the inventory in the story in the back room doesn't look at all like the inventory does in the distribution center.

And imagine if you could have the same order and discipline from an inventory management standpoint in the back room of the store, where you have more square -- warehouse square footage and more inventory dollars in the back room of our 4,000 stores as you do in our DCs, you can unlock an incredible amount of value from working on a project like that, which is a big, big number to crack.

Q - Unidentified Participant

Thank you.

A - Carol Schumacher {BIO 2078735 <GO>}

We'll go to Mike first.

Q - Unidentified Participant

Just going to follow up on the distribution point that Bill was making and for the broader team, as well. One thing we saw in the distribution center yesterday is that the dot-com fulfillment is now going through Carrolton primarily before it comes to the local DC. When do you see the opportunity to more fully integrate the inventory management at the DC level?

Because it would seem like if you're able to get to the stage where vendor product is sourced directly to each of your DCs that are in place now, sort of indifferent, that it would greatly enhance productivity and leverage.

A - Unidentified Speaker

I mean, I'll start. And then I'll kick it over to Neil. You know, I sort of envisioned this world one day from a supply chain where you have a small store that's connected to a compact discount hyper like Doug talked about that's connected to a large super-center that's connected to our traditional DC that's connected to a dot-com fulfillment center that's a center that has everything.

So the SKUs the customer wants more frequently and most often is closest to the customer. And everything is wired and connected by e-commerce from our small store to our medium store to our large story to our traditional DCs to the endless and limitless SKU assortment that's available through dot-com fulfillment.

And if you can connect all that powerfully from a supply chain perspective and from a customer perspective, through -- through e-commerce and the Internet huge opportunity for efficiency and the delivery of the customer, whatever they'd like.

And Neil they're starting to work on dedicated e-commerce facilities that will allow us to expand the assortment at a much, much faster rate and get to most of the US in two days.

And Bill describes the vision of that next-generation fulfillment network excellently. And just think about the ability for those aegis[ph] facilities to feed into our existing transportation network. So those packages get to -- get to either our store. But since we have stores near every customer in America, it means we have trucks going near every customer in America. And the highest cost part of distribution of e-commerce is in the shipping.

So it's this -- it's this multi-variant node network that Bill describes which delivers significant value directly to the home for e-commerce and directly to our stores, as well.

If I can add, sitting on a platform and an infrastructure that gives you capability and visibility across that whole network. Then once you get that, then you achieve that optimization of merchandise movement around the network.

Q - Unidentified Participant

I guess just to follow up, if you think about it in terms of innings in a baseball game, are we talking sort of third or fourth inning today? And also, is the right long-term solution to have dedicated dot-com DCs? Or is there a way to fully integrate those with the stores and so forth?

A - Unidentified Speaker

You know, I don't know how to describe it as a baseball game with an end. I think productivity improvement is endless. I think you can always be better.

So I would tell you we're both in the eighth -- seventh, eighth inning on certain projects and certain things. And we're not -- we're not even in the bottom of the first in others. But I don't look at it that way. I don't know about you guys. I think once -- you know, we've gotten the most -- one of the most efficient and effective supply chains in the business today. And so you could say, well, that's in the ninth. It's in the second in certain areas. There's always an opportunity to improve. So I have a hard time quantifying that.

Yes. This isn't a project. It's the company. So we are -- we are building this -- we are building this network. And you should think of it as an organic entity that gets better, as Bill described, every time we add another node to it. And as the customer asks us to serve her differently, we're going to continue to add nodes to that network. And we will always drive efficiency through all elements of that network.

A - Mike Duke {BIO 3510931 <GO>}

I've been around 30 years. And it's never -- never stopped. Every year, we can get a little bit better.

A - Unidentified Speaker

I had a professor in college who said the best method will never be found. You just keep finding better methods. And we'll keep finding better. But we'll never say that we've arrived and now have -- so whether it's e-commerce or supply chain, we will never get to the point where we say we've got the final solution.

A - Carol Schumacher {BIO 2078735 <GO>}

Okay, we'll take two more questions. We'll go Scott. And then we'll go back to John in the back.

Q - Unidentified Participant

I wanted to turn the attention towards the express format, if we could. It seems -- and kind of dovetailing off the distribution issues -- it seems like this is -- the Expresses I've visited, it's a unique format, really not one that exists in the US, with the gas stations, the pharmacy, plus the food and -- so it's very unique, probably the first unique format introduced in a long time. Comps seem like they've very, very strong.

A - Unidentified Speaker

They are.

Q - Unidentified Participant

Investment in the box must be pretty de minimis. It's a small box, would be my guess. And so how can you solve the logistics problem there? It seems like that's where the problem is. How do you do that and see maybe some explosive growth out of Express?

A - Unidentified Speaker

Yes, I mean, it's been great for us so far. We've reported double-digit comps in the stores that have comped. The rural stores are doing substantially better than the urban stores from a sales and a -- and -- and expense employed[ph] in the rural stores themselves are already profitable, probably two years ahead of projection in the -- so we're really pleased with them.

The supply chain is really interesting. And again, they're -- they are unique. And I appreciate you -- you bringing that up, because they're a hybrid of a -- of a convenience, a food, a drug. And a dollar store. And they can go close to the customer.

And in that -- that in and of itself is very powerful, as we're finding out. The sales that we're doing out of each one of those units are substantial. And we're pleased with them.

But imagine if we could connect them like we were just describing to you with everything that you want either an hour away, a day away, or two days away, depending on where you are in the sequence. And that on your mobile device, on your way to one of these stores in a rural market -- or maybe while you're not driving -- but before you go to one, you can -- you can -- you go in there to pick up your milk, your bread, your eggs. And your prescription. And you need a refill on a vacuum cleaner bag. And we're able to get that to that store by the time you get there. So you can have the economics of a small store that exist, the CapEx and the labor around a small store. But the sales of a much, much larger store, because we have a supply chain and an e-commerce infrastructure that wires and connects the whole thing to serve the customer.

And that's what we're trying to work on now. And we're going to talk a little bit more in detail probably at the October analyst meeting about some of the things that we're doing.

Express for us right now is in a density test. The initial pilot has been very well received by the customer. We're pleased with it. The next phase for us was density. And we went to a market in North Carolina. And we're building -- we'll end up with about 20 of them or so in the ground, many of them clustered in a dense area so that we can find out and understand how they interact with each other, how they interact with competitors in the market. And -- and then how many you might be able to build before -- and you project them nationally.

We're going to do some things about playing with tethered distribution. And there's some detail around that that we'll share with you in October. And once we've got all that, I think we'll be able to move pretty quickly on those small stores.

A - Carol Schumacher {BIO 2078735 <GO>}

And our last question, John?

Q - Unidentified Participant

Leslie, since it's your last meeting, would you give us a little bit update on what's happening in Washington and looking forward to the midterm elections, et cetera?

A - Leslie Dach {BIO 2080433 <GO>}

Well I think as we all know in many ways, not very much is happening in Washington. The town seems to be to -- continue to be consumed by issues that in a sense might have been unexpected and not the core economic issues that either business or the voter was focused on. Not to take anything necessarily away from the issues that are currently in the headlines or currently under discussion. But I don't think they were the issues that many of us would have thought kind of the agenda was complete with.

You know, we continue to be lucky as a business. That doesn't depend on government really one way or the other to clear the way for our ability to serve the customer or to innovate. And so in that sense, it's very nice to be a business that doesn't have to spend a lot of time in any arm of government in order to go do its job. So we'll pay attention in Washington. But continue to keep our focus back home.

A - Carol Schumacher {BIO 2078735 <GO>}

And Mike, Charles, thank you for your comments upfront. The rest of you, the entire team, thank you all for participating in the Q&A.

Bill mentioned a minute ago our October meeting. I would remind you that our date is out there. We will be back here in Bentonville in October for our 20th meeting for the investment community. The dates are dinner on Monday, October 15th. And remember, we normally do Tuesday-Wednesday meetings. It is a change this year that we are going Monday-Tuesday.

It'll give you a chance to travel in on Monday. We will have open houses in the afternoon with dinner Monday evening. Then the meeting will run on Tuesday. As always, we will finish up in the middle of the afternoon for those of you who have to catch flights out and be able to back home with your families for the evening.

So on behalf of Jeff and me, our entire investor relations team, thanks again for participating and for making the trip here to northwest Arkansas. And this concludes our webcast.