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

Company Participants

- Brett M. Biggs, Mart Stores, Inc.
- C. Douglas McMillon, Mart Stores, Inc.
- Daniel J. Bartlett, Mart Stores, Inc.
- David Cheesewright, Mart Stores, Inc.
- Gregory S. Foran, Mart Stores, Inc.
- John Furner, Mart Stores, Inc.
- Marc E. Lore, Mart Stores, Inc.
- Steve Schmitt, Unknown

Other Participants

- Beryl Bugatch, MD and Director of Furnishings Research, Raymond James & Associates, Inc., Research Division
- Caitlin Price, Research Analyst, Goldman Sachs Group Inc., Research Division
- Daniel Thomas Binder, MD and Senior Equity Research Analyst, Jefferies LLC, Research Division
- Edward James Yruma, MD and Senior Equity Research Analyst, KeyBanc Capital Markets Inc., Research Division
- Gregory Scott Melich, Senior MD, Head of Consumer Research Team and Senior Equity Research Analyst, Evercore ISI, Research Division
- Karen Fiona Short, Research Analyst, Barclays PLC, Research Division
- Michael Lasser, MD and Equity Research Analyst of Consumer Hardlines, UBS Investment Bank, Research Division
- Peter Sloan Benedict, Senior Research Analyst, Robert W. Baird & Co. Incorporated, Research Division
- Robert Frederick Ohmes, MD, BofA Merrill Lynch, Research Division
- Robert Scott Drbul, Senior MD, Guggenheim Securities, LLC, Research Division
- Scott Andrew Mushkin, MD. And Senior Retail and Staples Analyst, Wolfe Research, LLC
- Simeon Ari Gutman, Executive Director, Morgan Stanley, Research Division
- Stephen Robert Caputo, Associate, Susquehanna Financial Group, LLLP, Research Division
- Unidentified Participant, Analyst, Unknown

Presentation

Steve Schmitt {BIO 17077384 <GO>}

Okay, we're going to get started here in just a second. Right. Good afternoon, everyone. My name is Steve Schmitt, I lead the Investor Relations team here at Walmart. And on behalf of the company, I want to welcome everyone here live in the room and certainly welcome everyone live listening into the webcast to our Q&A session following our shareholders' meeting. I hope you definitely thought like I did, it was informative and entertaining, it's definitely a one of a kind shareholders' meeting, for sure. So for this session today, Doug and Brett are going to have a couple of brief opening remarks and then we use the rest of the time to go shoot straight into Q&A. We'll have Q&A until 1:15. Just from a housekeeping standpoint, today's comments may include forward-looking statements. Forward-looking statements are subject to certain risks, uncertainties and other factors identified in the safe harbor statement on our website at stock.walmart.com as well as in our quarterly and annual SEC filings. So we'll have a few opening comments, the rest of the time for Q&A and we'll do our best to get to everyone. Doug, over to you.

C. Douglas McMillon {BIO 17082935 <GO>}

Hi, everybody. Thanks for coming. We appreciate you investing the time to be here and your interest in the company. I'll be brief. But I do want to start with some introductions and then say a few things. I think you know everyone up here. John's new in role, relative to the meeting we would have in October here a year ago. So if you want to pick on a rookie, direct all the hard questions to Sam's Club, John can field those. He's been with the company since 1993, he's worked in Walmart U.S., he's worked in Sam's, he's worked in international and he's ready for this job and will do a great job. Then we've got a few people that aren't up here that I want to introduce: Jacqui Canney is responsible for our People area; and Dan Bartlett's responsible for Communications, Sustainability and our giving areas; Jeff Gearhart leads global governance. And I think that's it. Did you enjoy this morning? Good. Good, we did too, I think the associates had a good time. And as usual, had a really productive week here. We feel like that we're positioned well. We like omnichannel and I think the data that we're seeing supports the fact that some combinations of stores and e-commerce are going to be the winning strategy. And hopefully today, we provided some examples of where we can bring those 2 things together and have technology in store that really results in a faster customer experience and a better customer experience. So we're pleased with that and are pleased that we have so many stores already out there as an installed base. We're trying to get faster. Hopefully, one of the things you picked up on today is that we're working on culture, more creativity, more risk-taking, more innovation and more speed. We got into a period of time as a company and I was part of that where we were replicating, running in silos, we had specialists, logisticians like Greg Smith. And operators and merchants. And to solve for today's customer problems and remove friction from our business, you have to work in a different way. And you've got to be faster and more creative. And I'm pleased that we're seeing some progress there. I'm also -- I'm happy with the fact that a lot of the work that we started over 10 years ago now to drive sustainability or create share value is bearing fruit. Some big accomplishments in the last few years and one of the things that we want the world to know and the investment community to know is that we're a good company with good intentions, using the scale of the company to do good, shape systems for the better and we try to give a few of examples of that today and that work will continue. So pleased with the First Quarter, I think we're off to a good start, it's competitive out there and things are moving fast. So we're not resting. And certainly haven't arrived at any kind of destination. Brett? All right, want to lift them up from those comments?

Brett M. Biggs {BIO 17414705 <GO>}

I'll be brief, then. I'm sure they're looking for the CFO to lift them up. It was a good start to the year. It was a good First Quarter, as Doug said, there's -- it's a journey. And there's always things that we want to do better as a management team and with the company. But it's nice to see the start to the year that we had. We'll keep talking to you around our financial framework. So we'll continue to focus on growth. But we want it to be the right kind of growth and that's strong, efficient growth. We want to be more disciplined in how we operate and I talked this morning, something about expenses and we know we're not where we want to be from an expense standpoint, or to be thoughtful when have been thoughtful about how we allocate capital, that will continue to be the case as we go forward. But this -- all of us, as a management team, understand that we need to be able to grow sales and spend our money wisely at the same time. And as a company, we've done that and we just need to continue to do that. But like Doug, I'm excited about where we're going. I've been with the company 17 years and I've never been more excited about the things that we have forward for us. So with that, I think we can open it up for questions.

Questions And Answers

A - Steve Schmitt {BIO 17077384 <GO>}

I'll start over here, we might get a few from this table.

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

Dan Binder with Jefferies. Actually, I had 2 questions, first on private label. Obviously, you've gotten a lot of questions about ALDI and Lidl and everybody's really concerned about your price gaps on private label. I was wondering if you could tell us a little bit about what you're doing on the quality side, the pricing side still seems a little wide, do you have plans to take that down? Then the second question, it was really for Marc, just on Jet Fresh and what you're learning as you roll that out. I think you said 50% of the population has access to that now, what are the challenges and the opportunities.

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

Great, why don't you go first. But John, talk a little bit about the private brands and Sam's. And then we'll come back to the question for Marc.

A - John Furner {BIO 19351533 <GO>}

Sure. We continue to make pretty good progress on private label, both in terms of food and gym. The pricing is part of our overall pricing program that we've discussed previously and shared, or we're prepared to share, in terms of what we're doing there. That clearly is going to be a pretty important part of the mix as you think about what's happening in the marketplace, both in terms of physical and digital and so we continue to focus on that. You would have seen a year ago, we built the culinary innovation center just down at the office. I can tell you that's used a lot. We track things like complaints per million by product. And I'm pretty happy with what the team are doing and how they're going about doing it. But I'd say we're probably, I don't know, a 1/3 of the way, in terms of the journey as I see it at the moment. But probably, when we get a bit further, we'll stretch our legs a bit more and see where else we can go. But it's heading where we want it to be.

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

And for Sam's, we talked about this a year ago, that we narrowed the number of brands in the club from something like 19 to 20, down to Member's Mark. And we're really proud of the team that we built just over a year ago. We've got great people that are culinary experts, food-sourcing experts and food scientists on the team. And they've done a wonderful job deciding where we're going to go in the world and put together a really great product offer. So we made -- what we've done is made the product the hero. And then package it in ways that tell great stories through product. And it's really working well for us. And we're really happy with the progress that we made so far in the brand.

A - John Furner {BIO 19351533 <GO>}

The other bit is, I just want to throw it at Dave, because he's been pretty instrumental actually, in how we leverage, how we think about private label.

A - David Cheesewright {BIO 7334339 <GO>}

Yes, I'm really optimistic about private label at the moment. We're seeing good momentum in pretty much every single market at the moment. And I think 3 things, the momentum is really good. The second thing is, we've got different levels of expertise around the globe. So there are some markets which are relatively underdeveloped. But we have all the way up to say, Asda in the U.K., which is doing about 47% of its entire sales in private label. So as we're ready to move into new categories like prepared ready meals, we've already got ready-made expertise in different parts of the world that we can deploy across the business. And I think the third thing that makes me pretty excited is the leverage opportunities. And we've been working very closely with Greg and John's team, in particular, starting with some fairly basic private label products like commodities and coordinating our sourcing and we're seeing big benefits as we start to work together in a more integrated way, whether it's the sourcing of raw materials or whether it's the consolidation of some of our supply base. But I think lots of reasons to be cheerful about private label.

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

With respect to Jet Fresh, I think we're really in a test and learn phase right now. So we don't believe there's any one way to deliver fresh. We've got an amazing pickup program, where we're going to be over 1,000 stores with pick up at Walmart, with amazing MPS scores that are in the 80s. We're also delivering groceries to home same day from those stores. In about a dozen stores now, we're testing that. Then Jet Fresh, the idea of shipping fresh out of a central warehouse and being able to service from one warehouse, half the country, enables you to get a lot of scale, which enables you to offer a longer tail of product, product that's not available in a local store. So we're just now in this phase of just testing and learning.

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

Simeon Gutman, Morgan Stanley. Doug and Brett, you both mentioned Q1 was good. We'd agree, it was quite good. And it was an anomaly for a retailer to see such explosive growth on e-com. And yet the margin was relatively intact. We haven't seen it across most of the retail space. It looked like it was an omnichannel type of quarter. And I'm curious if there was something that was done, whether it was on the expense side or on the gross margin side, where you've either figured out some formula to enable the e-com growth to grow at a rapid pace without harming margin.

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

We'll both take a shot at this one.

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

Sounds good.

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

You'll remember that we made the wage investment that basically took two years to digest. The timing of that's passing us. So as the improvements that Greg, in particular, has made in the stores, take hold, inventory came down, markdowns are easier to manage, expenses are easier to manage when you don't have as much inventory in the store, the store performance is stronger. And so that gave us the opportunity, as we mentioned to you in October, to step on the gas with e-commerce more. And Walmart.com was positioned to grow faster. We told you for several years, we're working on fulfillment centers, we're working on a new operating system, a lot of that work started to get done at about the same time that Mark and I started talking about Jet. So he stepped into a situation where, not to say there's not a lot of work to do to make Walmart.com best-in-class, because there is. But he stepped into a bit of a foundation that he could build on to make that happen. And combine that with Jet. And all the things that he's done to help mirror SKUs, you end up with an outcome that's favorable in that quarter. It's really price, it's assortment and it's service. The customer is not that different in that way. Now experience in services being redefined in a big way. And our assortment had gone, given the marketplace expansion from about 10 million a year ago to now north of 50 million. So you've -- we've made great progress on assortment, managing price pretty well, working hard on experience. So it's a number of things coming together. And if you could sit in one of our financial reviews that we have each month, you would hear a lot of levers. Each one of these businesses is talking about what they're doing with margin and expenses and inventory and pricing. So we just have this great opportunity to make choices and manage mix in this environment and with this position or model. And that's a lot of fun. It's different than what we had a couple of years ago, or maybe even a year ago.

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

Yes, I think the thing -- one of the things that was really encouraging about the First Quarter was to see the growth in e-commerce. But then see the traffic growth in the stores. Haven't seen a lot of that around the globe as I think you said. Gross margin, you're going to see quarter-to-quarter fluctuations of a lot of things that go into that margin. We've talked about that, whether it's shipping cost, logistics cost, we're doing a better job of buying product and we talked about that for about a year. And so over time, we'll watch gross margin rate, you will too. But we'll also watch gross margin dollars. And if there are opportunities to get that top line growing in a way that grows gross margin dollars, that's what we would want, that's what you would want. But as we talk about expenses and well, one of the things that -- another thing that was encouraged by in the First Quarter was some of the leverage we started seeing around the company, including Walmart U.S. stores. That's fuel for us going forward. And the 21%, we've said that's not where we want to be from an SG&A standpoint, we have work to do, there's things we can do which will allow us to have fuel to keep growing the business.

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

My follow-up is in the transcript, Doug. It mentioned that you levered the stores, you didn't lever e-com. And it sounded like you had more work to do. I don't know if there's a prescriptive timeframe that you think about when that leverage point may occur. But can you tell us some of the tactical things that could change? Are you leveraging the mega DCs, some of the in-store pick up? Obviously, more sales will cure all. But curious what are the measure points we should think about.

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

Yes. And Marc may want to add to this too. But I think it's kind of all of the above, Simeon. And in sales, getting scale in e-commerce is a big part of the equation. So we're obviously focused on doing that and driving that hard. Anything you want to add?

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

No. I think that's it. It is all about scale, it's very expensive, obviously to build the fixed infrastructure that will support the e-commerce business. And after you've got that sort of fixed, not set, fixed costs has become pretty variable at a pretty low rate. And so you're able to get a lot of leverage on your fixed as you go top line, that's why we're happy about the growth we saw last quarter.

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

We really are trying to manage an aggressive growth plan, winning with customers, that's -- being the best is what matters there. Being disciplined on expenses and finding new ways to take cost out that weren't possible in years past and being really disciplined about capital. And Brett has done a terrific job of leading us through discussions and thought about what we can do as it relates to capital and expenses both. And that example that I gave today of (Tony Hayes) in Oklahoma City, store 622. This app that she's got on her tablet is a relatively new tool, Greg should talk about it. But from my point of view, having been in Walmart for so long and seen our processes and understanding how we flow inventory and manage inventory in the store, I got really excited about how efficient this was. It's referred to as a section work app. And she took me to a forfeits section, scanned it, now we know where she is, she can quickly look through, monitor shelf label compliance, is the modular right, which is a big part of driving site counter sales. Are all the facings right in that modular, how does in-stock look, do I want to pull from the top down. So inventory flow's baked in and there are other enhancements to that app coming in the future. And wasn't all that long ago, that department manager was running back and forth doing processes, overcoming processes. And when she got through showing that to me, Greg, I asked her what could we do better. And she said, nothing, it's perfect. We then came up with an idea on how it could be better. And she said yes, that'd be better. So it's not perfect. But it's different than what we've done before. And you hear this term digital enterprise getting thrown around, it's actually real. And it's real in merchandising, it's real in the stores and this leadership team and many of the leaders that are around the room are thinking differently about how to apply that. So when you think about our company, I would just encourage you, don't just think about running good stores and building e-commerce business. But also think, just imagine how we can use being digital and working in new ways to apply machine learning to inventory management and really be, in some ways, a tech company. And we don't -- people don't think of us that way. But historically, we were leaders during points of time as it relates to retail tech. And there's so many things we can do today and we're putting a team together that can actually make that happen. Sorry to be long-winded. Greg, do you want to add anything?

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

I was just going to say that was incredibly impressive. Your knowledge of the section workout.

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

Bam!

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

It's cool. Very cool.

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

Hi. Karen Short from Barclays. So e-commerce has obviously taken on a whole different level of the conversation, given your First Quarter growth rate. And it sounds to me like given the -- several initiatives just started late in the quarter, it will accelerate even further in the Second Quarter. So I guess the first question is, how should we think about the growth rate in e-commerce, kind of a year from now? Then, is there a level that we should think of in terms of sales? Were you actually able to leverage? Because obviously, you have leverage in the stores. But not overall. Then I just have a follow-up.

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

Would you like to answer that question, Marc?

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

Sure. We're not talking about growth going forward. But we are happy with the progress we're making. We're happy with the results we've seen on 2-day free shipping with no membership, with the easy reorder, we've seen customers come back more often. So we're happy about that. Pickup Discount, we've seen a nice uptick in the number of orders, people are picking up where they get a discount for doing that. We announced yesterday, associate delivery, we're starting to like make changes and innovate. And we're happy about the progress. But there's a lot of work to do on the customer value proposition that's not easily fixed overnight. And it's going to be -- we need to put a lot of time and focus in improving that. And that's really where we're focused right now.

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

And the leverage question? Is there any way we should start to think about where you need to be, in terms of total e-commerce sales to leverage, overall?

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

Yes. It's not something, Karen, we've talked about. We did say, if you go back to last October, we talked about, that we expected to lever slightly this year. And that's what we've said at -- total company.

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

Total company. We're not calling out any commerce leverage point at this stage. I think there are many moving parts.

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

Yes. That's what they say. I think there's -- as we go further along as a company, being almost able to distinguish between e-commerce and the U.S. business or in international is going to be more challenging, because where we win is bringing it together.

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

I'm sure you can see it too. But the speed of change has picked up, the (stockholds) are moving faster. So we're in a fluid environment. And Marc is running fast as the rest of the team is. But there's more to come and some of the changes we're making, it's hard to forecast. But we are going to win with the customer. And we got a lot of ideas on how we can make that happen.

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

It's Bob Drbul from Guggenheim. Good afternoon. First question's for Brett. On the opportunity to be more focused on expenses, can you just point to 1 or 2 of the biggest initiatives or the biggest opportunities that you're focused on as the CFO? And the second question that I have for Marc, is that the 2 million items for free 2-day shipping, can you talk on how you're editing that assortment? Or plans to grow it and increase that offering? Then I have one follow-up.

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

Okay. Thanks, Bob. So I think as Doug said a little bit earlier, it's thinking about expenses differently, I think, than we have in the past. And we've put dollars into certain areas of the company, e-commerce technology, our associates and those are the right thing to do. But as you do that, there's got to be other places and other things that you look at, that you can get better. Where do you stop doing work? And so those are the things that we look at. I think about, though, Greg's inventory performance in the U.S. I think Greg would tell you, it's just a number of different things, there's wasn't one big lever that Greg went to pull, to go get inventory down, still getting inventory down. And Judith as well. But it's a lot of different things. And so I think those things are out there, Bob. But there are some bigger things as we think of it, just how we work differently. I talked a little bit last year about things like global business services and the guy sitting next to you, Clay Johnson, actually runs global business services. But thinking differently as a company, we thought about shared services in the past in a fairly standard way, payables, receivables, things like that. There are things that we can think about a lot differently as a company across segments, across the globe in some cases, about how we work differently and how we process work, what technology do we lean into. There'll be some things we keep leaning into, that will allow us to save more money longer term. So we'll keep having to balance that out in the short term. And we'll keep giving you thoughts on how we're going about it.

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

I'm excited about e-commerce growth. But I think I'm as excited about inventory management in Walmart U.S. as I am that. I mean we -- these academies that we build, Greg, how many do we have open now? We said more than 100 today. But...

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

Around 160, I think.

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

160 academies in the U.S. We put them in the back rooms, almost all of them. So I've been in several where we have 3 top quality, nice looking classrooms with technology that enables people to learn in the back room of the store, because we don't need the space for inventory anymore. Man, that's exciting, to me. But not the rest of you. But to me, that's cool.

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

I'm pretty excited.

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

I get excited about it.

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

With respect to items on 2-day delivery. So yes, we will continue to add more items into 2-day. But just to put that in perspective, like 2 million items, it's really about getting the right items on 2-day, because the top 1 million items sold online in total, if you were to take all of online e-commerce, represent around rough numbers, 2/3 of all the sales happening online. 1 million SKUs, the top 1 million, covers a lot of ground. To put that in perspective, even more is about the number of SKUs that you'll find in all the mass merchants, in specialty retail, in brick-and-mortar stores, within a 10 or 20-mile radius of your home. And all those SKUs together it's about 1 million, in rough numbers. So.

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

And I just have a quick final for Steve. I was just wondering if we could get Mr. Willie out on the road.

A - Steve Schmitt {BIO 17077384 <GO>}

We'll work on it. Maybe something else.

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

Hi, guys. Peter Benedict, Robert Baird. Just one for Marc. Just take us behind the scenes and just help us understand how the e-commerce division at Walmart is now operating differently today than when you came in, in the fall. What changes you made culturally, incentive-wise? Just help us understand that.

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

Sure. Yes, no, we made some changes to sort of really bring, especially the Jet and Walmart teams together so we brought the logistics teams together, we brought the retail and merchandisers together. Then Greg and I have been working really closely to bring stores in e-com closer together. So marketing, for example, area for all U.S., Tony Rogers reports in to both Greg and I. So again, to just bring that so we have one single brand message going out to a customer because it really is just one customer. And so yes, I would say those are some of the bigger changes. In terms of culture, we're moving fast, it feels like a startup, honestly. Being in there, we're making changes, nothing's really standing in our way of moving fast. And we're hiring great people, bringing a lot of entrepreneurial talent into the organization. And entrepreneurs want to run. So that's what we're sort of focused on.

Q - Michael Lasser {BIO 7266130 <GO>}

It's Michael Lasser from UBS. The story that Greg Penner offered during his presentation about his mom going to the other website. And then coming back, was very instructive. Can you provide a little perspective on -- of the growth that you experienced in the e-commerce business in the First Quarter? How much of that was from former Walmart customers who came back, who had went to that other website, maybe been a prime member? And how, over the long run, do you peel off those members to become Walmart shoppers and do it in an economically viable way? And I have a quick follow-up.

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

Sure. I mean, I think we're doing it in an economically viable way now. The value proposition that we're offering is viable and scalable. It's really about continuing to improve the value prop in the online shopping experience. We're focused on 5 bellwether metrics that all add up to what we call the CVI, the consumer value prop index. So do we have the product, can people find it? Is it displayed with the information to make the right decision? Is it priced right. And we delivered fast and on time? And so we've got everyone focused on those fundamentals. And we'll continue to get dedicated resources to making those better. It'll take time. But as they get better, the repeat rates will improve, we see high correlation between the 2. And if repeats are improving, we're getting new customers, then you'll start to see the compounding effects of the top line.

Q - Michael Lasser {BIO 7266130 <GO>}

And my follow-up is for Greg Foran. You mentioned you're 1/3 of the way through the journey. Was that in reference to private label or the pricing journey overall?

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

The reference actually is sort of how I feel about where we're at in terms of our plans. So it's probably been about 2.5, coming up three years since I moved into the role that I'm in. We pulled together a plan, sort of after 100 days and we've gone after that. As you can imagine, as you get into the plan and you cycle the first year and you cycle the second year, you start to move some of the goalposts appropriately. And because you start to see more of the potential that you can achieve. And so my reference, actually, is about how much opportunity I still see in the stores. And that's one part of it. The other opportunity which is really exciting is, what we can do with Marc and then what we can do with Dave. So I reference that, that I used at the -- your beginning meeting was sort of fixing to leading. I feel that for the last couple of years, we've bent our backs and we started to fix some of the basic fundamentals in the business. And you can now earn the right to start leading in a number of things. And we've got a bit of headroom now to do some interesting things with Dave and his team. And clearly the sort of undersection was Marc's business and 4,676 Wal-Mart Stores excluding Sam's Clubs, is a pretty exciting proposition.

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

Scott Mushkin from Wolfe Research. So a couple of questions. One was on ROIC, when do you guys anticipate maybe that will bottom and start to head up the other way? Second question is on 1P. Is that ever profitable? We're not sure it's even profitable for Amazon right now. So I'm just wondering if you guys envision that, delivered to the home, 1P business being profitable. Then my third question is around private label. And just industry profits, not Walmart's profits. But industry profits, if private label in the U.S. moves from 20% to 30%, are they higher or lower?

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

Yes. So on ROI, I think it gets back a little bit to what I talked about this morning on stage, it was just about doing both, being able to grow that top line and get your expenses where they want to be. We know ROI has not be as attractive as it should be to investors in the past years. Like you saw last year, it -- while it still went down, it went down less than you've seen in the past. We're focused on that as a management team. We're going to keep growing this business long-term. We want to set up this business for success 50 years from now. But we're quite focused on the returns to our shareholders and returns on capital as well. We haven't given any specific guidance about it. But we are focused on it.

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

Well with respect to 1P, 3P profitability, it's not really about whether it's first party or third party, it's really more the product category. If you take apparel. And bring it first party, it's going to have incredible margins. I think it's really a spectrum. It starts out with those loss lead or high volume SKUs, where there are sort of loss leaders. Then as you continue to get longer into the tail, products get more profitable. So we're obviously focused on building out that long tail we've got now, 15 million products online. And we're also focused on building out those long-tailed categories through some of the acquisitions that we've done to help accelerate growth, like in shoes, in home and outdoor.

A - David Cheesewright {BIO 7334339 <GO>}

Maybe I'll take the private label one. I grew up in the U.K., albeit a while ago, through a period of quite dramatic growth in private label and I spent half that time on the branded side. And half the time in a retailer, working on private label. And I think they work together. It's like all competition, that when you're a brand. And someone brings out a private label, you have to really think hard about your brand positioning and the value that you bring to customers. And if you're a private label supply, you have to make sure that you could provide value that outweighs the equity of the brand supply. So I think when you look at that -- look back at that period, it just made for better products for customers all around. And the whole market grew during that period. So I wouldn't think of it as a binary combination between private brand and brand.

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

I wouldn't totally be too dismissive of the value of sourcing and product development and the work that goes into first party. I don't think the world's going to be as simple as every item in the world is visible to the Internet. And customers can see it on, they buy it. The margins won't be as good if that happens. What we do to go into the factory ahead of time, bringing all the capabilities that we have to develop product, identify product with human beings, not just algorithms, to say, you know what, I've never seen a Christmas tree that has that feature before. And I think we can sell 0.5 million. Instead of buying 100,000, figuring out it could have been 0.5 million, reordering, waiting for the lead time for the trees to get made. There's still a human and merchandising aspect of this first party and I personally believe the margins are going to be rewarded, because the way the world works, hard work and differentiation is rewarded with margins. And so we want to make the most of those capabilities that we've already built in the New World and not be too dismissive of them. So over time, first party, I think, will be more profitable than third party.

Q - Beryl Bugatch {BIO 1504748 <GO>}

Budd Bugatch with Raymond James. Pretty excited to see some of the initiatives that you're testing now, to -- that pure retail can't do, particularly associate delivery and pick-up discount. Maybe you can give us a feel of how -- you talk about speed. Talk about the fact that the associate discount is now, you've been testing it a little bit, I think, in Jet, you moved it now to 3 stores, associate pickup. What's the -- how do you judge that success? What's the timeframe for that? And in Pickup Discount, what can you tell us about the early learnings from that? You said that sales are starting to rise. But how's the penetration going on that?

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

Sure, yes. So no, like I said, we have seen nice uptick in pickup orders. So people -- it's definitely resonated in the value proposition. The fact that products are cheaper when you choose to pick them up, is a win-win for both the customers and for us. Because 70% to 80% of shipping cost is in the last mile. And so we're able to economically get these products in the FC to the store. And we're able to share those savings with our customers. So customers really like it, we're hearing good feedback. We're now live on about 700,000-plus products and will continue to add more products into pickup. With respect to associate delivery, it's still really early days. We're in 3 stores right now. We've got the app. Associates are really liking the experience and we're able to leverage those line hauls that we have coming from this, the FC to the stores with pick up, we've obviously got empty cube there, we're now able to put all the e-com transactions in there. Then when they get there, we're able to allocate the -- and minimize the distance home for people -- on people's commutes. So we know every associate puts in where they're going after work, whether it be home or somewhere else. Then we know the final address and we know where all the packages are and then we allocate them to the associates to minimize the distance. So the associates are liking it, they're not having to travel very far off their commute or wherever they're traveling to, to deliver packages. And we feel pretty good about what we see so far. But it's still very early.

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

One of the things we've got to manage is employment compliance. And so we may take our time on this one, because after we roll it out, we want to make sure that everything went well, associates are being paid appropriately and we don't have any issues related to that. So I wouldn't jump to a conclusion that, that's going to be nationwide too soon. We have a lot to work on there. Then ultimately, we think it'd be a blend. There'll still be a role for FedEx, UPS to make some deliveries. We've had this test going on with Uber and other crowd-sourcing solutions may play a role and it's just like building different capabilities. And then we'll let the market and the economics drive ultimately how it plays out. This is an interesting piece of it. But it's just a piece of it.

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

Hi. Greg Melick with Evercore ISI. I had 2 questions. And maybe to Doug. But I don't know how you want to pass it off. A couple of years ago, you talked about the margin investment to get traffic going again, it's worked. I guess the question is: going forward, if that traffic were to slip back again, you mentioned a bunch of levers. What's the lever that you'd be most likely to pull, to make sure that the traffic reaccelerates, if that were to happen? And I guess, kind of linked to that is, if that isn't needed. And we start to see margins go up, would that just be a great thing? Or could that be a sign that maybe our margins are getting too high again, especially given what you see Target, Amazon, a host of competitors in terms of the direction of their margins?

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

Great question. Didn't mean to interrupt. The world is so competitive and moving so quickly that we would want to preserve the flexibility to, as we have the opportunity, invest more in price, potentially. But also, fuel e-commerce. There's some things we can do to have e-commerce grow quickly at a -- for a sustained period of time, quarter-to-quarter and over years. So margins, because of a good expense management, may be able to lift some. And we'll just decide as we go along, how much of it we need to put into price. And how much of it we need to put into e-commerce marketing or some of those other investment opportunities that we have.

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

Hi, this is Ed Yruma from Keybanc. Just 2 quick questions. First, you were very early in investing in the labor force, particularly when it comes to wages. I guess as the market has gotten better and wages got more competitive, have you seen turnover rise? And I guess, second, for John, kind of early days in your new seat, 5 quarters of positive comps. But you're still underperforming one of your key competitors. Kind of any early learnings?

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

Greg, do you want to go first?

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

Yes. The labor investment was just so important in our business and we continue to look carefully at the metrics and how that's tracking and also other things that we can do. So it's never just one thing that drives turnover performance in a business like ours. It's always a number of dials. So are we paying my share out to our associates. And the good news is, is that we've had a pretty good run with my share so they're getting a bonus, most nearly every store, every quarter. We took a lot of action around PTO over a year ago. And that's provided -- been a lot of benefits to associates, in terms of them being able to have a little bit more control over how things operate. But it doesn't stand still and we continue to look at all of those things. And continue to focus on getting turnover down. I think academies are going to help. I think the Pathways program that we shared with you previously is going to help. But I think this is going to be a focus for some time. And so it should be. But we've made reasonable strides.

A - John Furner {BIO 19351533 <GO>}

I think I'd say, this far into the job and I've been in just about four months, the first is, we have a really, really enthusiastic group of people. And what you saw this morning and you see at these meetings is a team of people who really want to win. So we've been focused in the last few months on simplifying what people do online and in the clubs. And trying to make it easy for them to serve members in the right way and the right way, I mean, is, we are really focused on product, having a merchandise background is interesting in this job, because people join the club so that they can find great items. And as I mentioned earlier, we've made really good progress on private brands. And we get a lot of work left to do in the next couple of years. But we're happy with where the team is so far. And they're making progress. Then the other thing is, we're leaning in heavy with the operations team, the merchandising team into our fresh food business. And we're making great progress there. But it's a complicated business and it takes time because ultimately, what you're trying to do is pick the very best fresh items, source them as close as you can at the farmer source and bring them to members as quickly as possible. So over the next year or so, we'll be leaning heavily into our private brand business and our fresh food business. But as you mentioned, it's competitive out there. And we've got a lot of work to do and we're going to work hard at it every day to improve the results.

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

Robbie Ohmes, Bank of America Merrill Lynch. Marc. And maybe Doug, chime in on this. But I was hoping you could talk more about the marketplace, the 3P business. You've gotten to 50 million items really fast, does it level off from here? Or can that keep going? And also, can you talk about who the partners are? Are they leaving other channels when they join Walmart marketplace? Or are they staying in other channels? How are you winning them over and can you get -- where are you on the curve of growing the marketplace business? And maybe to -- some of us don't cover Amazon here, like me. How should we -- how important is the GMV growth relative to the owned dot-com growth? Any suggestions for us about how we should be thinking about that?

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

Sure. With respect to the marketplace, we've seen nice growth over the last year. And I think we'll continue to see growth on marketplace. But we're very focused on making sure we have the right SKUs, the right products. That's the habit, one of our bellwethers. And so it's not for us, just quantity, it's really the quality of the products. And that's where the teams are really focused right now.

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

And any other color you can give me though, even taking that into account? Are people looking to sign on with you guys? Sort of what is the -- what's going on out there in 3P land?

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

Yes. Absolutely. The friction to sign up is pretty seamless. So we are seeing lots of, obviously, third-party sellers signing up, we've got a long list waiting to be on-boarded. So we're not seeing that slowdown at all. And again, it's just because it's pretty seamless and frictionless to get on and start selling.

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

Maybe to repeat, some of the things we've talked about before, when we were building the operating system for e-commerce, there were some priorities that were related to first party in particular. And then some connections to the stores to build omni, that took longer than it would take a pure e-commerce operator to build in a system. So you probably remember being impatient with us, as it relates to that. Once those things got done, then we turned our attention to enabling third-party and marketplace sign up. And once that happened and it became easy, the sellers came. And as far as I know, they didn't leave other places, they just wanted our traffic to and we're still seeing others, large and small, talking to us about wanting to join, basically the ecosystem or the platform that we're building. And be part of it. So I would expect it to continue to grow. I don't know how big it'll get. But I don't think it's limitless. Some form of the 80-20 rule applies here over time. I don't know exactly what the math will be that we'll use to describe it. But no doubt, the tail matters and assortment has been redefined by the Internet. But it's exciting. And if I step back and just elaborate a little bit further, just imagine a future where you have people in demand. And we know where they live, we know something about what they buy, what they may want to buy in the future, there's an understanding of the customer and there's visibility into the supply chain on where things are, how they're made, what's put in them, how we move them and it's ultimately just this huge optimization. It's this enormous regression. And we're just trying to match them up. So now think about the fact that we've got all these distribution centers, all these stores, e-commerce fulfillment centers that we're building. I'm just thinking about the U.S. right now. But the same principles apply around the world. Now you can run that optimization across a number of nodes, hub and spoke capabilities or platform that not very many people, if anybody else, has. So if we can build it fast enough. And convince the customers that they can find anything they want to find at Wal-Mart, we have some advantages. And I believe that if we keep making the stores great. And we keep adding things like pickup and we make the digital experience better so they can get in and out of the pharmacy fast. And fresh food quality gets better, stores will actually be really important. And I'm encouraged by the U.K. data where, as Dave said earlier today, for almost 20 years, we've been doing grocery home delivery. And we still do well over 90% of our volume in stores. So I like that. And I think this optimization over time is in our favor. And what you're seeing is us putting capabilities in place, software, hardware, DC, stores, trucks, capabilities in place, to be able to optimize better than anybody else. If you can optimize better than anybody else, you have a lower cost structure. Lower cost structure means lower prices, we win.

A - David Cheesewright {BIO 7334339 <GO>}

There's also, Doug, the one thing we've seen over that time, the development in the U.K., is 2 things are always true: one is, that as you develop one side, you get better at the other. So if you want to be picking for home delivery through the stores that significantly improves your store operations and you get a halo from that. The other one and perhaps the most important thing is, it really doesn't matter which country you go to, if you do the analysis of spend. And take a customer who shops just in retail, one who shops just online. And then one who shops both, the third one is always more valuable than the other 2 put together. And I think that is the unique bit about omnichannel. There's a leverage in there that customers are more loyal when they shop across all the channels. And we're one of the very few people, I think, who in the future are going to be able to enable customers to shop any which way they want. And there's value in that.

A - Steve Schmitt {BIO 17077384 <GO>}

Any other questions?

Q - Unidentified Participant

(inaudible) Group, following up on Robbie's question, as you expand your marketplace or you've seen a tremendous success with the marketplace, what categories in marketplace have been very successful? And second question, again, on marketplace, as you look at expanding this category, do you plan to offer fulfillment features to these third-party sellers? Is that -- is that something on the plan over the next 2, three years, for marketplace?

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

Sure, sure. In terms of the categories that are performing well, it's definitely the longer tail categories, products that are in those long tail categories, it's home, apparel, shoes. And categories like that. In terms of fulfilled by Walmart, it's something that, obviously, is something we talk about and consider. But we haven't made any decisions on that.

Q - Caitlin Price

Katie Price from Matt Fassler's team at Goldman Sachs. A couple of follow-ups on points that were touched on. But do you guys see yourselves evolving your asset base such that returns can improve in the absence of operating leverage? And as a second follow-up, can you give some color on the growth coming from current or legacy Walmart customers online versus new customers to the enterprise?

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

Do you want to go, Marc. And I'll come back on the asset question.

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

Yes. In terms of the question around, is growth coming from new or repeat, it's really a combination of both. So I wouldn't say one outweighs the other. We're seeing really good traction with repeat customers. They're shopping more often, they're buying more with the free 2-day shipping and the easy reorder. And we're also seeing an increase in the number of new buyers as well. So it's really both.

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

Free shipping is a compelling offer. I mean it's interesting how people think sometimes. You pay a membership fee. And then you call it free shipping, it's not really free shipping if you paid a fee for it. And I think customers are figuring that out. And when you get the count up, the SKU count up. So the assortment's there. And you have price leadership, why would you pay for a membership? And a lot of customers don't have $100 to give away. So I think that's a compelling offer that will continue to drive volume.

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

Your question on ROI, it's a numerator and denominator. And I think when you look at our -- the financial framework in the 3 areas that we have. And the focus of the financial framework, it's really to address that exact question. So operating leverage is always going to be a big part of being able to get returns where you want. But I think you've seen us be more rational, as about our asset base as well, as we've closed some stores over time, those are tough decisions to make. As we've -- Dave in International and Mexico, in places like Chile where we've had good businesses like the banks, suburbia, shopping malls in Chile, that were good business. But just not core to what we're doing, I think you've seen us take disciplined choices in doing that. And so I think there's just a number of different ways to impact that equation. Did that answer your question? Okay. Thanks.

Q - Stephen Robert Caputo {BIO 5193202 <GO>}

Steve Caputo, Susquehanna Financial Group. I just had a question. We've seen, when you guys have acquired some of these smaller e-commerce players over the past year, that some customers have responded negatively as a result of a perception that they have of Walmart that, I think, based on today's presentations and some of your recent commentary, isn't necessarily reality. Could you just give us some ideas about what you're doing to sort of drive a change in the perception of the company as a whole with customers. So that it more aligns with some of the things that you're actually doing on the ground?

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

Yes. Let's ask Dan Bartlett to speak to that, we'll get a microphone going his way and I'll talk a little bit about it as well. It's a challenge to have the world see Walmart as is it is today. Growing up in this business, I've been proud of it for a long time. And have seen the good parts and wanted other people to understand that. But we still have a long way to go to have people understand this company. Buying Jet was a moment. And I think people looked at us a bit differently and we've tried to seize that moment, to shine the light on other things that we're doing. Most customers probably have no idea what we've done to drive sustainability, both social and environmentally. They don't know how the company really works and what our culture's like. And we meet people all the time, they've come to town, even some of the people that were here today, that performed, they get a little exposure to Walmart and like, you all are actually cool. And you're nice. And we like you. And you're doing some neat things. But that hasn't punched through. So we hired this guy named Dan Bartlett to fix it. And Dan's going to tell you how he's going to do it.

A - Daniel J. Bartlett {BIO 3071809 <GO>}

50 years in the making and just, yes, Doug hit the nail on the head. And that's the fact that, the more we share the full story of Walmart, with our customers. And with our stakeholders, the better we do. And even with our newest partners, these -- the acquisitions you made, the CEOs have been in town this week. And we spent time with them and they even get more excited about the richness of the content of the things we're doing across the board, whether it's the shared value or other things we're doing with regards to our associates. And it does just knock away the perceptions that have built up over time. Equally as important is that, with the new capabilities we have through digital and other technology in partnering with Tony Rogers in the marketing department, is that we can -- just like they're doing in the political campaigns, is we can much more precisely share with customers about issues they care most about. So if you're a customer that is conscientious about the environment, we're able to share that story with them in a more consistent and targeted basis without having to share it with everybody who may not have the equal amount of interest in that issue. And so the customization is not only an important way to get into people's interests of the types of shoes they like to wear or the type of food they like to eat. But it's also the social issues and things that they -- the values they care about and increasingly, price is always going to matter. But as much as we talk about time, people are going to want to do business with companies whose values are aligned with theirs. And so, what technology's allowing us to do is to share and participate in that conversation with our customers in a way that we couldn't do in the past. So a lot of room to work, a lot of potential. But I'd rather be where we are than a lot of companies, which is we got a lot to share because we've done a lot over the last 20 years.

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

Let's take advantage of the moment to ask if you're in the room and you joined our company through an acquisition recently, would you stand up. We've got Scott and Liza over here from Jet. And we've got some leaders back here at this table that joined through other acquisitions that we made recently and thought you might like to see their faces, welcome to the team. These acquisitions are a part of our strategy. Its market's an important part of our strategy. But it also is just a part.

A - Steve Schmitt {BIO 17077384 <GO>}

Thanks, guys. I think we've been through everybody. Any closing comments before we shut off the webcast?

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

No. We'll go work on other stuff.

A - Steve Schmitt {BIO 17077384 <GO>}

Thanks, guys.

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

Thanks for coming. Thank you.

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

Thank you.