# Wal-Mart Stores Inc 2017 Investment Community Meeting

## 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.
- Greg Smith, Unknown
- Gregory S. Foran, Mart Stores, Inc.
- John Furner, Mart Stores, Inc.
- Judith McKenna, Mart Stores, Inc.
- Marc E. Lore, Mart Stores, Inc.
- Richard Mayfield, Mart Stores, Inc.
- Steve Bratspies, Mart Stores, Inc.
- Steve Schmitt, Mart Stores, Inc.
- Tony Rogers, Mart Stores, Inc.

## Other Participants

- Benjamin Shelton Bienvenu, Research Analyst, Stephens Inc., Research Division
- Brian William Nagel, MD & Senior Analyst, Oppenheimer & Co. Inc., Research Division
- Charles P. Grom, Senior Analyst of Retail & MD, Gordon Haskett Research Advisors
- Christopher Michael Horvers, Senior Analyst, JP Morgan Chase & Co, Research Division
- Daniel Thomas Binder, MD and Senior Equity Research Analyst, Jefferies LLC, Research Division
- Karen Fiona Short, Research Analyst, Barclays PLC, Research Division
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- Matthew Jeremy Fassler, MD, Goldman Sachs Group Inc., Research Division
- Michael Lasser, MD and Equity Research Analyst of Consumer Hardlines, UBS Investment Bank, Research Division
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- Robert Frederick Ohmes, MD, BofA Merrill Lynch, Research Division
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- Simeon Ari Gutman, Executive Director, Morgan Stanley, Research Division

# Presentation

## Steve Schmitt {BIO 19791185 <GO>}

All right. Thank you, everybody. It's about settled now. So good morning. Welcome to Walmart's 2017 Meeting for the Investment Community. My name is Steve Schmitt. I lead the Investor Relations team here at Walmart. In behalf of the company, I'd like to welcome you all to Northwest, Arkansas and Walmart's campuses here. I'd also like to welcome everyone listening in on our webcast today. We appreciate your interest in Walmart. And we look forward to sharing our strategies with you today.

So today's meeting is being webcast. It's available on our website at stock.walmart.com. And the presentations will be posted to the website as they're completed today.

Today's presentation will include forward-looking statements, which are subject to future events and uncertainties, which could cause actual results to differ materially from these statements. Please reference our entire safe harbor statement on our website at stock.walmart.com as well as any non-GAAP reconciliations.

Now hopefully, you've had a chance to review the press release we issued this morning. I'll take a minute to cover some of the key messages.

First, we reconfirmed our fiscal year 2018 adjusted EPS outlook of $4.30 to $4.40. Second, we expect next year, or fiscal year 2019, EPS to increase approximately 5% from this year's adjusted EPS. And third, the Board of Directors authorized a new $20 billion share repurchase authorization, which will replace the current program.

So let's turn to the agenda. So Doug McMillon, Walmart's President and CEO will kick things off in just a minute to talk about our global strategy. Brett Biggs, CFO, will review our financial outlook. Marc Lore, our head of e-commerce, is going to give you an update on our e-commerce progress as well as our strategies in e-comm. We'll take a short break. Once we get back, we'll go through the segment CEO presentations. We'll start off with John Furner in Sam's Club. Dave Cheesewright will take you through our international strategies. And Greg Foran will bring us home with Walmart U.S. We'll take another break after that. We'll come back. And you'll have a Q&A session with Doug and all of the presenters. At that point, probably around noon, 12:15-ish, we'll end our webcasts and our formal presentation. Then we'll have lunch. And we'll have another hour or so of interaction with the management team before you guys head out.

So we're excited to be here. We thank you for your interest in new Walmart. Let's get going.

(presentation)

## C. Douglas McMillon {BIO 17082935 <GO>}

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Good morning. We're excited that you guys are here. Thanks for making the trip to come down. I hope you found the store visits yesterday productive. Today, we're going to share some information about why we're excited about our future, talk about our plan to win and give you some updates on the progress that we're making.

First, I want to stop and thank the Walmart leadership team. We have a strong set of leaders. And not only are they driving change, they're just making a lot happen, period, around the world. And I want to thank them, I want to thank all of the associates that we have in Walmart for doing a great job.

We're reconfirming our guidance next year because we see signs of the productivity loops starting to turn, giving us confidence that we'll deliver about 5% EPS growth next year. We're committed to cost reductions. And we think the timing is right to act on costs in a more aggressive way. We believe we can do so without harming the momentum we're driving on the top line. We have strong cash flow. And that financial strength gives us the flexibility we need to navigate this period of significant change. We believe we're striking the right and healthy balance between the short term and the long term.

So the headlines for today are that we have a plan that plays to our unique strengths. It's resulting in momentum. We're acting faster as a company. And we're being disciplined about costs and capital as we go. No doubt we are in a transformational period of history. Business is transforming. And Walmart is transforming, too. Creativity, decisiveness and speed are priorities. Our future looks more digital. We use technology to serve customers more effectively and efficiently. We use technology to equip and empower our associates.

To prepare for a larger transformation, we started by taking steps to strengthen our foundation. We committed that our investments in our people and in our stores would lead to a stronger positioning for the company. And we believe there's evidence of that happening. We're setting our associates up for success with better information, tools and training. We're improving the store experience. We're lowering prices. We're reducing excess inventory. We're improving our e-commerce offering. And growth has accelerated. We're setting priorities, including divesting some noncore assets. We're building on this stronger foundation with innovation. And you can see that we're doing it with more speed. We've been aggressive with Online Grocery expansion in the U.S., building on our international experience. We've been experimenting with delivery in the U.S. We created a digital payment platform in the form of Walmart Pay. And we're trying things like automated towers to speed the in-store pickup experience. We're digitizing the checkout experience with Scan & Go. We're making acquisitions to improve our online assortment. We're digitizing experiences in-store, including our pharmacy area. We're learning how to reward customers for behavior that helps us lower costs and save them money. Picking things up at store level for a discount is one example. We're expanding our delivery capabilities in China and other markets. We're enabling easy reorder online. And we're learning to partner with others in new ways. We've always enjoyed creating lasting win-win relationships. And that hasn't changed. The common thread in this innovation story is around the customer experience, especially convenience. We've made progress on value. Our prices are lower. On assortment, we have even more choice. And we're focused on saving customers' time and making it easier to shop with us.

So let's go deep and talk about our strategy. The strongest strategies are built on unique strengths and assets. And we have many. But some of you may be asking, "How relevant are they for the future?" We think that depends on how customers will want to shop and be served in the future. So let's start with that.

We think the future is a combination of digital and physical retail. Customers are shopping in-store, online, with apps and mobile, a little with their voice and in time, with AR and VR and whatever comes after that. And they'll do so seamlessly. There are times when it's easier to sit on the couch and order an item for delivery to your house. There are times when it's most helpful to order the weekly grocery trip on our app and pick it up after school without having to get the kids out of the minivan. And there are times when it's helpful to be in a store and be reminded of what we need or be pleasantly surprised by something we didn't expect. The same person will shop in different ways without thinking about channels. It's all just shopping at Walmart.

What makes us think this is how people will shop? We shared our sweet spot with you a couple of years ago. And what we shared then is still true now. U.S. customers that shop us in-store and online spend nearly twice as much, almost 2x, as customers that only shop with us in stores. And when customers that only shop in our stores become walmart.com customers, they spend more in stores. Their loyalty to Walmart strengthens overall. And for customers that shop in-store only and begin to use Online Grocery, they spend more with us in total after becoming an Online Grocery customer. It's a sweet spot for us. But it's also a sweet spot for our customers.

Let's use the U.S. retail market as a way to explain it. But please note that a lot of what we're discussing is also true outside the U.S. The U.S. retail market, according to Forrester, is forecast to be around $3.5 trillion this year for the categories we sell, which would be 3.8% growth. Their estimates are that brick-and-mortar sales will make up $3.1 trillion, which will be a little more than 2% growth. And e-commerce at approximately $450 billion would grow 14%.

Let's click down another level. Look at how big grocery is in each case. Now this is Forrester's definition of grocery. And it doesn't include the consumables category, categories like paper goods that we normally group in our food and consumables numbers that we share with you in our releases. But the point is the same: Grocery is underdeveloped in e-commerce relative to stores. Why? Well to grow a national e-commerce food business, it takes a few ingredients. You have to be able to keep perishable products fresh, available and at the right price. To do that, you need a perishable supply chain that supports stores that are near customers and great store associates to run them. To deliver value across a wide basket of goods, it's also helpful to sell a lot of general merchandise and apparel to help with the margin mix. It also helps to have a lot of scale because volume helps reduce markdowns and throwaways, which helps us sell at a lower price. Looking ahead, the combination of store volume, pickup volume and delivery is key. You need all 3 to achieve max scale.

Let me show you the same thing another way. Let's take a look at e-commerce penetration by category in the U.S. This shows how e-commerce has grown its share by category over the last decade. Now we care about all of these categories. But let me draw your attention to the bottom of this chart, where fresh food, dry grocery and consumables like health and beauty aids, paper goods and household cleaning are. Again, let's start with the customer view of all this. They purchase these items in baskets, not one at a time and eaches because it saves them time. Customers buy these items frequently. And they care about prices. From our point of view, we can move these categories more efficiently in bulk. Think truckloads, pallets and cases. And those same assets that I talked about earlier, stores, DCs, people and scale, help us serve customers with fresher product and lower prices. We can serve them with stores or with pickup because we can pick from stores like they're a DC. And we're learning how to do that more efficiently. Remember, we've done it in the U.K. for a long time now. And we do it not only in the U.S. but in China, Japan, Canada and several Latin American markets. As we learn how to pick efficiently from stores, we can deliver from stores to homes, either with our own associates, as we do in the U.K., or through third parties like New Dada in China, Uber or Deliv here in the U.S. The gig economy will play a role in delivery. Most likely, it's some combination of our own associates, third-parties and platforms with contractors that enable delivery for us in the future. So you can see the sequencing. It starts with great stores supported by an efficient supply chain. And then we layer on an e-commerce food business. We learn to pick in stores, enabling pickup, which enables delivery. We can then deliver for a fee that covers our cost, which almost certainly falls over time. We use the nearly 4,000 supercenters and discount stores, over 700 Neighborhood Markets and 660 Sam's Clubs in the U.S. that are within 10 miles of 90% of the population to deliver to the home for those that want it all the way into the refrigerator, cabinets or pantry. The news you may have heard recently about us testing the ability to deliver all the way into the home was with a crowd-sourced platform through Deliv in partnership with August Home. In the future, we think we will be able to keep some of our customers' homes in-stock the way that we keep stores in-stock today. Customers can choose any of these service levels and pay for the speed they desire. We know customers want options all the time. They flex in the moment. And we don't have to perfectly predict what the percentages will be in the future. Instead, we have to build the capabilities to provide the service they want more efficiently than others. We're seeing delivery via store and dark store pick explode in China, where the costs are lower. And I believe that grocery pickup and delivery in the U.S. will drive a lot of growth here because the experience is improving, the cost to do it will decline over time and some people just flat out love the convenience. At the same time, I believe the vast majority of grocery volume will be done by customer shopping in stores for a long time to come. So the volume from the stores helps us support and grow the rest. As delivery volumes grow and we achieve the density which will happen in urban areas first, dark stores and more automated fulfillment centers will be more efficient. That's what we're doing in the U.K. and we've begun to do in China. And as it relates to our e-commerce strategy, including e-commerce for food, as we shared with you last year in this meeting, we're out to build an e-commerce business that is a basket business. That's why we were attracted to Jet's smart cart. So we'll win the bottom of the category chart we showed you earlier. Selling those most frequently purchased items gives us the relationship and the opportunity to sell items higher on the chart like apparel, toys and television. So our e-commerce strategy has us adding food and consumables to fulfillment centers for those cases where the economics and shipment timing dictate we should ship it straight to the home.

Now if you think I'm just trying to make the case for physical retail, I'm not. I'm explaining how we believe customers will shop. And I'm saying that our assets and strengths are necessary. In fact, they're foundational. The newer business, where more growth will come from and where the customer is going, are supported by them. We are well positioned to win the future of retail. And I wouldn't trade places with anyone.

Now I'd like to quickly take you through our strategic objectives. We use these inside the company to focus our work to build more detailed plans and assign targets. The way we think of it is we're a purpose-driven company. We have a set of 4 core values and a culture. And we do all those things to create shared value. In the middle all of that, we've got 4 strategic objectives that we use to focus the team: The first one is to make every day easier for busy families. We want to change how we work. We're changing from the inside. We want to deliver results and operate with discipline. And we want to become the most trusted retailer. And I'll click down on each one of these now.

So let's talk about making every day easier for busy families. Why busy families? Well it's a big part of the market. And we've learned that what we do to effectively serve them helps us serve everybody else. So they're the center of the bull's eye. What's happening with them? Well you know they're more connected. They've embraced mobile in a big way. In fact, globally, around the world, mobile commerce has grown by about 80% just in two years. The way that I think of it is that technology is basically being hired by the customer to do anything that they don't want to do. So imagine any friction in the shopping experience, technology is going to be aimed at taking that out of the system. Technology will also help serve up things to customers that they might want to do. So becoming more of a digital company and learning how to work with speed is important to us throughout.

When we think about serving this set of customers, we break it into 3 pieces: The first one is price and value. You know we've always been known for price leadership. Our business is founded on value. That will be the case. It's in our DNA. It's the purpose of the company. We'll stay committed to that. Secondly, we want to be great merchants. We want to enable our buyers with improved data and analytics. But we also want them to be instinctive, intuitive merchants. We can do that with not only the merchants that buy for all of our stores but also all the way down to store level. A few days ago, I was in a Pittsburgh store and talking to a department manager named (Tara). Tara was telling me about her department and which items she had ordered more of so that she could feature it and drive sales because she knew she could sell it in her store. Algorithms aren't perfect. And they're not going to be perfect. Humans can make decisions, drive sales, whether it's store level or here. And we want to leverage that because we've got a lot of experience in that area.

In the category of merchandising and assortment, we're pleased with our progress on fresh food quality. It's exciting to see private brands starting to grow. The Member's Mark brand at Sam's Club is now an $11 billion brand. And on the e-commerce side, we're adding assortment like crazy so that we're there for choice. And when customers come to us through the app or some other way, they can find what they're looking for. So that's kind of the focus as it relates to being great merchants.

As it relates to easy, fast, friendly and fun, I think that starts with engaged people. The way you feel when you leave a store will influence how quickly you come back. But it's also about using technology to improve the experience. And the pickup towers you saw on the store visits are one example where we can get an item to a customer in about 40 seconds instead of the minutes it used to take us.

So let's go on to the next pillar, which is changing how we work. And I think this is a really important part of the future of Walmart. As I mentioned just a minute ago, for us to be effective on the outside, we have to change from the inside. As it relates to investing in and empowering our associates, that's happening not only at the store level but beyond the store level as we help people develop and teach them and train them. And we're going to continue to make investments not only in academies but also in technology and training so that our associates are really well prepared to do a great job.

As it relates to creating a high-performance culture, I mentioned earlier we have 4 core values: One, for example, is respect for the individual. Another one is striving for excellence. One of the things that built this company was high expectations. And sometimes, we get so focused on respecting and appreciating people that we let the bar be lower than it should have been. And so there's just a performance aspect of our culture that we're dialing up. And all 4 of those core values matter. And we can do that while still being who we are and being respectful.

As it relates to strengthening diversity and inclusion, we need creativity. We want innovation. We know that diverse teams outperform those that aren't. We have had and still have a deliberate program around becoming more inclusive. And we're learning things about unconscious bias and bias interrupters in our hiring practices and continuing to mature down this path of becoming an even more inclusive company. And that's really important to us.

As it relates to being a digital enterprise, the apps are showing up on tablets at store level. You probably saw some of those. We have some robots running up and down the aisles and tests now doing the section work for us, checking to see whether the phasings are right, looking to see if we're in-stock, eventually helping us with price changes. That's happening in this country. I was in Chile a few weeks ago. And it's happening there.

WeChat is being used by our associates in China to share ideas on how to grow sales. And Sam's Club is using Workplace by Facebook to do the same. It cuts out the middleman. Things don't flow up to the home office. It's more of a platform that enables one club to talk to another and say, "Hi. this works. Try this. It's a source of pride." So we can use all forms of technology to increase the speed and effectiveness of the company.

If we go on to the next pillar. As we do these things, we've got to deliver results and operate with discipline. Strong, efficient growth means to us we're going to rely more on comp store sales and e-commerce sales than new store growth. And Brett will talk to you some more about that in a second.

Consistent operating discipline. Obviously, managing costs as we go, learning how to say no, stopping some things as we want to start some other things. We're committed to leveraging the company as we grow. We've got to drive top line growth. But we can do more than one thing at a time.

And as it relates to strategic capital allocation. As the new store number comes down, we've got a group of new stores that we built years ago that we'll be investing in, in remodels next year and over the next few years. That, combined with e-commerce growth and some investments in the supply chain, are where our priorities are. And we're trying to be very choiceful about that -- the investments that we make by geography and the other dimensions of our business.

As it relates to building trust, we're all living in an increasingly transparent world. The things we think about here include global compliance and ethics. And we're all really proud of the progress we've made over the last few years with talent, process and systems as it relates to compliance and ethics. We have a stronger program, increased visibility and ability to detect, remediate issues as they come up. We're committed to that. And we're going to continue that good work.

As it relates to social, environmental issues, we believe in shared value. We believe that all the stakeholders that Walmart touches can benefit as a result of the system that is Walmart.

As it relates to communities, we want to make a difference on the ground. That really becomes tangible when we have things like hurricanes and earthquakes and, this week, fires. And you can see the humanity of Walmart stepping up and making a difference. But it happens every day, not just when there is a crisis.

And we want to tell our story more effectively. We frequently wish that the world will look at the company as it is today. The good and the bad. We're not perfect. But there are a lot of good things going on at Walmart. And Walmart does a lot of good things for the various stakeholders that we serve.

So let's go a little bit deeper on sustainability if we could.

We set goals a little over 10 years ago, you may remember, to be supplied by renewable energy, to sell more sustainable products and sustainable packaging and to eliminate waste. And we've made some progress. We recently announced that we had achieved our 20 million metric greenhouse gas goal that we had set a few years ago. In fact, during that period of time, we eliminated 35 million metric tons of greenhouse gas out of our system. We had set a goal of sourcing $20 billion of goods from women-owned businesses. We recently announced that we had achieved that goal. So as things like that are happening, we've set some new ones.

And as it relates to renewable energy, we want to get to 50% by 2025. We're at 26% now.

As it relates to sustainable products, the Fortune cover that was on the previous slide was kind of highlighting the work that we've done on high-priority chemicals. But basically, the buyers are working in an item at a time to make things more sustainable. One of my favorites these days is this Pristine grape. And on the back of the package, it talks about how the supplier is using 100% drip irrigation systems on their farms and pack houses. And they're supplied by 80% renewable energy. All of their farms are certified for sustainable agricultural practices. And the grapes taste good. And they're a good value at $2.28. So this relates to telling our story. It also relates to sustainability as the buyers are just making progress across the board. I think we can do a better job of communicating. And I think on pack is one good way to do that.

As it relates to eliminating waste, we want to get to 4 of our larger countries and get to 0 waste by 2025. We're at 77% for the total company today. And as it relates to carbon, we recently set a goal that by 2030 with our suppliers, we would take out one gigaton of carbon from our system. So progress is continuing here.

Let's go on to the next one.

And as it relates to communities, there's a lot of good work going on. This commitment to source goods made in the U.S.A., we're on track to achieve the $250 billion number. We had set that goal in 2013. Just last week, Greg Foran was in South Carolina helping to open a tire factory that's going to create 1,700 jobs. That's fun to do.

As it relates to veterans, we set a goal of hiring 250,000 of them. We're at 7 -- 179,000 now. And 24,000 of them have been promoted already. So that program's in good shape. We're starting to really scale the academies.

And as it relates to disaster relief, the company, with all the things that have been going on recently, has contributed $35 million. The customers stepped up, too. And they contributed more than $35 million. So we're over $70 million together that we've contributed. It's, again, an example of Walmart people stepping up and make a different -- making a difference. And the stories I've heard over the last few weeks of what our people have done in Puerto Rico, in Florida and Texas are just amazing stories. And it kind of reminds me of the fact that our people have made the difference in this company. And even in a world that's increasingly influenced by technology, I think that's what our future looks like. We -- we're still people led. We're just even more tech-empowered. So it'll be our people that'll lead us into the future.

So the key takeaways I wanted to share with you are that we have a plan. And it really does rely on the unique assets and strengths that we have. We've got some momentum. I'm proud of the fact that we're starting to move faster. I think we probably need to keep going as it relates to getting faster. And we'll be disciplined with costs and capital as we go.

We look forward sharing some more information with you as we go through the morning. Thank you.

(presentation)

## Brett M. Biggs {BIO 17414705 <GO>}

Good morning, everybody. How are you? Good to have everybody here in Northwest Arkansas. And for those of you on the webcast, welcome as well.

We want to thank you for your interest in Walmart. It means a lot that you come every year as we enjoy talking about our company. And we look forward this morning to share more about what we're doing here.

This is my 17th year with the company. And I'm so excited about what we're doing and our momentum. We have great opportunities in front of us. And we have the will and we have the resources to win now and in the long term.

As Doug talked about, most industries are undergoing more changes than we've seen in a lot of our time and certainly in retail. But I think this gives us great opportunity. And I'm as optimistic as I've ever been about the future of Walmart. And part of the reason I'm excited about our future is that we can win with both customers and shareholders. Now those things should go hand in hand, of course. And you just heard Doug talk a lot about how we're going to win with customers.

As we win with customers, we're also focused on winning with you, with our investors and with our shareholders. And that's where I'm going to spend most of my time this morning.

We have so many unique assets and resources that position us incredibly well to win now and the long term. As you hear each of us speak today, we hope you'll better understand why we believe that we can do both.

Many of the things I'll cover the next few minutes, you would have seen in our release this morning. But I'm going to give you a little more color, as you would expect. And I'll start with an update on our expectations for the current year for EPS, sales growth and CapEx. Then I'll provide an update on guidance for fiscal year '19.

One area we'll always highlight is our financial strength. We are rock-solid financially. And that just gives us options that many others don't have. And I'll frame the discussion today around our financial framework, which we laid out with you a year ago. So let's get started.

So our first half performance has been solid. Good top-line growth as well as a slight increase in operating income for Walmart U.S. and International on a constant currency basis, which are positive signs that the productivity loop is working. Now while we have delevered expenses a bit overall as a company so far this year, we have a leverage in the U.S. stores and in International. We continue to make some investments, particularly in technology, which has created some expense headwind in the first half.

From a revenue perspective, net sales ex currency increased 2.7% in the first half of the year. However, this number was impacted by the sale of Yihaodian last year as well as Suburbia this year. Excluding those divestitures, sales growth was over 3%, as you see here on the slide.

In the first half, we continued with really solid comp performance in Walmart U.S. as well as some of our key markets in International such as Mexico and Canada. U.S. e-commerce delivered strong sales growth, as you know, of just over 60%. Now as we start to overlap the Jet acquisition in the Third Quarter, we will see the growth rate decrease some. But we still expect really healthy growth for the full year.

Our cash flow remains very strong with $11.4 billion in the first half of the year. And we continue to make good strides with working capital management. We also continue to provide very strong cash returns to our shareholders as we returned $7.5 billion via dividends and share repurchase.

We expect FY '18 to be a solid year overall. And positive momentum really sets us up nicely for the next year as well. So in short, we're doing what we said we would do.

And as a reminder, we updated adjusted EPS guidance at the end of Q2 to be in a range of $4.30 to $4.40. And we're reiterating that guidance today. We expect full year sales growth of approximately 3% constant currency and excluding the impacts of the divestitures of Yihaodian and suburbia, with sales growth slightly lower on an actual constant currency basis because of the divestitures. Now while the rate is at the lower end of where we guided coming into the year, I am pleased with the quality of the sales growth given the comps and the traffic growth that you've seen, we've seen in many parts of the business. So when we say and talk about strong, efficient growth, we're heading in that direction. And as you can see, we expect CapEx, excluding acquisitions, to finish the year right around the original guidance of $11 billion.

So two years ago, we provided guidance on some metrics for the following 3-year period, which is a bit unusual for us. But given the investments that we're going to be making in the future, we wanted to give as much more forward visibility as we could. So last year, we updated that guidance. And now you can see where we stand on the guidance. Now we're always pushing to do better. But it's pretty good scorecard. And I'm going to go through each one of these briefly.

Now anytime we give guidance, as you know, there are a number of assumptions we make, such as inflation, deflation, currencies, tax rates, economic conditions, all of that staying relatively stable. Obviously, we're monitoring the U.S. tax reform very closely. And we'll update you if there are any implications for the company as we go forward. And we know, as always, that you appreciate that we're giving you guidance as real time as we can and as transparently as we can.

So as we always do, let's start with sales.

We've stated that sales growth would be 3% to 4%. As I said earlier, on a comparative basis, that's constant currency, excluding Yihaodian, excluding Suburbia, we'll likely in the lower end of that range this year and expect to be at or above 3% next year assuming today's currency rates. But that represents still nearly $15 billion of growth, which, of course, is sizable growth.

While we're on growth, let's talk to e-commerce.

When we gave e-commerce guidance previously, we were referring to a global number. Since then, we've been discussing on a Walmart U.S. number -- a Walmart U.S. e-commerce number as we've gone and put out our releases. As I mentioned earlier, we expect Walmart U.S. growth number to slow a little to overlap the Jet acquisition but to be about 40% next year, against the pretty sizable sales base this year of about $11.5 billion. Now keep in mind, this includes all web-initiated transactions, including those through Walmart.com. So Ship to Home, Ship to Store, Pick Up Today and Online Grocery, as well as transactions through Jet.com and the other sites in our family of brands. Now as a point of reference, on a global basis, this includes SamsClub.com and our e-commerce operations in our international markets. Our Global eCommerce sales are expected to be about $17.5 billion in the current year. Now recall that this number is lowered by our divestiture of Yihaodian last year in China. And we're now partnering with JD.com in that market. GMV, of course, will be somewhat larger than the numbers that I just mentioned.

So let's talk about expense leverage.

We said last year we would slightly lever expenses. Now we're still in that ballpark. But it's going to be close, I think. I'm pleased we're starting to see leverage in International. We talked about that. And Walmart U.S. stores, Judith also leveraging. Sam's is also making good progress. We have continued to lean in on some back-end technology. And we've had some additional expenses recently, such as the ones with the recent hurricanes, that are likely going to make leveraging a close call this year. I do feel more comfortable, though, that we'll lever expenses next year assuming the sales guidance I just discussed.

But not all of our costs are captured in SG&A. And I don't want to lose the progress that we've made in total cost, including cost of goods sold. We have made improvement in cost of goods through better merchandise costs, better terms over the past couple years. We have really solid top line momentum and are generating a lot of growth for our suppliers. This is an important part of what we do in the productivity loop.

We also talked last year about our investments in e-commerce being the heaviest this fiscal year. We expect our e-commerce losses to be slightly less next year. But we will continue to invest in a thoughtful way in that business.

Let's turn to operating margin %.

I said a year ago that the operating margin % last year and this year would be indicative of the range of margin % in the near to midterm. We still believe that to be the case. Some years could be higher, some can be lower. But in general, the range of last year and this year.

On EPS, our recent guidance indicates that adjusted EPS will be relatively flat for FY '18 versus FY '17. And we anticipate it coming in -- and anticipate it coming in this year as well. Our FY EPS forecast excludes the impact of any change associated with the debt tender we just announced and would exclude any other impact of other strategic initiatives that might occur over the balance of the year. I know a number that has been quite a focus for you guys has been our EPS guidance for next year of around 5%. We're confirming that guidance today, as both Steve and Doug mentioned. Now certainly, there are puts and takes. There's headwinds or tailwinds. But we feel comfortable with the guidance given this current momentum in the business.

Operating cash flow has been very strong and should exceed $80 billion over this 3-year period, which we guided, which is an incredible number.

And finally, CapEx will be around $11 billion this current year, excluding acquisitions. And we expect next year for CapEx to be in that similar range, again excluding acquisitions.

I mentioned earlier that we are rock-solid financially. And it just gives Walmart more options than some others. So as you take a look at some highlights, we're approaching $500 billion in revenue. You know all this. I'm going to say them anyway. Very strong balance sheet. Rated AA. Over 260 million customers every week. But I want to focus on the right side of the slide. And I think last year was an excellent example of our disciplined cash management along with our financial strength.

So last year, we acquired Jet, we invested nearly $11 billion in CapEx, we invested in JD.com, we paid a meaningful dividend, we bought back a healthy amount of shares and our net debt declined. That's not a statement about financial leverage but rather is a demonstration of our financial strength and the options that we have as a company.

The financial framework that we previewed a year ago with you helps guide our decisions, helps guide our discussions as a company. And there's 3 key elements. And we'll spend a few minutes on each one.

So just as a reminder, strong, efficient growth. We're going to continue to focus on our most productive and profitable growth opportunities by prioritizing comp growth and e-commerce growth versus new stores.

Consistent operating discipline. We need to be at a lower cost to serve. And we need to move more quickly in this area. And I'll talk more about that.

We continue to make investments where we need to. And we're seeing progress in taking out costs also where we need to.

As to strategic capital allocation, we have and we will continue to take decisions that improve our returns over the mid to long term.

So let's go forward and talk about strong, efficient growth.

This will look a lot like last year. And you'll see that we continue to prioritize comp growth and accelerating e-commerce growth versus new stores. We'll continue to open fewer new stores overall, particularly in the U.S.. And over time believe that's going to contribute to an improvement in our returns on our capital, which is important. We believe this is the right formula, coupled with a robust remodel program within our stores and clubs.

As you know, over the last several years, we've made investments that are important to the overall health of the business. But we're not where we want to be from an expense standpoint. And we have to get better now. But we have to do it in a thoughtful, process-minded way. As I mentioned earlier, we expect expenses as a percentage of sales this year to be near our leverage point and leveraging next year. Now in order to achieve expense leverage going forward, we need to change the way we work.

During this year, we made a decision to formalize our commitment to cost transformation. As part of that, we're instituting a 0-based budgeting approach across many parts of the company above store level. We're going about this in a thoughtful way, that works inside the company, is consistent with our culture and ensuring that we manage costs in a very thoughtful way. But we need to make progress. And we believe this is going to help us in making progress more quickly.

And our teams are already focused on changing how we budget across the organization, eliminating duplication, utilizing technology in new ways. One of the great things, though, about our scale as a company is that sometimes, small changes can result in important reductions in cost. For example, a simple change to our plastic bags at Walmart U.S. resulted in an annualized savings of approximately $20 million. A decision to shorten the length of the receipts saved over $7 million. We're also seeing examples across the globe. And Dave will talk about some later, that are helping markets like Chile, Canada and the U.K. leverage expenses meaningfully.

There are also things we're doing from a structural standpoint that we believe will lower our cost to serve over time. As an example, earlier this year, we merged shared services with the back-end technology group to form the Global Business Services group, which should allow us, over time, to take a more product agile approach to back office functions, both in stores and in corporate functions. So in Global Business Services, we're focused on automating processes, changing procedures. And we're utilizing bots more than we ever have. The focus on expenses is going to provide fuel for this business. And we're excited about what we can do with that fuel.

As I mentioned earlier, our business generates substantial cash. We're going to invest in the business as our first priority, which we always have. But we have a meaningful and growing dividend. 44 consecutive years we're increasing our dividend. And we're committed to our share repurchase program as we utilize the excess cash. So this morning, you saw that we instituted a new $20 billion share repurchase plan.

As we generate the significant amount of cash that we do, we feel good about investing in Walmart. As we mentioned in the release this morning, we estimate utilizing this authority over approximately two years. The pace of repurchase, of course, will depend on the continued strong cash flow of the business as well as other potential or strategic uses of cash. But we feel good about the long-term value of Walmart.

Now as you know, while we've continued to grow the business and we transformed for the future, we have returned a significant amount of capital to shareholders. Including what we estimate to return for the remainder of this year, we have returned over $30 billion to shareholders in last year and this year combined, which is quite a remarkable feat given the transformation period that we're in as a company.

Now as we continue to change as a company. So is the way in which we allocate capital. So as you can see over time, our total spend has decreased some and has shifted toward remodels, e-commerce, supply chain and technology. Now certainly, what stands out most clearly is the shift in capital from new stores and clubs to remodels over the past few years. As we look to get more growth from existing stores, this spending flows with that strategy. So last year, we opened nearly 60 supercenters in the U.S. This year, we're going to open fewer than 40 and expect next year to open fewer than 15. We will continue to spend capital where we believe it's going to make the most difference for our customers as well as how we conduct our business and how we work in the future. So Online Grocery expansion, pickup towers, Scan & Go, some of that you would have seen yesterday in your tours. Those are all examples of what I'm talking about.

So as we look at capital by segment, there are just a couple of notes I would make. First is that we expect CapEx by segment to be pretty similar to next year compared to this year. Over a period of time, what you've seen is just a slight decrease in CapEx at Sam's as well as International over that period of time.

So while we're being opportunistic from an M&A perspective. And you can see it here on the walls that looks a little bit different than it did a year ago, we're also more focused and open to taking action on assets within our portfolio to simplify the business. The divestiture of a successful business like Suburbia in Mexico is an example of that. Suburbia is a really good business. But it's one that just didn't fit as well with our long-term strategy. So we're going to continue to consistently monitor our portfolio. We're going to ensure that we have the right mix of assets for our shareholders long term.

We're also partnering with great companies to move faster and leverage existing platforms and expertise rather than always investing capital and taking the time to build it ourselves. The partnerships with Google Home and JD.com are great examples of that.

And we're going to test some things. We're using Uber to test last-mile delivery in addition to utilizing our own associates. We're partnering with August Home and Latch to deliver into customers' homes. Our stores are close to the customer. And we need to experiment with options to take advantage of our unique footprint. We will continue to explore creative options to grow the business.

Let me leave you with just a few thoughts this morning.

We're executing our strategy. We're delivering results. The plan is working. We're going to be more disciplined with expenses, providing even more fuel for this business. Our plans deliver balance and efficient growth, comp stores versus new stores. And we continue to be thoughtful on how we allocate capital and making decisions where to accelerate, which you've seen. But also what to stop. And you've seen that as well. Most importantly, we are doing this from a base of incredible financial strength.

I'm going to finish where I started.

We really like our competitive position. I'm with Doug. I wouldn't want to be anywhere else. We're confident we'll win with customers. And we're committed to growing the value of the company for our shareholders while we win with customers. We can do both: we can win with customers. And we can win with shareholders.

Thanks for your time this morning. And thanks for your interest in Walmart.

(presentation)

## Marc E. Lore {BIO 3597588 <GO>}

Good morning. Welcome. Hope you enjoyed dinner last night. I really appreciated all the great questions.

It's been a little over a year now. I think last year, I was at this meeting and I was on the job about 17 days. I had a chance to share some of my early sort of thinking. And as you can see in the last year, the team has been really busy.

We've got a lot of stuff accomplished and feeling really good about where we are. We launched the 2-day free shipping with no membership. We launched Easy Reorder, the Pickup Discount. We acquired 5 companies. We created Store No. 8. We started to do some innovation around testing associate delivery, testing in-home, into the fridge delivery. We did a deal with Google to partner with them. We've been busy on a lot of fronts with respect to trying to do things to improve the customer value proposition.

But under -- beneath all that, we're working hard to build the foundation and really build the infrastructure. Spent a lot of time restructuring the organization. We built it to move faster. It's more customer centric now. I have the head of customer experience and the head of customer service reporting direct to me. They were before sort of down low in the organization. We've made some great hires over the year. And I feel really good about the team we have in place. And I think we're set up well for success.

First half performance, you know the numbers. 62% sales growth for the first half. That compares to 12% for the same period last year. And as you know, most of that growth came from organic.

In terms of looking ahead to next year, we see 40%, thereabout, growth next year off a base of $11.5 billion. This is $11.5 billion just in the U.S. So next year, approximately $16 billion will be the number.

In terms of the bottom line, I think Brett said this before. But this year should be the largest loss in e-commerce. And we'll see slight improvement next year. So we're happy with the growth. Obviously, e-commerce will scale gains. So we have a lot of work to do. But we like the direction that we're heading.

What is the direction? We want to be the destination for customers to save money no matter how they want to shop, whether it be pickup, delivery in two days or delivery in 2 hours. The idea is to save customers money at any service level.

At the end of the day, Doug said it before, we want to make every day easier for busy families. That's our vision.

So how are we going to get there? The strategy is actually quite simple. It's got 3 parts. First, we want to nail the fundamentals. We're going to spend a lot of time doing that. Then we want to leverage our unique strengths. And this is really about playing offense. And this is the part that gets me really excited. Then also, at the same time, we're going to be innovating for the future.

So let's focus in on nail the fundamentals. This is where we're going to be spending the majority of our time.

So how are we going to do it? We've created this index we call the CVI, the Customer Value Index. And it comprises 5 bellwether metrics that we track maniacally. Have it, find it, display it, price it, deliver it. We call it the 5 its. Do we have the products that customers want? Can they find the products easily when they search on the website? Are the products displayed with all the content, pictures, descriptions that were used to make an intelligent decision? Are they priced right? And are they delivered on time and fast? And so we're sort of maniacally focused on getting those 5 bellwethers where they need to be in improving the CVI.

When you think about the CVI and those 5 bellwethers, they really break down into 2 separate buckets. They break down inmerchandising and logistics. I think if you were to ask people what e-commerce is all about, people would say, oh, that's when you ship products to your home. But for me, when I think about it, that wasn't the step change. We were delivering product to people's homes for decades before the Internet through catalog. The step change was really one around merchandising. The Internet unlocked the ability to merchandise products in a way that could never be done in a catalog. Basically, millions of products with really rich product content, descriptions and pictures and reviews from other customers that never could have been done in a catalog before. So when I -- and dynamic pricing on top of that. So when I think about merchandising, I think about that as being the step change in e-commerce. So we're going to be laser focused on fixing merchandising as well as logistics.

So how are we going to improve merchandising? It's really broken down into 2 separate buckets: the top million SKUs; and the long tail, which is everything else. And the reason why we break it down into 2 buckets like that is because the tactics are different. With respect to the top million SKUs, it's really more about being human powered, whereas the long tail is really more about being tech empowered.

So on the top million SKUs, we're taking this very focused effort on bringing in category specialists that have responsibility for a very narrow set of SKUs. Think like

500 SKUs. A category could be food storage bags or it could be treadmills. It could be vacuum cleaners. A very, very narrow category. Today, the average merchant might have 10,000 products they're responsible for. We're going to sort of narrow that down to 500.

So the top million SKUs can be covered by 2,000 specialists. And this specialist basically spends all day every day focused on all the details to perfect the experience in that category. So it means perfecting the descriptions, getting all the right images, making sure the attributes and filters are perfect. We even have the ability of category specialists now to actually show exactly what the 10 results should be for any specific keyword search term. And they can move around the results depending on the house -- hot, new products come in that maybe aren't recognized by the search engine right away, products that they want to merchandise because they have particularly good margin and think customers really like the product. So we've hired about 250 of these category specialists so far. And we're hiring about 40 to 50 new specialists per month.

We're also investing pretty aggressively in merchandising tools just to make these category specialists more empowered and be able to do more faster. So that's how we're going to kill the top million SKUs.

With respect to the long tail, it's really about marketplace. And over the last year, we've grown SKUs from about 50 million to now over 60 million products. So we feel good about the momentum we're seeing there.

Also, to help in the long tail, we've made 3 acquisitions in ShoeBuy, Hayneedle and Moosejaw. All 3 are in these long tail categories where we felt it was easier to accelerate through acquisition than do it organically. And so what they brought is really rich product content. Hayneedle has over 1 million home SKUs. They've taken most of their own pictures. And so the content is really rich. They've got thousands of relationships with brands and an incredible specialized merchandising team. And so we'll look as well over the coming year to see if there are opportunities in other long tail categories to help accelerate growth on both Jet and Walmart.

Cutting across both the top million and the long tail is really the brand. And one of the things we're going to be really focused on over this next year is to elevate the Walmart.com brands so we can attract more premium sellers to the site, more premium brands. One thing we already did, starts to see these boxes flow through, is we just moved to colored blue boxes on Walmart. They're starting to hit the market now. We're in the process of redesigning the website to be more modern. And that should hit in Q1. We're working on some partnerships that you'll see come through during the year to bring a more premium assortment to the site. And we're also really focused on creating these vertical shopping experiences that are more about browse and discovery than just straight transactional. And the focus is going to be on home and fashion. And we've hired 2 really strong leaders in those areas. And so expect to see those experiences over the next year or 2 get elevated. And of course, Jet.com. We're sort of positioning Jet to be more geared toward the affluent, higher-income, urban millennial customer. And as we do that, we're going to start pushing up the ability to attract more premium brands. We've already started to attract more premium brands on there but we will get even more so as we continue to push the brand more upscale. And that'll help then build a bridge to bring these brands ultimately to Walmart.com.

On to the logistics.

With respect to logistics, a lot of the groundwork was already laid before I got here. The warehouses are the right size. They're in the right location. And they had the right level of automation. And from the network we have today, we can ship 99% of the country via ground in two days and 87% of the country overnight via ground. So that's how we're able to offer the free 2-day shipment with no membership. So we feel really good about that footprint.

The reason why you're not seeing that flow through, if you've shopped in the site and saw like boxes being split, is because we have not yet mirrored inventory in all the locations. And that's what's we're focused on doing this year. Get the inventory mirrored in the different locations, make sure that we have high in-stock rates and make sure that everywhere that it comes in gets out and fulfilled and shipped as soon as it comes in. If we can do that, we're going to be able to create a very magical experience on Walmart.com.

So that's really how we're going to fix the fundamentals. And we're really focused on doing that.

This next part of the strategy is what gets me really excited and why I'm so happy to be at Walmart. It's really about leveraging the unique assets to play offense. And I think Walmart has a set of assets that can't be matched anywhere. And Greg Foran and I and our teams are working very closely together. I'm in communication with Greg on almost a daily basis. And we're thinking about how do we leverage these assets to create a magical experience for customers.

I think 90% of Americans live within 10 miles of a Walmart. There's 1.4 million associates. And Walmart's the largest grocer in the U.S. So when we think about some of these assets and we think about playing offense, we think about it across 3 dimensions: price, assortment and experience.

So let me start with price. When you're thinking about price and thinking about our assets, it has to start with the stores. For low price point items, no way to have a lower cost to serve. That $0.72 baking soda that has just cents of margin, there's no way to pick that in fulfillment center, never mind paying for the cost of shipping. The picking cost alone is about $1 to pick a unit. So there's no cheaper way to get these products to consumers than have them come in the store and pick it off the shelf themselves. That's a great starting point. But customers don't always want to come into the store and pick it off the shelves. That's why we've got 2-day free shipping on all your head consumable items. And we're able to leverage the smart cart technology on Jet to empower customers to build bigger, smarter baskets of product so we could pull supply chain costs out and give customers even lower prices. So if they want to come into the store and pick it off the shelf, save money, that's great. They want it shipped to their home in two days, we'll give them the best price because we'll leverage the smart cart technology. Over the next year, you'll see the smart cart technology on Jet migrate onto Walmart.com. So that's really about the head of the assortment.

When you think about the long tail, we can also leverage the store assets to bring lower prices to consumers. Yes. Again, we can ship it to home. But if you're willing to come to the store to pick it up, we avoid last-mile delivery cost, which is the vast majority of the cost to delivery. We can share those savings with customers, which gives them a lower price. And we make the same profit. And at the same time, we're sending traffic to the store. And a virtuous cycle sort of kicks in. So we feel really good about how we're positioned to leverage our assets with respect to price.

On the assortment side, Walmart has many billion-dollar private label brands. In fact, 3 of the top 5 private label brands in America are Walmart brands. And so it's an incredible asset. We've already started to leverage that asset. We've just recently announced that we're launching Uniquely J, which is a private label brand at Jet. It's going to have hundreds of products, more premium across the entire range of categories.

Then the digitally native brands. This is part of our strategy. We've bought Bonobos. Andy Dunn, who's the Founder and CEO, is now running our digitally native brand strategy that includes ModCloth and also incubating additional brands. We do believe that when there ultimately becomes parity on the assortment, that this will be a differentiator for us. These brands connect with millennial shoppers. And they offer assortment that you can't find anywhere else. And the margin structure is fantastic. So that's assortment.

Experience, this is the one area that gets me, I think, most excited. This is where we can really leverage the assets to create an experience that you can't find anywhere else.

So let's talk about grocery pickup. 1,000 stores today. It will be in over 2,000 stores by the end of next year. Customers absolutely love this experience. The Net Promoter Score is in the 80 s , which is really unheard of. It's an incredible value proposition to the consumers. So we know customers love the pickup. But now that we have picking capability in 1,000 and eventually 2,000 stores, we're suited -- really well suited, to be able to do same-day or 2-hour delivery. In fact, when you think about delivery and you think about the cost of doing same-day or 2-hour, there's not a lot of volatility in sort of the actual cost of doing the delivery. The real differential comes from, can you forward-deploy inventory to 4,600 warehouses? And can you get that product there in full truckload quantities? Well that's what Walmart has, 4,600 sort of warehouses where the product is getting there in full truckload quantities. So you really can't get a lower cost to serve than that. And these warehouses, they're profitable. So each marginal dollar that comes out of their Ship to Home is coming at a really attractive marginal rate. That's where the real power of the omni comes together.

So we're doing tests right now in about 2 dozen stores. We're using Uber, Deliv and even our own associates. And so we're going to take sort of the best of. In different situations it may make sense to use associates; in others, just straight crowdsourcing. We've also bought Parcel, which is really going to be focused in urban areas. And specifically, they'll start in New York City, which is a nice complement to the 4,600-store network that we have. In addition, two days ago, we just announced Mobile Express Returns, which is another big advantage at the stores. It makes it very easy for customers to return product. And now they can do it in less than a minute. So we're really excited about leveraging those assets.

So that's it. That's really about how we're going to play offense.

The third part of our strategy is really about innovating for the future. So that's really about story, a story where incubating businesses across the country that have the potential to shape the future of retail.

In the future, we believe that shopping will be more personalized, immersive, interactive and on-demand. So more value in everything from artificial intelligence, voice, AR, VR, drones, autonomous vehicles. And we're also looking to redefine the brick-and-mortar shopping experience of the future.

Story is not a sandbox. It's about incubating businesses that have a clear vision, a mission, a set of values. We're hiring great people to run these businesses. And the idea is to set us up nicely for the future.

So again, in summary, the strategy is very simple. We're going to be maniacally focused on just nailing the fundamentals. We're going to look for ways to play offense by leveraging unique assets. And we're going to be focused on innovating for the future.

It's been a great first year. I'm really excited to be here. Doug and the board have really empowered me and the rest of the team. And that has really enabled us to move fast. I know people don't always believe me when I say it. But it feels like a startup. We're able to move as fast as we were moving when we were a stand-alone business. So I couldn't be more excited about next year.

Just a few things I want to leave you with. Expect us to continue to work closely with the store's team, Greg Foran. We've got a lot of ideas on how to bring the experiences of both online and these stores together to create a magical experience. We're going to be maniacal and laser focused on getting the fundamentals right. And look for us to continue to play offense and continue to innovate. Thank you.

## **Steve Schmitt** {BIO 19791185 <GO>}

Okay, boss, nice job. All right. So why don't we take 20 minutes? So let's get back here at 9:25. And we'll hear from all the division CEOs. Thanks.

(Break)

All right. So we're going to get started here in a couple minutes, if people could please find their way to their seats.

All right. Good. So one of the things that makes me really proud to put my Walmart badge on in the morning is that, as a company, we've made it a priority to be there for communities when and where they need us around the world.

Our responses to the recent hurricanes is an example of this. Have a look at this video.

(presentation)

Thanks. I think that's a great video. So we're going to kick off the second half of our presentation with Sam's Club now.

(presentation)

## C. Douglas McMillon {BIO 17082935 <GO>}

This is John's first time to present to you all as the CEO of Sam's Club. So give him some grief if you want to. But I wanted to jump up and introduce him.

He started with the company in 1993. So he's been with us for 24 years. He's been a buyer, a divisional merchandise manager, a general merchandise manager, a store manager, a market manager, led operations. He's led the sourcing areas in Sam's and private brands. He's worked in Sam's previously in international and in Walmart. He was our Chief Merchant in Walmart China until we asked him to come over and lead all of merchandising for Sam's. Then earlier this year, we promoted him to CEO. So he's had a lot of jobs. He's taking an objective look at Sam's Club. So off to a great start, making some changes. And I'm looking forward to seeing what's going to happen at Sam's under his leadership.

## John Furner {BIO 19351533 <GO>}

Thanks, Doug.

## C. Douglas McMillon {BIO 17082935 <GO>}

Welcome, John.

## John Furner {BIO 19351533 <GO>}

All right. Good morning. Doug, thanks for the intro. First, it's a privilege to be here today to represent the team at Sam's Club. We've got a great team. And I'm really proud of the work they're doing.

And it's great to connect with a lot of you. I see Maggie in the back. And I was thinking about walking clubs with you 8 or nine years ago in New York. (Simeon), we got to catch up last night. We got to walk some stores in China a couple of years ago, just as we're launching mobile e-commerce. But I just want you to know I'm always impressed with the knowledge you have of our business and how close you are to the details of our business, which makes it easy to have these conversations.

So let me start with a few numbers. Like you saw on the video, net sales were up 2.6% for the first half. Traffic increased by 1.6%. And we marked the sixth quarter of positive growth. So the sixth straight quarter of positive growth. And the Member's Mark brand is now an $11 billion brand.

Now we think these are good results. But we can do better and we must do better. And as you know, our trajectory has been relatively flat for several years, even as the warehouse club has -- the channel has continued to grow.

And so that's why I'm going to call out the question that's probably on your mind. Will the new team at Sam's Club move the needle in a meaningful way? And I want you to know, the answer is yes, we will move the needle and we're going to accelerate growth at Sam's Club in a meaningful way. We've got a clear vision for where we're going. And we're making progress.

To start with, we've got an experienced leadership team. And we're moving with speed. Our Chief Operating Officer, Gisel Ruiz, she's a 25-year associate. She's led operations all over the country and the world. And she joins us from Walmart International. Our Chief Merchant, Ashley Buchanan, he was leading a big part of the U.S. food business before he came over. And Ashley's got a long career in retail, in merchandising, in consulting. Then, our CEO of SamsClub.com, who's also now the Head of Membership and our marketing team, Jamie Iannone, has a wealth of experience in e-commerce and tech. And he's built the team with people like Hsiao Wang and Eddie Garcia. And they've already made great progress this year, setting up and leading product acceleration teams that are helping move us forward.

So together, we're thinking differently, we're working in new ways, we're taking more risks and we're becoming more agile.

And the result of all this is really a great reinvigoration of the business model. And while everything we're doing is intended to improve the U.S. club business, these changes are also benefiting Sam's Club all around the world.

So let me share a few examples of things that are giving us confidence.

If you think back a couple of years ago, we started simplifying and then prioritizing our private brand Member's Mark. And Pam Gaik and her team, they're doing just a terrific job.

Just two years ago, our private brand penetration was just 17%. And today, the brand accounts for nearly 23% of our business. So that's a significant increase in just two years. And we believe we've got a lot of room to grow.

We also started to refocus on our fresh food business. And so far, the results, they're really encouraging. Ed Romero, who you met last night, he and his team, they've recharged our efforts. Just two years ago, we had negative growth in fresh food. And recently, we've been running comps as high as 5%. So good progress there.

Our SamsClub.com business, it continues to grow. E-commerce sales are up in the first half by 27%. But I think most exciting for the business is, year-to-date, we're up over 7 million visits, which tells us we're on the right track.

So we're simplifying everything we do. We've invested in technology, we found new ways of working. And these are helping us to run a flatter, more efficient organization. We're making these simple improvements, like not checking cards at the door. We've changed our checkout process. And in just the last five months, our member satisfaction scores for speed of checkouts have improved by nearly 7%. So we're making some great progress there.

We've also launched a new prototype for the front end. And it's in about 30 clubs. And the prototype is cutting transaction times at the front by half. So we're cutting the times in half.

Now our Scan & Go business, which is a completely mobile technology, as you know, our usage of the device has doubled this year. And it's a really meaningful part of the business. We've done over $1 billion in sales since launch. And we keep seeing more and more people use it every week.

Now one example of simplification I want to talk to you about is our new membership sign-up process. And that's something we're going to launch later this year.

If you go into a club today, it could take anywhere from 8 to 28 minutes for you, as a new member, to get a card and membership and start shopping the club. It takes 2 different systems. It takes 5 pieces of hardware. And so our new process takes about 40 seconds. And it's one piece of equipment. So let's take a look.

So what you see on the right-hand side, our new process, we have an associate with a new member. The member walks up, quick photo with the iPad. We need a driver's license, a credit card. She'll swipe the card, hand it over to the member. And then he's off to shop. And you can see we have it in 43 seconds.

On the left-hand side, the old process is an exchange between the member, there are a lot of questions, there's lots of typing. Then you're going to see here in just a minute, have to move over to another piece of equipment, actually use the POS system.

So that's an example of how product acceleration can work. So you think about, if we have an 8-minute process, one approach should be let's try to reduce it to 7. But the team looked at what's the best way we can do this and make things easy for the member and they cut it from 8 minutes to 40 seconds. So it's an example of some of the way that we're trying to move forward.

So now I want to shift to where we're going. And if I can leave you with one point today, the point that I want you to take away for this business is a point of focus. And we're focusing the business to accelerate growth. And most importantly, we're narrowing our target member and we're taking more steps to become special to that member.

Over the years, we've had at Sam's Club a number of strategic shifts. We try to serve a wide variety of incomes, some of which was driven by real estate locations. And we've attempted to serve too many types of small business members.

At one point, we had 16 different member segments. And think about that, with a limited SKU offering, we weren't severing any of the segments very well. And I want to give you an example.

A couple of years ago, I attended a line review with one of our buyers. And this buyer was our frozen poultry buyer. And as we started walking her, the item she chose, she would tell me, well, this item -- the first item I want to talk about, this is for business resellers.

The next item is for our food service members. The next item is for the CEO moms. This item is for social couples. And this went on and on. Well think about it. They're just not that many parts of a chicken. So you've got to back up and say, I think we've complicated this. And what we want people to do by narrowing the focus on members is taking a signed category and be the very best category bearer they can be and buy the right items that work for the member.

So moving forward, we're going to be very clear on the member target.

So as you know today and you look at the slide, we've got 2 types of members. We have Savings members, we have Business members. But when we dug in the data, what we see is there's a lot of overlap with how they shop.

And for new sign-ups, about 74% of our members, when they sign up, they choose to be Savings member. But when we look at the data, 95% of what members buy is actually for the household. It's really a Savings member basket.

Now we do have strong relationships with businesses like restaurants, small offices. But again, when you take fuel and tobacco out of our business, 95% of the baskets look like they're purchased for the household.

So we really have 1 member. And I want you to think of them like this. It's a busy family, typically living in the suburbs of 1 or 2 incomes. They make somewhere between $75,000 and $125,000 a year. They may own a couple of cars. They may be employed or self-employed. They may own a small restaurant or run a small office and purchase a few things for their business. But this is a big segment of our business currently. And it's growing. They like us. And the numbers show it. Year-to-date, they have the highest growth in club traffic. And they also have the highest online sales penetration of any member segment we serve. And we believe if we can become more special to this member group, we can earn a greater share of their wallet.

So we're moving forward and we're moving quickly to align the entire business around this more narrow focus. We're evaluating everything from our membership offering to our merchandise categories to our locations. And we've got some important choices to make in the future.

So what's next? It's to improve our value proposition to that member, to present a unique offering and an experience that works with their lives. And I constantly talk to our team about 3 priorities: people, product and digital.

And by people, we mean making Sam's Club an even better place to work and empowering our associates to serve members, how associates are hired, developed and trained to engage our members is critical to their success and ours. And we're encouraging curiosity, ownership and new ideas.

By digital, we mean using technology to make Sam's Club an even better place to shop and a better place work. And whether it's through auto-renewing your membership or offering easy reorder on the app, we'll continue to reduce friction for members.

Now earlier, Doug mentioned the Workplace app. We use the app all over the business. And we use it for collaboration, we use it for communication. And earlier this year, we expanded the app to our entire fresh food team in the field, including the assistant managers who run fresh food in the business.

And what you'd see is they're using the app for managing inventory, they're sharing ideas, they're driving competition around sales. And the thing that I say every week is I'm just so impressed by the pride our associates show in their work. There's nothing better than coming in on a Monday and see 20 or 30 or 40 photos of the great things the associates are doing in the field and how proud they are of their work. So it's just an example of how digital can help us accelerate.

But what I really want to focus on today is product. We're a warehouse club. And think about it, people don't come into us for a fancy environment or the white-glove service. They come in for items. And having been a merchant at Sam's Club for many years, I can tell you the way you win in this channel is you have the best items. You've got to have the best items. And we've got to get that right.

And the key to it is our merchant team. We're raising the bar on talent and we're getting into the details of every item, every package, every palate. And we're curating a high-quality assortment that's practical, it's aspirational and it's on trend.

And as I said earlier, we're building momentum in fresh. We know it drives traffic. It has a strong margin. And to win in this space, we've made some big investments already. We put new team lead positions back into the clubs where we've got new training programs to develop fresh experts and we're working on direct food sourcing. And this work really helps us with a broader corporate strategy of Win in Fresh all around the world.

And as I mentioned earlier, we're leaning into Member's Mark. And this gives us an opportunity to differentiate ourselves and offer superior quality, great products that cement shoppers' loyalty. And the brand resonates well beyond the U.S. So whether you're in our clubs in Mexico or China or our partnership with JD.com, it's driving growth through the entire company.

Now last night at dinner, everything you ate from the club -- everything you ate came from the club, from the beef tenderloin to the crab cakes to the shrimp, it all came from the club. And your feedback lines up with what we're hearing from our members. They're delighted about the quality and the scope of the offering.

Now for the holidays, we're focused on getting exciting -- or focused on delivering exciting items you can't get anywhere else. We've got great items like -- we've got Member's Mark Christmas decor, the Viking, Copper cookware, cookies from Europe. Over on the side over here, you see the cozy throw. And I'm telling you, it's a great lineup. It's one of the best I've seen in years. And that's what's going to make the difference for us: great items in a meaningful value that appeal to our target member, you can't get anywhere else.

So let me leave you with these key takeaways.

First, we've got a focused strategy to accelerate growth. And we have an opportunity to grow by serving one member. We're going to lead with agile technology. And we are going to win with merchandising.

So along the way, we'll show you the progress through results. We've got a terrific team. I know they're up for the challenge. And we're looking forward to what's next.

Thanks for the time. And I'll see you in Q&A this afternoon. Thanks.

(presentation)

## David Cheesewright {BIO 7334339 <GO>}

Good morning, everybody. It is great to be here. And like Brett, I'm just about coming up to my 18th anniversary with Walmart, always in international. And I honestly did not think there's been a better time to be in this business.

If you only remember 3 words from the next 20 minutes or so, I'd like you to remember strategy, momentum and leverage.

I think you'll see we have a very clear and consistent strategy in international, hasn't changed that much over the last three years. That's driving great alignment for our business.

But what I'll talk a bit more about is I think we have a clearer-than-ever understanding of our role in the portfolio, in the corporate portfolio but also the role of the individual countries within our portfolio.

In terms of momentum, we've got really good momentum. We've delivered consistent results. You'll see, we'll talk about it in a bit more detail later. But we're now on 14th consecutive quarters of seeing our (MAT) comp sales improve. We've done that profitably and also broad based across most of the metrics.

Maybe the most exciting of the 3 is leverage. And I'll touch on this throughout the next 20 minutes. But there's more work going on in trying to work out how international can lever off our core U.S. businesses and how those businesses can benefit through having an international portfolio than ever before. And I think that gives us a unique advantage versus lots of the other competition we have both in the U.S. and around the world.

So the strategy, you'll remember, is pretty consistent. Four big pillars. So first of all, we actively manage our existing portfolio. We deliver disciplined growth through differentiated customer value propositions. We want to be the lowest cost operator wherever we are. And we want to make sure that we build strong foundations.

We've worked very hard to understand our role in the portfolio. We think of it in international as doing 3 things. We have access to a lot of high-growth markets around the world. So we have to be a growth engine. So our first and foremost role is to grow ahead of the business and deliver cash growth. But we also have 2 other really important roles to play in this corporation.

Second is to deliver talent. And it's one of the things I think we underestimate. There's a million people working in the international business. We've placed over 25 offices back into the U.S. business. And they may be associates who've gone out and got some experience in international and come back to the U.S. core businesses or have started international and gone into the U.S. business. What other business around the world has the opportunity to give people that sort of experience or have that breadth of talent that they can access from, that's a huge competitive edge.

The third area is in IP and ideas. We run over 60 different businesses around the world. And again, in terms of our core business, where else can you dip into that diversity of business and expertise? And I always joke with Doug. But quite often, it's very rare actually there's a problem we face in the U.S. that someone hasn't solved somewhere out in the international business through those small entrepreneurial markets. So 3 distinct contributions to the corporation.

In terms of our half year performance, it was a really strong first half. Net sales were up 3.2%. Now that excludes the impacts of some of the disposals, Suburbia and Yihaodian. It would be1.6% including those.

But we see continued sales momentum. And I'm particularly encouraged that momentum is coming from both Walmex and Canada. Walmex had a 5.5 comp in the first half. It's their 10th consecutive quarter of outperforming the industry in Mexico. And that business really does go from strength to strength. If you saw the releases this month, over 10% comp in the last releases. So very strong in Mexico.

Canada, 2% comp and a much more muted market. But again very strong. I think I'm most encouraged about Canada is for the last few months, their tonnage growth has been twice the level of their value growth. And we always like businesses where we're moving volume ahead of our value growth. So very strong in Canada.

The U.K., as you know, has been a tough, tough market. But we're seeing a really nice improvement there. First half comps were 1.8% positive. That's running against minus 7 from last year. And if you've looked at some of the more recent market shares, you see a very nice shape to it. We've seen really good increases in traffic. We're now generating the most new customers of any of the big players in the U.K. We're seeing our unit growth ahead of our value growth. And for the last 2 sets of 4-week periods through Nielsen, we're taking value share again in that market. So really encouraged by the progress in the U.K. although a lot to do.

And lots of really exciting things happening in China. Our growth is steady there. But we're really excited about the partnership with JD. We've launched flagship stores for Sam's Club. We've just opened up our global store, which allows us to ship product in from around the world and access the huge Chinese market. But probably most excitingly is the partnership with Dada -- New Dada. And that's our rapid delivery mechanism.

So there, we have 140 stores across China now, where from the time you press order on your app to that being in your home is less than an hour. That requires us to pick in 15 minutes.

And when you start to think about leverage, the amount of learning that we're getting from China where e-commerce is moving so fast that can apply to our businesses around the world and the U.S., I think it's going to be a significant competitive edge in the future.

So a really strong first half.

I talked a bit about momentum. And this chart should give you an indication of this. This looks at the 12-month rolling comp numbers. So it takes out some of the variations with timings. But you can see for the last 3.5, four years now, we've not just seen positive comp growth in international on a pegged basis. But we've seen that improve quarter after quarter after quarter. And if you look at the rules there on the side, they're the kind of things that Brett will challenge us on when he reviews the business quarterly.

So our growth is coming -- it's good growth. So we're growing our comp sales more than half of our growth. And that's coming a lot from very strong capital discipline.

If you looked under the hood in international, our overall CapEx has been coming down high single digits for the last four years. But within that, our new store CapEx has been reducing almost double that rate. We've gotten much more efficient at how we use it. And that's driving our comp sales. So comp sales more than 50% of growth.

Our sales growth is ahead of our expense growth. So we leverage nicely in the first half. We'll leverage again in the second half. And I see that as a trend that we're going to continue.

Our profit growth is ahead of sales growth. And actually, throughout this 4-year period, we've delivered profit growth ahead of sales growth. Our sales growth is ahead of inventory growth. And finally, our payables growth is ahead of inventory growth.

So it's not just good momentum. But it's very broad-based momentum across international, which we're really encouraged by.

So let's say a bit about the strategy and start with the portfolio.

Now you've seen us go through a number of iterations about how we think about the portfolio. It's a pretty diverse portfolio. We operate in 27 countries around the world, with over 50 different formats but really kind of 12 or 13 core formats but very complicated.

You remember we did some work three years or so ago, which looked at where is growth going to come from around the globe. And we have access in the markets, we're into about 55% of global growth.

The next 3 markets, Russia, Iran, Venezuela, not particularly attractive. And it then gets to be a long tail after that. So early on, we've said, look, we're happy with the markets we're in. We'd rather focus on winning in those markets than going to lots of new markets.

You've seen us increasingly focus on where it matters and make some tough choices. So rather than briefing on every single country, we've put resources into the one that matters. And if you remember, three years ago, Mexico and Canada were having tough times. They're our big profitable businesses, are adjacent to the U.S. We lent in hard on those, made some tough choices in terms of investments in other markets and got those businesses back on track.

What we've looked at over the last year or so is another way of looking at things. And really, 2 things: what is the role that the markets play in the portfolio, their size, their strategic advantage? But also looking market by market to say what is the underlying strategic advantage for that market? So a great market might be one like Chile. We have a dominant market share. There's a big informal market. So there's this kind of engine room for growth that's going to keep going, has a really good balanced portfolio. The portfolio is very well positioned. They have a distinct cost advantage. That's a market that should be successful for a period of time. And you can do that exercise across different markets.

So we're now thinking of our markets into 4 -- 3 broad buckets. And I'll just take a bit of time to talk about those over the next few minutes.

The first is a strong North American core. And in there, we consider the markets adjacent to the U.S.. So Mexico, Canada and (CAM). Our Focus there is, number one, to strengthen our advantage. They're strong businesses. But we want to make sure they remain strong. And there's none of those markets where we can't do better. So for example, Mexico has strong market share overall. We tend to be a bit weaker in the Northeast. So what could we do to address that? Mexico has very good cost leverage. It's primarily done that by growing very fast. But some of the disciplines that we've got across our portfolio in markets where growth has been more muted like the U.K., we can help them be even better at managing the cost and reinvesting in price. So you'll see us lead into those markets to not be complacent because we're well positioned. But to get even stronger in those markets.

The second thing we'll do there is focus on leverage. And what you'll hear as we go through this and hopefully in some of the other sessions, we're building structural leverage advantages.

So whether it's on private label, the fact that John, Greg, myself, we all use the same spec-ing system now. So imagine across North America, one database of specs, how powerful that's going to be to look across the vendor base and see where there are opportunities in terms of where we source product from.

Our global sourcing operation, we work together now to look at commodity sourcing. So items that typically come from one place, olive oil, tuna, shrimp, those sort of things. So you'll see us build structural ways to leverage both into the U.S. and out of the U.S. on costs. That's the role of the strong North American core. It's a big chunk of sales. It's above-average profitability but obviously not the highest growth markets.

I'll come back to the key growth markets in a second.

The rest of the portfolio is that diversified portfolio. It's pretty important to Walmart. It's over 50% of the sales. It has access to kind of moderate global growth. It's slightly below profit.

And what we've looked at there on those markets is 2 things: What's the role of those markets? What do they play in the business? So if international is about growth, talent development and IP, what specifically are those markets doing to bring value to the company?

And so that's been very helpful in helping the markets focus. So the U.K., for example, it's not the most profitable market. But it's a big market for us. It can generate cash. So the work that the team have done there in improving our cash flow has been phenomenal. In fact, last year, it was our best market in terms of improvements in cash flow.

So first of all, be very clear with those markets about what the contribution they make to the business are and hold them accountable to that.

Then the second is to look at their underlying strategic advantage or disadvantage and solve the issues where they have them. So Chile, very strong business. You'll know -- again, some of the others, there are challenges and we'll look for ways either to strengthen or look for partnerships as we have done in China to make sure that those businesses are strong and viable for the foreseeable future.

In terms of the growth markets, I'm just going to focus on China. And really, what we've tried to do in China and India, which are only 10% of our sales. But accounts for the vast majority of growth that's going to occur around the globe, is make sure that we, a, have a very clear strategy to win; and then, b, we put the resources behind it to make sure that we can execute that strategy.

So 3 things to pick out on China. First of all, we've rebalanced the business quite significantly over the last three years. We used to have a business that tried to be everywhere in China. We've got a very strong business in the Central South. We have much better market shares. And not surprisingly, we have better profitability in there.

And you've seen us over the last 2 or three years focus all our investment in new stores into that area. So now 99% of our new store CapEx is in that south area where we are strong, dominant market shares and profitable.

We have a regular cadence of looking at stores that are not performing. And it won't surprise you to know that the stores that we've addressed in that are primarily outside the area. So you see that business retrenching into an area where I think we have much greater chance of winning, much more profitable.

Second thing that we've looked at is our proposition within the market. And we've made a lot of changes to our portfolio. So our supercenters, we've just opened a couple of new concept stores (proto 80s). So they're 80,000 square foot just on one floor rather than some of the multi-floor stores that we used to do.

And what we're seeing in those is we're taking somewhere in the region of 40% of the space out, up to 50% of SKUs. But we're delivering not far off the sales at the old (inaudible). So they are significantly more efficient than the old boxes. And we will look at different formats.

In terms of the proposition, you'll see a relatively standard playbook. So working very hard on starting to differentiate on prices. And I'm going to talk about how that's funded in a minute across the whole international business. But in particular, focusing hard on fresh and private label.

So in fresh, we've now completed the build-out of our dedicated fresh supply chain that gives us an advantage versus pretty much anybody else in China in that we can source together rather from local suppliers.

And since that landed, our fresh sales sequentially growing, now in the high single digits. And of course the great thing about fresh growth is that brings traffic to your stores and, therefore, drives growth across the rest of the proposition.

Private label is very underpenetrated in China. But you see businesses doing well on private label. And there, we've lent in very hard, taken a lot of the best practice from around the globe. We use the Great Value brand there. And we're seeing some very strong double-digit growth on private label in China.

So we're feeling pretty good about the proposition that we're now presenting in front of the Chinese population.

Then the final one is omnichannel. And we took a decision, as you know, a bit over a year ago to sell Yihaodian, which was a pretty small, fourth placed. And buy into JD. And that so far has been a great, great partnership. As I say, we've launched flagship stores for Sam's Club. Sam's is doing over 5% of its volume online now. And that's growing pretty dramatically. We've got a global store that allows us to connect product from around the world into the Chinese market. We have an Asda site on there. We have a Seiyu site from Japan as a high demand for things like Japanese diapers in China. So those are giving us great new sources of revenue.

And the partnership with New Dada or in the rapid delivery, which I touched on at the start, is perhaps the most exciting thing. Last month, we opened our first (dark) store, which is to take the Dada concept, take a very small unit with relatively low rents because it's off the retail track, put 1,000 SKUs in there. And again, we're up to 250 orders out of that site in about a month, delivering very high satisfaction rates and 90% of orders being delivered within an hour. So a real game changer in terms of service. So we feel good about strategy.

The final point on China is talent. And one of our most talented leaders in international is Dirk Van den Berghe with a lot of experience. He ran the Canadian market prior to this. We put Dirk in there. And we really have lent in hard to building a very, very strong team of talent in China.

Okay. So let's move on to the other pillars. So pillar #2 is about disciplined growth through the value proposition. And what you'll see around the globe is we've lent in very hard to look at our formats. Now slightly different executions as you go from market to market. But generally, what you'll see is our prototypes are getting significantly smaller. We're making clear choices about where we think the customer will shop in the future. We're always building omnichannel operations and, in many cases, they are assortments that used to be in the stores that we believe we can fulfill online and, therefore, make the stores more efficient.

And typically, that would look like 80,000 square foot prototypes are now our norm rather than 120,000 or 150,000. They tend to have a much more bias towards food and consumables business than the previous ones. But general merchandise is still critically important to those businesses. So as the food drives the traffic, they'll buy general merchandise that has higher margin. And that gets the positive mix going.

So you'll see lots of innovation around the world in terms of our formats. But broadly smaller and much more food and consumables orientated, which I think gives us much more future proofing around where customers are headed.

The rest is largely the blocking and tackling in retail. We've seen really good progress in terms of price leadership. And I'm going to talk about the funding of that. But in all our markets now, we're seeing our price position improve against key competition. And that's starting to drive traffic.

Very focused on fresh. And we took a decision a couple of years ago to start moving back up the supply chain to take cost out. So across international, we have over 58 food upstreaming facilities. So those are primarily in deli, bakery, meat. And that's where we go back up the supply chain to look to take cost out. And in some cases, that's taking out middlemen. In some cases, it's an open-book relationship. In some cases, we own the facilities and we actually do the meat cutting ourselves. But it's allowing us to have a much better control on the quality. It's taking labor out of stores and it's taking out the unpredictability of multiple production facilities in an area of much more scrutiny on food safety.

And most importantly is starting to strip cost out of our fresh operation. So around 1/3 of our volume on those categories now comes through upstreamed operations; in places like the U.K., much higher. And that's something we will continue to drive.

We're seeing great progress on private brand. And again, the advantage of our portfolio, we have penetrations that range from the mid-40s in the U.K. of private label, down to low single digits in countries like China. And therefore, we're able to take the best practice of the markets that have been doing this a long time. And our private label business now is growing in the 20s . And again, really important because it's high margin, as that grows ahead of the mix, it starts to generate funds that you can reinvest in price.

Then finally, very focused on Online Grocery in all our markets around the world for all the same reasons that Marc shared with you at the start. It allows us to use our existing asset base, which is a significant edge versus most competition. And again, we're seeing very strong growth in our Online Grocery business across the various markets.

So we feel good about the value proposition in markets and feel like we're now starting to build a business that is starting to get positioned for where the consumers are moving to rather than where they've been.

In terms of lowest cost operations, a couple of things to share here.

We kicked off a couple of years ago a cost of goods reduction program called cost analytics, which was essentially a much more fact-based approach to our negotiations with both vendors, whether they're big-branded vendors or private label vendors. And we've seen really good success in terms of improving the cost of the goods that we procure.

So that program is now rolled out to all our markets. And as I say, see really good progress in terms of how that's helping us reduce our cost of goods.

Sourcing is really exciting. So international runs sourcing for the whole corporation. And we've kind of split that into a couple of buckets. So on food commodities, you're seeing a lot more collaboration between Sam's U.S., Greg's business and international to look at things like tuna, olive oil, where it's largely sourced from one part of the business and start to get us to buy together. And where we buy together, not surprisingly, we're seeing significant cost savings. And the specs are broadly the same.

The second then is around private brand. And particularly we're thinking about our North American core. One of the advantages of that from a synergy perspective is the vast majority of production is North American. And therefore, our ability to look and compare prices between Canada or, in some cases, Mexico with the U.S. in our businesses is starting to throw up lots of opportunities where we can consolidate our private brand sourcing, take cost out of our business and reinvest in price.

Then finally, on general merchandise and apparel, we have sourcing offices around the globe. And again, much more collaboration between those units about the specs and harmonizing specs.

Now I'll talk to you about structural advantages. Two things that structurally are driving this: One is all our private brand on a system called the (hive). So we have one view of specs. So we're able to look and see where there are minor differences, what would it take to harmonize those, what's the benefit of doing that. And the second is a tool called buyer connect, which is a tech-based tool that makes it very easy for our buyers both in that core but also in other markets to see what everybody else is buying, look for discrepancies and then start to collaborate. So again, not just opportunistic. But structural advantage in our sourcing.

On our SG&A reduction. Again, we leveraged first half. We will the second half. And I anticipate that continuing. We're seeing great leverage in the stores. I think we've done a really nice job at making some of the trade-offs. And often you can squeeze cost. But if you reengineer out by looking at inventory, by looking at the assortment we carry, by making distinct choices about categories, we're able to see sustainable changes that not only give us funds to reinvest in price but also improve the proposition for customers.

We've done a lot of work with supply chain. We have a global center of excellence now, which kind of shares best practice across the markets. And over the last three years, we've taken 20 basis points out of our distribution cost to sell. And that's been kind of -- from both sides of the equation, we're more productive in our distribution centers where we do a lot of benchmarking now both within international markets but also with Greg's team in the U.S.. But it's also on the transportation side where we've got significantly more efficient, again, by sharing best practice.

And you're starting to see more synergy across things like goods enough for resell, again by thinking about the North American core. And I think the big advantage about this is we've talked for years, as long as I can remember in Walmart, about how we leverage. And we tended to find it's just too big a leap to go from U.S. to then incorporate 27 different countries that all have their own way of doing things and often the production facilities are different. But that North American core is the bulk of our volume. It's much easier to start getting some momentum. And it's been much easier -- and I think with the collaboration we've seen from both Greg and John, I think this is something you're going to see grow and grow and grow.

Finally, just to touch on then, building strong foundations is our fourth pillar. I'm really encouraged by the talent in international. Our CEOs speak 15 languages. 75% of all our CEOs have worked in different disciplines, different industries. 100% of them worked in different disciplines across retailing. 100% of them have worked and lived in more than one market. And that brings a breadth of experience and an open-mindedness to all of that diversity that I think is a huge competitive edge for us.

As I said at the start, we've imported or exported 25 offices back into the U.S. business, some like John Furner who go away and get some experience of living and working in a very different market like China and some like Judith McKenna who grew up international and came across to the U.S. business. But in every case, what a unique competitive edge to have access to over 1 million associates working in all corners of the world or the opportunity to get people to come and work in one of your businesses and get a different perspective on the way the world is changing.

So I feel really good about the talent we're building. I think most encouragingly, Doug, is not only we exporting that. But that pipeline is filling. So we still see more talent to come.

In terms of building trust, I'll just spend a couple of minutes talking about compliance. And I know Jeff, sometimes people start yawning when you talk about compliance. Compliance is not just a protective initiative for us. It's an offensive initiative. And the progress that we've made in collaboration with Jeff's team to build processes and talent that make sure we get things right first time is a significant competitive edge for this business. And I'll just pick out a couple of examples.

One of our strengths is health and safety. As that's now starting to play out, Mexico, for example, has seen a 30% reduction in one year on accidents, 30%. Now imagine what that does for morale in that business. Imagine what it does for cost. Imagine what it does for productivity. So it's delivering real benefit for the business.

Food safety is the other example, which is really important. And much more high profile around the globe. On food safety now, we use the GFSI, the Global Food Safety Initiative, which is a pretty high bar in terms of efficiency. And with Jeff's teams help, we now have -- over 90% of all our private brands are GFSI certified. Over 85% of all our manufacturing facilities are GSFI certified. Those are standards that mean our customers have more surety, better quality product, more efficiently made and, as I say, is a real competitive advantage.

On sustainability, Doug touched on that at the start. But we continue to see great progress. Nearly 80% of all the waste that's generate in our stores around the globe is now recycled. And you think of the fact that we're in a lot of emerging markets, that's a tremendous achievement. We're 20% more efficient in our stores from an energy perspective than we were five years ago. And like the U.S., we do a lot of good work in terms of making sure that the waste that we do generate can be recycled and go to our partnerships with some of the food recycling agencies around the world.

Then the final point on our foundations is we're doing an awful lot on automation and efficiency. And I always think there is no better business than retail to take advantage of what's happening in technology because it's an open-ended business. Most of our processes have an infinite amount of work. Forecasting has an infinite amount of work. Assortment has an infinite amount of work. I mean, you could work 24 hours, 365 days a year and never get the work done. But when you take that sweet spot of a business that has years and years of experience about how to do things and you get technologies to code that experience and deploy it both across the business to people who are less experienced and make it work for you 24 hours a day, 365 days a year, you get significant improvements.

So key takeaways for you from international. We have a very consistent strategy. I think we have our clearest view of our role within the Walmart portfolio and the role of our markets within our portfolio. We have very strong momentum in the business. It's broad based. All of our metrics are performing well. And I think, increasingly, you're going to see us as a business that is positioned to win through the talent, through the differentiated customer propositions. And I'm probably more optimistic about international at this point in time than I have been at any stage over the last four years.

So thank you very much. And enjoy the rest of the day.

(presentation)

## Gregory S. Foran {BIO 4687375 <GO>}

Good morning. Thank you, all for being here today. There's a lot to share. So let me get right to it.

I want to begin, though, by recognizing my leadership team. And I also want to recognize all our associates because I can tell you that nothing happens without them. And the progress that you're going to hear me talk about is the result of all of their hard work.

We developed a sound strategy, which we executed extremely well. And of course, the customer is #1. Serving customers is what we do. That's why we get up every single morning.

I think if you ask anyone around here what my mantra is, I'm pretty sure they'd tell you that it's this: you get 1 point for talking. And you get 9 points for doing. And I believe that, that sums up the story of the U.S. business for the last 2.5 years. Back in 2015, we took a few minutes to tell you about what we were going to do and then we've spent the rest of the time doing it. And that's working. Customers are responding. And we have some good momentum.

The core strategy that we outlined in 2015 will continue to guide our future work. Because our success to this point has opened up new opportunities, we'll refine our strategy accordingly to ensure that we're positioned to take full advantage of them.

Before taking you through the future plans, let me give you a quick look at our performance for the first half of this year and then how we performed over the last 2.5 years against our broader strategic goals.

In the first half, we saw positive metrics -- positive results across key metrics. We increased net sales, comp sales and comp traffic. And our stores, as you've heard, are creating expense leverage, which is allowing for strategic investments in e-commerce to continue to gain traction.

We've made significant progress on inventory, while at the same time, maintaining high in-stock levels for customers. We continue to remove friction from the customer experience by expanding pickup and delivery for Online Grocery and general merchandise. If I had to summarize these accomplishments in terms of what they mean for the customer, I'd say this: we're making every day easier for busy families.

And I'm equally happy with our report card for the past 2.5 years. We told you that we would improve customer experience. We did. Net promoter scores are up 1,100 basis points from 2015. We told you we'd reduce inventory and improve in-stock. We did. As of Q2, comp store inventory is down approximately 10% on a stacked basis from two years ago.

Scores for on-shelf customer availability and on time and infill from suppliers is up. We said we'd increase the quality of the private brands. We did. We invested in talent and capabilities like the new Culinary & Innovation Center to elevate private brands. Private brand penetration is growing in both fresh and general merchandise. We said we'd drive EDLC by negotiating better merchandise costs. We did. We said we'd invest in price, we did. And we're on track for several billions of dollars of investment.

Let me be clear, though. We've made a solid start in these areas and we've given ourselves some momentum. But we're not finished. And there are a few areas where we can do better.

Expenses. We've gotten some low-hanging fruit. But there's more headroom. In comp sales, we're pleased with 12 consecutive quarters of positive comp sales. But I can tell you we're not satisfied, more needs to be done.

So again, I think the results are respectable. And it shows our core strategy is working and it's given us some momentum. And that strategy will continue to guide our future.

As I said at the top, the progress we've made to date has put us in a position to take the next step. So now we must begin moving from a mindset of fixing to a mindset of leading.

And here's what I mean. Firstly, two years ago, we committed to running great stores. And we'll continue to do so with a mindset of a leader that knows for us that stores are the foundation upon which will shape the future of retail.

Secondly, we'll continue to deliver value but with a mindset of a leader who understands while the definition of value might change, the underlying principle of value will not. It's the essence of who we are.

Thirdly, we'll remain true to our purpose of being great merchants. But we'll do that with the insight that as merchants, we're operating in a new model of retail. And its currency is trust.

And fourthly, we'll continue to provide convenience but with the mindset of a leader who understands that for today's customer, the experience we create has to be easy, fast, friendly and fun. Getting there will require us to remove friction from the shopping experience by blending online and in-store to create a model of converged retail.

Now let's take a close look at our plan to win.

Running great stores. Central to the progress we've made has been our focus on inventory. And before I get into the technical side of what we did in that regard, I want to quickly paint a picture that underscores the importance of getting inventory right. By improving inventory, we gave associates a chance to succeed. Doing section work is almost impossible if you can't walk through a backroom. You have no motivation to find an item for a customer if you think it's head and deep behind 3 or 4 pallets. Fixing inventory breeds life back into the store.

From an operational standpoint, we accomplish this by working on flow from distribution centers to the store. We've improved processes such as top stock, customer availability, fast signing. And of course, we've provided associates with new technologies. So far this year, we've released 12 new or enhanced apps. And through this combination of new processes, such as those around price changes and apps like the inventory management tool, we've improved the productivity in stores. Our volume-producing items, or VPI app, which incentivizes our associates to drive sales, has been really well received. In the 52 days since it was launched, 150,000 items have been submitted. Now that compares to a total of 146,000 submissions for all of last year. Each of these areas are important. And we'll keep after them.

But that work was done with a fix mentality. So what does reducing inventory mean when approached with a lead mindset? Well for one thing, when you improve inventory, you change the customer experience. Fresh is perhaps an area where this makes the most visible difference to customers. Another example is the backroom. When you have empty backrooms, you've got additional space to do things like rollout Online Grocery for either pickup or delivery. And it becomes much easier to accept and handle returns. And you can also think about offering more service through the box, perhaps expanding things like mobile phone repair or building out financial service offerings.

As Doug mentioned, we're on track to build 200 academies this year. So far, we've stood up 187 of them. 125 of them were built inside the store using the space freed up from inventory reductions.

Now let me talk about delivering value. While everything else in retail is changing, one thing that will not is our commitment to delivering value to the customer.

Price investments are a key part of the plan. And as we said back in 2015, we are investing several billion dollars in price. We're pleased with how it's progressing. And we will maintain that approach.

Our ability to sell for less, of course, starts with buying for less and operating for less. In short, EDLC equals EDLP. And this equation fuels our productivity lead. Now if it's the fix have gotten the Walmart wheel moving. We've accelerated our front-end transformation including more self-checkouts. And we're progressing with Scan & Go. We're increasing automation and robotics in our distribution centers to usher in the next phase of supply chain efficiency.

And we're upscaling our talent right across the business to enable associates to spend more time serving customers in new ways and engaging them in more personal interactions.

A quick point on how we're approaching this with a leadership mindset. 50 years ago when you went shopping, it was a one-to-one relationship. The shopkeeper knew you. And you knew the shopkeeper. With the inception of the department store and the grocery store came a shift. And the relationship became 1 to many.

Digitization, however, allows these relationships to become 1 to 1 again but at scale.

So what does leading look like? Well 2 great example. Self-checkout hosts and personal shoppers in Online Grocery. two years ago, we didn't have any dedicated self-checkout hosts. We now have over 17,000 of them in 4,192 stores. two years ago, we didn't have any personal shoppers. We now have more than 18,000. These roles foster a one-to-one relationship. And they've been made possible by efficiencies resulting from technology.

Next, being great merchants and the currency of trust. Today, through crowdsourcing, we don't give a second thought to hopping into a stranger's car. And expecting we'll end up where we want to be, Uber. We think nothing of making a reservation and sleeping in a stranger's house, Airbnb. Based on a digital image of a product on a website, we transfer sometimes large sums of money to an account and expect that the actual product will show up at our house, e-commerce.

And 2 weeks ago, we announced the partnership with August Home to test a service in which a customer allows a delivery person to enter their homes when they're not there in order to stock their pantries and refrigerators. That's trust. As merchants today, we're operating in a marketplace where trust is a currency nearly as valuable as money.

Now over the years, we have earned the trust of customers by consistently delivering a great assortment of quality merchandise at a great price. As leaders, however, we need to push ourselves further on quality.

This is especially so in fresh. And we have a robust program of work in the pipeline. Through our fresh network speed pilot, we're deepening our relationship, our partnership with suppliers to move the product through the supply chain faster. The result of this pilot is an average of 2 to 3 additional days of freshness to the customer, with up to four days of additional freshness in strawberries.

There's also private brand quality improvement. Through the Culinary & Innovation Center, we're rigorously testing each of our private brands against all our competitors and continually bringing innovation to our offerings. In apparel, we're going to have some new news in the coming months about new brands: simpler assortments, new layout and signing elements.

And the other big piece of the equation is convenience. As time increasingly becomes as valuable as money, we have to build trust with customers by letting them know we're focused on saving them both. We have to let them know we're making every day easier for busy families. That means providing convenience. And I'll talk more about that in a moment.

Building trust with associates. The trust associates have in us sets the tone for the relationships they establish with our customers. We've reinforced this by taking a number of actions which we believe help empower them. We started with wage investments. We implemented structural changes like bringing back department manager roles. Academies are almost fully implemented. We're driving on time and in full to support our Customer Availability Program. We're improving the distribution of merchandise to ensure better store response times.

And finally, as a leader, we're building trust in the communities in which we live and where we operate.

So we've made it a priority to be there in times of crisis, when they need us and where they need us anywhere around the globe.

Finally, providing convenience, easy, fast, friendly and fun. The 3 areas that I've spoken about to this point, stores, value and merchants, they combine to form a new kind of customer experience.

But in order to assert our position as leaders, we need to build a model of converged retail in which the online and the in-store experience form a frictionless interaction with our customers. The goal is to provide customers with a retail experience that is easy, fast, friendly and fun. But we need to do this at scale. We have already begun. Over the course of the past year, we have launched a number of e-commerce initiatives, such as the ones that Marc spoke about previously. And they're designed to deliver convenience, Free 2-Day Shipping, Pickup Discount, delivery with Uber. But we're also going to leverage our stores more to expand our omnichannel offering. Online Grocery will be in 1,100 stores by year's end. And we'll add another 1,000 locations next year. We're also testing other ways for customers to use our pickup offering, including towers and lockers. We've nearly got 50 towers up and running now. And we're on track to have 100 installed by the holiday.

Let me take just a moment to drill down on Online Grocery. It's taking hold. Customers that use it have a bigger basket size versus customers who only shop in the store. At the same time, it has a halo effect on the stores. Stores with online grocery have a higher product availability and sales than stores without it. And it's also attracting new customers to Walmart, which gives us an opportunity to earn greater share of wallet.

We're also beginning to have some success making the in-store experience easier and faster by providing more services through the app. Walmart Pay is now the second-largest payment service by usage. And we'll continue to focus on it as a way of helping us drive our digital relationships with customers.

Finally, our Mobile Express Money Services are in all stores and Mobile Express Pharmacy will be chain-wide by the year-end. Mobile Express Scan & Go is in 25 stores. And as you know, Mobile Express Returns were launched yesterday. We'll continue to provide convenience by building a model of converged retail through innovation. Through our 4,741 stores and growing set of online assets, we are in a unique position to do this at scale. The data point that Doug referenced bears repeating. Customers who shop with us, both online and in-store, spend around twice as much as a customer who only shops with us in the store. As we find other ways to extend converged retail solutions for our customers, we're going to accelerate our efforts.

That brings me to our financials and our expectations for FY '19, driving growth efficiently. We want to serve customers how, when and where they want. We believe that with our current fleet of supercenters and neighborhood markets, combined with the expanding set of online assets, we're in a strong position to do just that. Last year, we said we would open fewer new stores in the U.S. As we continue to examine the landscape and our overall strong position, we now anticipate opening fewer than 15 supercenters and fewer than 10 neighborhood markets in fiscal 2019. This is consistent with strong efficient growth and it allows us to allocate capital more to remodels, supply chain and technology.

In terms of remodels, we'll continue our focus there by investing in 500 of these projects next year. They enable us to leverage our store assets more effectively to meet customers' needs. And finally, as we've mentioned, we'll accelerate the expansion of Online Grocery to 1,000 additional locations.

So here's what we're going to do this coming year. We are going to continue our journey from fixed to lead by building on the successes of the past three years, running the play, investing in growth and leaning into innovation. Doing these things will enable us to deliver the 4 elements of our plan to win: running great stores, being great merchants, delivering value, providing convenience. It's really an exciting time in retail. And what I feel from the home office to the store floors right across the country is an eagerness to harness that excitement and play to win.

Thank you, again for being here. And I really appreciate the chance to talk to you about our U.S. business. And I look forward to taking your questions during the Q&A. Thank you.

### Steve Schmitt {BIO 19791185 <GO>}

Well done. Thanks. All right. So why don't we take a little more than 15 minutes, get back around 10:50 and then we'll open it up for Q&A with Doug and his team. Okay. Thanks.

(Break)

## Questions And Answers

### A - Steve Schmitt {BIO 19791185 <GO>}

Okay. We're going to get ready to start our Q&A session in a minute. If people could find their seats, please. Dave and John, you guys ready?

### A - John Furner {BIO 19351533 <GO>}

You wanted us?

### A - Steve Schmitt {BIO 19791185 <GO>}

I did. All right. So we'll have about 45 minutes or so of Q&A. So when you have a question, just let one of these guys know in the audience. And let's go over here, Pete Benedict.

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

Peter Benedict, Robert Baird. Doug, want to get your view on the U.S. wage environment. You guys moved a few years ago, kind of get in front of things. There's been some movement by others here in the last several months. So just how do you view the trajectory of U.S. wages and how that fits kind of into the financial algorithm you guys have?

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

Sure. I'm sure Greg and maybe Judith would want to complement whatever it is I have to say. But I feel great about the fact that we moved when we did and the boldness with which we took that action. And I think the way that associates feel about our level of support for them is different than it was before that action. And as we've moved on to training and creating better tools and things like that, the ground was prepared for that kind of activity. As we look forward, I think wages are going to continue to move. And I see that as a good thing. And I think some of the work that we have underway as it relates to productivity positions us well to be able to thrive in that kind of environment. I think a lot of information has been shared today about some ideas that we have on how technology and training can play a role going forward. Greg, anything you want to add to that?

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

It's a competitive market out there. And at any given point in time, we're adjusting wage rates in order to attract the right talent. And we know that getting the right talent in our stores is critical to allowing us to win. And Judith, you want to make a few comments?

## A - Judith McKenna {BIO 4806787 <GO>}

Yes, can do. That is exactly right. There's not a lot to add from a wage environment perspective. The other thing that we're working hard to do though, as you've seen through the academies, is the training part for our associates, which is a differentiator for us. But also the fact that we can give opportunity to people to promote and promote through. And that's another way that we can help people earn more by working for us as well.

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

In case you don't know, Judith is our Chief Operating Officer for the U.S. business.

## A - David Cheesewright {BIO 7334339 <GO>}

I was just going to add. As well as the wages, we see the trend around the globe. As you see growth rates muted, mobility tends to go -- social mobility tends to go down. So wages are really important. But I think as well, the opportunity that we give people from whatever background, they come to progress their lives and their careers is a huge motivator at the moment.

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

So I think, Peter, in summary, wages, after we made the change, kept moving in a more incremental fashion. And we've been adjusting to that market by market and we'll continue to do that.

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

Simeon Gutman, Morgan Stanley. Doug, thinking 3 to five years, wanted to ask, what does success look like for Walmart? Is the financial picture that you're projecting for 2019 about right, thinking through margins and sales? And would you be satisfied with growing share over time but holding margins flat?

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

Brett, you can chime in, too, if you want to. I think the first thing I would say is that this is a really fluid environment. And we don't want to paint ourselves into a corner as it relates to flexibility. And I think we've shared with you how we feel about next year.

As we look beyond that, I think the way that we think about it is, we must make sure that we're doing what's necessary to earn customers business. Growth in comp stores and through e-commerce is a real priority for this company. If and as we do that, we can learn how to manage expenses and we can deliver profitability at an appropriate rate. So we'll stay fluid. We'll stay open. We'll communicate with you as best we can. And we're confident as it relates to next year's plan.

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

I mean, as an executive committee team, we spend a lot of time talking about how do we balance out what we're trying to do long term, which is make this business incredibly successful well past our careers. But then how we can grow the value of the company, which I talked about this morning over that same period of time. The good thing for us is, we have a lot of different levers that we can use to get to that answer. So when we -- this morning, I was trying to give you some framework around operating income margin to give you something to kind of -- to put a framework around it, there's just a lot of pieces within that. And I think as Doug said, well, we just need that flexibility, want that flexibility. It could be different margins. It could be different SG&A. There's a lot of different ways to get to the same place. But we like the direction we're heading.

## A - Steve Schmitt {BIO 19791185 <GO>}

Okay. Let's go here. We're going to stay on this side of the room and then we'll work our way over.

## Q - Christopher Michael Horvers {BIO 7499419 <GO>}

Chris Horvers, JPMorgan. So following up on the margin question. You're implying gross margin down next year a little bit, a little bit of SG&A leverage. It sounds like it doesn't necessarily have to be that way, you're going to manage the EBIT line. But can you talk specifically about the puts and takes in gross margin? Is mix negative? Is price investment negative? Is supply chain positive? Like how are you thinking about the different variables within it?

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

Maybe you want me -- you want to start? Let me kick or...

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

No. I'll go last.

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

Okay. You'll go last. I'll start, maybe Greg, you might want to talk a little bit about it. So when we gave you kind of a range of how we think about operating income margin. As we talked about, there's -- the answer I just gave, there's a lot of variables that go into how we get there. In almost any circumstance in which we would discuss, having expenses be in a better place can provide fuel. It just gives us options to do different things within the P&L. So do I think gross margins have to go down next year? No. And I don't think we imply that. Could they go down? Yes. And we want that flexibility to be able to do that. Over time, the customer and the competitors are going to determine where gross margins, to some degree, need to be for the company. And we need to be ready for what that needs to be, what we want it to be and expenses play a big part in that. So we're trying to give you enough frameworks. But as Doug said, just not get ourselves tied into how we get there as much. And Greg can talk -- there's a lot of things that go into gross margin. And Greg can talk a little bit about that.

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

Brett, it was interesting, Michael and I were going through, because we got a budget meeting tomorrow. And we were having a look at the plan that we put forward with Michael, three years ago. And the interesting thing is that the bottom line is almost exactly where we said we were going to be. But the shape of it, Michael, is a little bit different. So we thought we'd do a little bit better with comp sales. And we didn't. We were able to do a little bit better with some expenses than what we thought we could do. And the margin was a little bit different. So the point is, we build the plan and we'd say, this is what we're going to do with fresh throws. And this is what we're going to achieve in terms of leverage with suppliers. And this is what we think, Judith, we're going to achieve in terms of unknown shrinkage when we take our stock. And Steve, this is how much we've got to invest in price and then we work out how we're going to do that. So we're pretty diligent about how we pull all that together. Then, of course, you have to deal with the dynamics of the market. And as you say, there are always puts and takes. Those are the component pieces. And there're many others, by the way, that goes into it. But we would sit down as a leadership group, we do it every Monday, actually, every Monday afternoon. And we'll look at the business and Michael and his team help pull the numbers together with Steve and Judith and Julie and Greg. And we'll make decisions, not on the fly, really thoughtful, sensible decisions that take into account longer-term requirements and shorter-term needs. And that's how we do it.

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

It's not a perfect analogy. But Brett and I were talking a little bit ago about what it's like to fly an airplane. And we're going to land over there and that's about 5% EPS growth. How we get from there, we know. The winds may change a little bit on us. And we've got this dashboard with all these variables on it. And I was just thinking about that actually, there's a big plane, that's the total company. But everybody else is flying planes in formation and we're all like, hey, how you're doing on fuel over there? And we're adjusting basically monthly as we think about margins and price investments and things like that. And as we've said many times now, we just want enough flexibility in this environment that's changing so much to be able to get there in a high-quality way.

## A - Steve Schmitt {BIO 19791185 <GO>}

Let's go here. Let's go. Let's stay in this section and then we'll move around. I think it's easier. Robbie?

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

Robbie Ohmes, Bank of America Merrill Lynch. Question for Marc and Greg. You guys are sitting at opposite sides here. But as I listen to all of the presentations, the key seems to me when you give us that 2x for the person that's omnichannel, the key seems to be how quickly you can convert store customers to store plus online customers. So my questions would be, number one, any metrics on that? How quickly are you getting store-only shoppers to become store and online? Number two, are there some initiatives that you both are independently and also together working on to accelerate getting those store shoppers to convert online? And is there any reason that you've maybe been holding off? Are you waiting to get infrastructure to a certain place before you really make a bigger push to do that? Just any more color you can give us would be terrific.

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

Going to start that?

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

Yes. I think if you look at the top line growth that we've seen in the first half and what we're projecting next year, that's really just a function of 2 things, it's getting more people to shop for the first time on the website and then improving cohort behavior. And we're seeing, on both, positive results. So I think the strategy that we've set out is working. Yes. There's more we can be doing to market specifically to the store shopper. But I feel good about our approach right now.

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

We've got a core customer in our business. And I'm talking just stores here. And a lot of that is location-driven. You know that we're strong rurally in terms of our stores. And a lot of our focus, Judith and Steve and their teams have been working on is let's make sure we do a good job of serving them. We also know that there's an opportunity to attract some new customers into our business. And we quite often see these people shopping with us when there're events, like Halloween or Christmas. Or they may come in and buy grocery because they know the price is really good. But they don't trust us on fresh foods. Or they may come in and buy gardening. But they don't buy our apparel because they don't like the taste or the style that we've got. So as we look at that customer base, we're saying to ourselves, we can do a much better job attracting those. And one of the things that we think is also pretty powerful with that group is generally they've got a little bit more money and they are quite strong omni shoppers, they shop in-store and they shop online. And in some cases, they're shopping online with Walmart. In other cases, they're shopping with our competitors. We need to get them to become advocates for our business. And we think that is a powerful idea. So we're working really closely together. And Doug's involved with us and so are many of Doug's team. So Ashley down the back there is helping us pull something together. Sloan, who's part of Marc's team. And we're meeting regularly on this. Now we'll get 1 point for talking about it, 9 points for doing it. Is it a big idea? Yes. We now have to break that down into pieces that are digestible and manageable. And it doesn't mean that we haven't been doing that. But we're now going to sharpen our focus on this and go after it. And I think it could be quite powerful if we can pull it off. It will be a number of things. But within the bigger idea, there will be something that we call micro-battles that we will attack with vigor.

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

So imagine that Venn diagram that overlaps between stores and e-commerce and the initiatives that you're seeing so far that fall into the overlap, Online Grocery, use the app, use the site, pick it up in the store, Walmart Pay, the digitization of the pharmacy relationship, which causes you to download the app. You can do a lot now with your prescriptions. The tire, lube express area being more automated. Someday you'll be able to digitize the experience at the bakery as you're doing a cake. There's just going to be this focus. And so as you hear announcements about initiatives, you can just imagine that Venn diagram and look at where they are. And increasingly, they'll be in the middle of that spot.

## A - Steve Schmitt {BIO 19791185 <GO>}

Go.

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

It's Bob Drbul from Guggenheim Securities. I was wondering if you guys could talk about fulfillment costs generally, the expectation on the SG&A line and where the opportunities exist as you think about the last mile with the Parcel acquisition and associated delivery, the efficiencies that you see. But more of the longer-term expense pressure that comes along with the last mile.

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

Marc, do you want to go first?

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

Sure, yes. I mean, the vast majority of the fulfillment expenses right now would be in -- coming out of the warehouses. And there's a lot we can do there to improve the processes and invest in additional automation. And we have plans to do that. So I suspect it will only get better over time. With respect to the last mile and leveraging Uber and Deliv and even our own associates, currently, with the Online Grocery app, we're passing those costs on in the form of a fee to deliver. So we don't necessarily see that being a big increase in costs going forward.

## A - Steve Schmitt {BIO 19791185 <GO>}

Yes?

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

Karen Short, Barclays. Just curious, last year, ROIC was mentioned in the slides and it was mentioned that you obviously have a goal of trying to improve ROIC and it was mentioned holistically not necessarily excluding e-commerce. So I'm just wondering if you could give a little update on thoughts on ROIC, both, I mean, holistically, ideally?

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

Yes. So it's a big -- as I talked about the discussions we have as a leadership team, it's a big part of what we discuss and understand certainly from an investor's standpoint that you want to see our returns grow over time. And it's why -- it's really the genesis of what we talk about with the financial framework and it starts with how we grow, how we grow makes a difference. 3% sales growth, when we can get that through e-commerce or through comps, is different than getting it all through new stores. It's a big difference from a return standpoint. We're going to continue -- and you saw this in the slides, Karen, we're going to continue to invest where it makes sense. We're going to lean in into places like technology. We're going to lean in to supply chain. We're going to continue to lean in e-commerce. We're going to invest money in international stores. But as we make -- as we have those discussions and we debate that amongst the team, return on capital is a big part of those discussions. We do feel like the direction we're taking gets us to where we want to be and where you would like us to be in kind of the mid to long term. We're not going to sit here and say what ROI is going to be next year. But we feel like we're going in the right direction with that. And hopefully, you're starting to get a sense of what you've seen, even in the last couple of years, that we're starting to head toward that path.

## A - Steve Schmitt {BIO 19791185 <GO>}

Go Matt and then we'll go over here.

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

It's Matt Fassler from Goldman Sachs. You've had a terrific working capital story over the past couple of years. Given that inventory tracked flat year-on-year in the Second Quarter after a sequence of declines, where are you now on that inventory journey? Then also as you think about the financial plan that you presented, what's your expectation for the working capital contribution to free cash flow?

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

Sure. You want to talk about inventory first and maybe you can talk about that John.

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

I wouldn't mind getting Steve to maybe just comment because he's pretty close to what we're doing there.

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

Steve's our Chief Merchant and the team has done Greg an outstanding job on managing both inventory and payables, a lot of progress.

## A - Steve Bratspies {BIO 18295554 <GO>}

Thanks, Doug. Yes. Inventory, I'd say it's a journey. I wouldn't look at, hey, one quarter it's flat to think that we stopped. I promise you for the gentleman that I work for, Mr. Foran, he presses on inventory all the time. It's a big enabler for our business. And I think he painted the picture pretty well earlier on the leverage that we create and the enablement in the store. So Judith's team can operate better when we do it. So it's a big focus for us and we're going to continue to push. And we think we have more opportunity to continue to reduce inventory throughout the supply chain, what we buy in our DCs, all the way through to the stores, to make it easier for our associates. So that's going to continue to be a big focus for us. In terms of working capital, in general, we continue to work on it. We had a big push on terms allowances with our suppliers, which made a difference, quite frankly, in working capital. And there's more to do there. We're continuing to push on that and continuing to work on that. But we think we can continue to focus on and drive improvement. But inventory remains as big a focus today and tomorrow as it was in the past.

## A - David Cheesewright {BIO 7334339 <GO>}

From an international perspective, we're seeing really good progress this year. So our inventory in the first half was growing less than half the rate of sales. We're also seeing good working capital management. And Rich, don't know whether you want to add a few words because you've been leading a lot of good work on cash management.

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

Richard's our international CFO.

## A - Richard Mayfield {BIO 17560921 <GO>}

Thanks, Steve. Thanks, Dave. Yes. We put a big focus on to working capital really starting in about the middle of last year. We set a pretty tough target this year and almost exceeded it by the midyear. Probably 2/3 of that improvement is in payables rather than inventory. But you see, we've been improving on both. Dave talked about the Q2 results. So we saw inventory actually well below half the sales growth rate and payables growing significantly faster than sales. And while we focus on payables, I think it's worth saying, we've got some markets doing a great job on inventories. So Canada would be one example, where with growth in that market, we've seen dollar inventory down year-on-year. All I would add is that we would see a significant amount of opportunity in the year ahead. So I think you'll see the focus shift more from payables to inventory across the markets. But I think we've still got plenty of runway to go.

## A - David Cheesewright {BIO 7334339 <GO>}

And I think the big thing you've learned, Rich, is the importance of making clear choices rather just squeezing. So some of the work we've done on assortment choices, being really, really focused using technology to get much clearer about what the customer really wants and where they would actually substitute are allowing us to make good, sensible changes without just simply squeezing this. They're genuine cost savings that are sustainable.

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

And Matt, just on your overall question. So go back last year, we had an operating cash flow of $31.5 billion. There was significant improvement in working capital last year. You're seeing cash flow be this year a little bit lower than that. And that's primarily the difference. We had an incredible performance last year, still good performance this year. And there is still some assumed improvement going forward, not the levels we saw last year. But we're going to keep a good focus on that.

## Q - Michael Lasser {BIO 7266130 <GO>}

Michael Lasser from UBS. Two questions, first for Marc. Over the last few quarters, do you think more of your e-commerce growth has come from customers who would have otherwise shopped in a Walmart store or who would have otherwise shopped on Amazon? And how do see that mix playing out over the next few? My second question is for Doug if you had to rate the organization on how well it's leveraging the power of its data, how would you do that?

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

Sure. I mean, most of our marketing has been done online in digital places, especially with Google. So I suspect, although we don't know for sure, that a majority of the volume is coming from people who already shopped on the Internet who are now changing and moving to shop on Walmart.com. I'm sure as well that goes for store shoppers. But most of our marketing is geared to existing e-com shoppers.

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

From 1 to 10 in our use of data, I would say we're probably about a 2. We use data to improve in-stock and replenishment. We don't use data to personalize. And with our EDLP roots, we made a conscious decision not to do a lot of couponing, either in the physical world or digitally. I don't personally believe that that builds loyalty and we want to build trust. And we want to build loyalty. Having said that, I think in this world, we need to kind of push refresh on our minds as it relates to that, not that we should do couponing. But we should be very open to personalization. Greg, I thought, did a nice job describing one-to-many and one-to-one at scale. And so we've got a lot of work to do. And it's going to be a multiyear journey to get our data into shape, organized, collected, cleaned so that we can actually use it. And there's been more discussion as of late about our data strategy. And the way it feels to me is that we've been taking care of some basics to get the business moving in a different way. And now we're starting to have more advanced conversations about the omni opportunity and the use of data and eventually, personalization. So you can imagine use cases that will save customers time and have them actually understand that we do understand them to an extent, all those things are done in a way that builds trust with them, which is our ultimate asset. But start to unlock data in the company in future years. It's not something that I want us to run out and do something in 90 days to show that we did it. It's not that easy. I think this is going to be more of a slow burn myself.

## Q - Brian William Nagel {BIO 6638066 <GO>}

Brian Nagel from Oppenheimer. So a couple of questions. First, online and maybe a bit of a follow up to Michael's question. But as you've -- clearly, I understand the environment is very fluid out there. You're pushing this omnichannel model aggressively. But as you look at your customers, either through surveying or maybe intuition, the customer that chooses -- your customer, who would normally be your customer, chooses to shop at a competitor that's online only. Why is that? Is there some aspect of that model versus the Walmart omnichannel model that it's going to take that customer away? Then could you tackle that over time? Then the second question I have, I guess related to online as well. But as you're thinking about the supercenters and some of the new functionality stores as it relates to online, how does that labor model switch over time?

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

You're going to take the first one?

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

Yes, I'll take the first one. So I mean, I think how we win is with the head of the assortment. As I was saying before, it starts with fresh, it starts with consumables, just building that foundation of a relationship with the customer. If you can offer fresh produce, consumables at the very best prices with a really good experience, whether it be pickup or delivery, then you have a good chance to build a long-standing relationship that you could then leverage to sell the rest of general merchandise. And I think we have an advantage. We've got assets to leverage in that area. And so we're going to lean in pretty hard, which I think we're doing with Online Grocery pickup and all the delivery tests that we're doing.

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

And on the labor question, could you elaborate a little bit more, switch from what to what?

## Q - Brian William Nagel {BIO 6638066 <GO>}

So clearly, now with what's going on in your stores and more focused on online sales within the stores, there must be some functionality switch with the people working there. How does that continue to evolve over time? Is there more labor that's put in the store? Does it take some labor out?

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

Yes. Look, it's changing rapidly and there wouldn't be a week that goes by that Judith and I aren't sitting down, along with many of the other team, having that discussion. If I think back on the things I used to do when I started in a store 40 years ago working in the haberdashery department.

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

The what?

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

Haberdashery.

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

Dave, do you know what that is?

## A - David Cheesewright {BIO 7334339 <GO>}

I know what that is.

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

He knows what it is.

## A - David Cheesewright {BIO 7334339 <GO>}

It's the same accent.

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

It's next to Manchester.

## A - David Cheesewright {BIO 7334339 <GO>}

Yes. Above their heads.

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

I'll Google that.

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

Anyway...

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

Got nothing.

## A - David Cheesewright {BIO 7334339 <GO>}

What's the language called again?

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

English. Anyway, things are going to change a lot. And I mentioned it during my presentation, this concept of someone personally going around the store and picking your order. We have to pay for that. And fundamentally, if I get to the heart of it, what has to happen is that we need to get to a situation where you only touch the product once in a store. So if you think about that as a principle, that's everything that we're working towards. So Greg Smith, who runs our logistics and is sitting a couple behind you, he's got to make sure he delivers products in such a flow, in such a manner that when they come in that back door, we can basically pick it up and we can put it on the shelf. That means Steve has got to build a mod, a planogram, which allows effectively 2 order multiples, 2 cartons to be able to fit on the shelf. And if it's apparel, then to whatever that particular order multiple is. Judith has got to make sure that she times her labor to be in the store when the truck arrives. So it's there. It's touched once. It doesn't get in the way of the customer. We continue to look at

Scan & Go. We continue to look at fresh areas in terms of how much labor is invested in there, loose versus prepack. All of those things are going to go into an equation that has got to make us more efficient. And at the end of the day, we're going to share some of that with the customer through reduced prices. And we'll share some of that with our shareholders with, hopefully, better returns. And there's no doubt that I think what you're going to see over the next decade or 2 is you're going to see more and more people doing both. They're going to stand in the store and they're going to order online or they're going to sit at home and they're going to order and it's going to get delivered to home. And we have to deal with that. So the word flexibility comes to mind. But the principle of touching a product only once, I think, is a really important principle for us in our entire supply chain to grasp and to deliver.

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

I love the Sam's Club example that John shared about the membership desk, too. Just think about how many people does it take to do the old process versus the new process and imagine that replicated across our stores and clubs. There's a lot of opportunities to have the experience for everybody, the associates that are working there as well as the customers be better and take costs out because the work just goes away.

## A - Steve Schmitt {BIO 19791185 <GO>}

Let's go here and then all the way over to this side.

## Q - Maria Lernerman {BIO 6006075 <GO>}

Following up on personalization. And actually taking just a step back, I mean, personalization is nice. But ease of search, how relevant my search results are, just moving around the app, that's very important, that's part of the secret sauce of why some companies do well and others don't. How happy are you with the experience that your customers are getting now shopping either online or within the app? And what's the risk that if that is still not as good as you want it to be that I try it, I go, oh, I don't like it. It's too difficult and I never come back. So -- and by the way, Maria from Harding Loevner.

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

Yes. I mean, that's something that -- that's what I said in my presentation is the #1 focus right now is to get the fundamentals right. We know the fundamentals aren't where they need to be. And to date, largely been trying to be solved with technology and technology alone. And that's why we're moving to be more human-powered and combining both humans and technology to perfect the experience. I think we can. I think we will. It's going to take a little bit of time. But the top 100,000 search terms represent 2/3 of all searches online roughly. The top 1 million represents more than 80%. So actually, with humans and if you add 2,000 category specialists, you can actually do quite a bit of damage in perfecting the search results very precisely for every keyword search term that people care about and leave the long tail, all the searches beyond the 1 million to technology and machine learning. And it's bringing those 2 together is what we're in the process of doing right now.

## A - Steve Schmitt {BIO 19791185 <GO>}

Why don't we go over here? We're doing it in sections, guys. It's just easier for the cameras to follow. So we'll get to everybody.

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

Scott Mushkin from Wolfe Research. Actually had one clarification on the guidance, then a question. So on the guidance, it seems like you guys have referenced M&A as part of the plan. It seems like M&A is not part of that guidance. And so I was just willing -- wanting to know, most of the acquisitions have been e-commerce lately, which are slightly dilutive. And is that -- should be that -- be our expectations going forward? Then my question really goes to the pricing environment in the U.S., both for Sam's and for Walmart U.S.A. It seems like Costco on their call earlier this week, I think it was or last week, said that they were going to be investing in price and I think they have a price gap to Sam's. We've also seen Kroger cutting their pricing, getting really aggressive, Lidl and ALDI going down even further. So as the U.S. looks at its business -- and Greg, you kind of said two years ago that you were going to really drive your price into the market, how should we be thinking about that on Walmart?

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

Why don't I take the first question first. So as you look at the guidance this year. So earnings per share as well as sales growth, that includes things we've already done obviously. Everything that's on the wall over here that's included. And that's included in next year. Any further acquisitions we would make would not have been in that guidance.

## A - John Furner {BIO 19351533 <GO>}

I'll take -- yes, let me take the first question on price. The way we look at this is, we talk about price every week. And we're looking at price in the core of the assortment. We're also looking at price across the entire box. And what I said earlier is really important that we reenergize our business in fresh food. Fresh food helps with a lot of things, like fund pricing in other areas, the improvement in Member's Mark. The 17% we talked about two years ago, that was 17%, that was all of our private brands. So it wasn't just a shift to the one brand. But we had increased the business from 17% to 23%. And that business is -- it's great for members. It's great for us. It's helping our payables. It helps inventory. And all that put together, we see a really good path being able to be extremely competitive with a competitor you named -- or you mentioned or anyone else in the market.

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

One of our principles is delivering value. That's pretty core to the discussions that we have every single week in the Walmart U.S. stores business. And Marc and I spend a lot of time talking about price as well. So we're going to maintain a position that is true to that particular principle. And what it means is that you then have to work hard in other parts of your business to work out how to deal with that. It's not just one side of the equation. You've got to look at the other side of the equation. And that's why work that you do around what are your fresh throws, what's your unknown shrinkage, how much are you spending on returns. What's -- anything that goes into that equation that we can help offset it. But the market will be the market and always hard to predict exactly what's going to happen. But we will remain true to our value.

## A - Steve Schmitt {BIO 19791185 <GO>}

Other questions over here, Chuck and then Paul.

## Q - Charles P. Grom {BIO 1450381 <GO>}

Chuck Grom from Gordon Haskett. First one is for Marc. You talked about improved profitability on the digital business. Can you speak to the drivers of that? And can you foresee a scenario where eventually the digital business becomes breakeven? Then my second question for the rest of the team is brand perception. You touched on it briefly throughout the presentation. But it's really hard for a retailer to change its image from the consumer and you can look back to, say, JCPenney a few years ago, for example. But you guys are clearly doing that. So I'm curious what you're doing to capitalize on that momentum, particularly with the millennial customer?

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

As it relates to brand and the second question, Tony Rogers, why don't you and Dan Bartlett both speak to that? Marc, you want to go first?

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

Sure. I mean, what was the first question?

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

E-commerce profitability.

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

Oh, e-commerce profitability. Yes, I mean, e-commerce is a scale game. So as we continue to get scale, the profitability should improve. Next year will prove it a little bit. Obviously, long term, we do expect at some point to make money. But right now we're in a heavy investment phase.

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

If you break it down a little bit more, you've got the fulfillment cost part of the equation. And we have room to improve to bring that number down, just improvement through process, et cetera. We've got a margin number that we can improve through mix. So adding to the assortment, first party and then the third party take rate helps with margin, which is what's driving some of the acquisitions. So if you do have enough scale and you've got your margin starting to improve, fulfillment center -- fulfillment cost coming down, you can then make a deliberate choice about how much you want to do in terms of marketing to drive the top line. So that's kind of the way we think about the equation. And we've got opportunities all over the place.

## A - Tony Rogers {BIO 18351634 <GO>}

Yes. Thanks, Doug. And I'm Tony from marketing. I think the question on brand perception is a really good one. And I think what we see is enormous opportunity as we shift brick-and-mortar only shoppers to become omnichannel shoppers with us. And there was a question on that a little earlier as well. The opportunity really lies in 2 camps. One is getting folks that are just kind of coming online that shop our stores. But are just kind of getting into the e-commerce realm and turning though -- and capturing their omnichannel volume and keeping it within the brand, I think, is the first group. Then the second group is people that are shopping with us pretty loyally brick-and-mortar. But they are shopping other websites and they've developed habits shopping other websites for their e-commerce behavior. And we're seeing that that's equally fertile ground for us as we go and convert those folks and bring them back in. We track our shoppers. We break them into 3 different groups, folks that only shop us in the store, only shop us online and then shop omnichannel. And that percentage of our shoppers that are omnichannel Walmart shoppers grows every year. And we're sourcing them from both of those buckets. So a big opportunity for the brand. And I think you see through Online Grocery, Free 2-Day Shipping and a lot of the other initiatives that we have, customers ready to shop us in that way. And it's just -- it's really been about us showing up with the offering for them to take part in.

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

I've got 3 direct reports that are not up here. Jeff Gearhart, if you would stand. Jeff leads global governance, which includes compliance, ethics, legal. Jacqui Canney, would you please stand up? Jacqui leads the people area and yesterday was her birthday. So we've all been giving her a hard time about that. And Dan Bartlett, Dan leads communications, corporate affairs, sustainability, those areas. And Dan, you've been doing a lot of work on reputation and this overlap between brand and reputation, anything you would add to what Tony said?

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

The only thing I would add is that a lot of companies have more of arm's-length relationship with the public. But Wal-Mart, with 145 million transactions a week, more than 60% of the public going through our stores in any given month, we have a very intimate relationship with the public as we talk a lot about a daily referendum on our reputation. And so the things we're doing to attract new customers through brand propositions, whether it would be online, are critically important. But I think it also reinforces the fundamental work we're doing in our stores because those are where most of the interactions are taking place with the public. We have a real opportunity not in just solving the day-in, day-out basic issues that customers expect of you. But also gives an opportunity to tell a little bit more about the company, what we're doing beyond just the 4 walls -- inside the 4 walls of a store. And so when Doug talked about earlier that we have an opportunity to tell our story in a different way, that's something that we're going to be leaning into because we have this great relationship and this access to so much of the public that other stores don't -- and companies don't enjoy, that we can take a real advantage of it.

## A - Steve Schmitt {BIO 19791185 <GO>}

Okay. Paul?

## Q - Paul Trussell {BIO 20732173 <GO>}

Paul Trussell, Deutsche Bank. 2 questions, first on real estate. We all probably agree and understand the shift in capital towards technology and e-commerce. But I just want to make sure I understand the rationalization around the meaningful slowdown in real estate growth that we've seen over the past few years, particularly in the U.S. Is it no longer providing the returns? Have we reached the point of saturation? Perhaps you can just give us a little bit more color on how to think about where you are right now from a U.S. stores standpoint. Then second, on the e-commerce front, you outlined the 40% growth in the U.S. If at all, can you give some details on just how you're seeing those growth rates across the Walmart.com banner versus Jet versus some of the acquisitions you've made? Then how should we think about the growth rate for the global e-commerce, the 17.5 billion? Are there any targets on that front? And if there's any kind of quick comments you can give on the latest with the JD.com partnership.

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

Let's start with the e-commerce question, the second one first. Marc, you go first, then Dave, if you would chime in. And then Brett and I will take the other one.

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

Yes. So I mean, we're not giving any guidance on the global number in terms of sales growth. We're just really talking about the U.S. We also haven't talked about whether it was coming more from the acquisitions or Walmart.com or grocery. I think it's fair to say that it's a nice blend between the 3 channels. And yes...

## A - David Cheesewright {BIO 7334339 <GO>}

Yes. From an international perspective, think of it in 3 broad groups. So the grocery and shopping business, which leverages these existing assets. We pretty much grow everywhere. It's very dominated by the U.K., which has had business there for a while. So that's a huge chunk of our business, relatively mature and kind of high single-digit growth, whereas we'd be significant double-digit growth in the other markets. The second then is the 2 markets adjacent to the U.S.. So Mexico and Canada, where without distracting from what Marc's doing in the U.S., we have ongoing sessions to work out how and when we can leverage those. Both those markets have their own marketplace set up already. But there's obviously a lot of synergies that when the time's right, we'll be able to build into those 2 markets. Then for the rest of the globe, the extended tail, think of it as partnerships like the one we have with JD in China, where we'll more likely work with a partner who can help us build the capability in that market and then ultimately open up some channels to start distributing, what, some unique assets around the globe. So the assortments that Greg builds are actually a lot of them pretty relevant, a lot of countries around the globe. So the global store that we've just opened with JD allows a portal that simply moves products that customers want into other markets. And you find some weird things. One of the best-selling items on JD is a long-life UHT milk from the U.K. because milk has a real issue with food safety and people believe it's great. So connecting up countries, I think, is going to be a big revenue source for us in the future.

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

David mentioned grocery and shopping. That's the same thing as Online Grocery, just another form of English description there. Property, real estate, I think it varies by country. But the U.S., about the U.S., I think specifically, Paul, if you think about the supercenters, they are largely built out. They will still be some opportunities to do, a few here and there. But that's largely the case within 90% of the population. We have an opportunity with A-bred markets. And Greg, you can chime in if you want to. But the choice we're making right now is to put the assets, the investment towards e-commerce rather than that opportunity. We may be back around to it later. But we're making a deliberate choice that we're going to go win in e-commerce in this market and bring omni together in that way. If you expand beyond it. And that applies to kind of the Sam's Club question too, it's the same situation, I think, as the supercenters mostly. If you look more broadly than the U.S., I think the supercenter buildout in Canada looks more like what the United States looks like. But we have tremendous opportunities for new stores in other international markets that are not as developed. So Dave, you might put U.K. -- the U.K., Japan kind of closer to the Canadian bucket. But we've got a lot of great store opportunities throughout Latin America and Central America.

## A - David Cheesewright {BIO 7334339 <GO>}

Yes.

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

And I was traveling a few weeks ago in South America. And this discount-compact type that we've got that operates under the Bodega name in more than one country is a fantastic store format. Financially, a terrific investment. We'll continue to have new store programs that relate to opportunities like that.

## A - David Cheesewright {BIO 7334339 <GO>}

Yes. And I think a big improvement, Doug, is we're so much more focused around where we get good returns. So for example, the Sam's business in China, I mean, that's a great business. We had 12 Clubs in the first 20 years. We've leaned in very hard to the pipeline because we know that when you have a physical club and you put an online business next to it, which we now have with the partnership with JD, it works much better than if you have either in isolation. And so you can see us quite dramatically improving the number of physical clubs over the next few years. But well thought through. Then the work that we've been done with Brett's team on the way we look at our forecasting, our control of capital has made us much better at everything from what the format is, to what golden principles apply to make sure we're more confident in the returns we get. So I think much, much more disciplined.

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

The other bit is we've got a lot of stores that we opened 2003, 2004, 2005, '06. We were doing circa 300 on supercenters a year during that period. So a lot of those need a good remodel. And as we get around the country, you often go into a town or a city. And usually, the Walmart that's on the corner of Main and Central is usually a fantastic piece of real estate, 25 acres. And we want to make sure that we keep that facility up and running and in the best possible condition. And wherever we can, we're doing things like making sure we get the Online Grocery offer in there, pickup gets moved to the front, the store gets a really nice remodel. And we like that approach of keeping our asset really current and up to date. And 500 is an enormous undertaking in a business like ours. So I don't know how many thousands we have working on remodels. But it's a lot through just when you put everyone out there in the field doing it. So...

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

But one thing I'll add in because I've gotten similar questions even last night and today, what we're trying to do is to communicate in a way that makes sense with where the business is going. If you were to look to our presentations 3 or four years ago, it was, here's Walmart U.S., here's Sam's Club, here's International, here's square footage growth, here's number of stores. And it's just not how the world's working anymore. It's not how we're operating anymore. As we look at an opportunity in the U.S., we may say that's better served with a store, we may say it's better served with e-commerce. Same thing in countries, there could be delivery in China versus putting out a new store or partnership with JD. So there're all these things that are making it a little more challenging to how we frame the business for you that you can compare a bit to how you would have thought about the company 3 or four years ago.

## A - Steve Schmitt {BIO 19791185 <GO>}

Let's do one over here and then just get the few people over here. I know we're running out of time. Go ahead.

## Q - Benjamin Shelton Bienvenu

Ben Bienvenu with Stephens. In the store tours yesterday and then the presentation today, we saw and heard a lot of examples of tests around initiatives in stores. I'm curious, can you help us think about the criteria that you consider in determining whether a test needs to be abandoned or expanded to a broader set of stores?

## A - Steve Schmitt {BIO 19791185 <GO>}

Yes, Greg, you want to talk about that?

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

Yes. We certainly do and isn't that a great thing. And often, with many of the things we do, we actually aren't quite sure how big they're going to be or how successful they're going to be until you start getting them out there. Sometimes, we'll begin with one store and we'll work hard at that and we see the results. And then we'll say, in this particular case, let's take that to 5 stores. Sometimes, we don't feel that the next group should be 5 stores. We think it should be 30 stores. We always will get to a point. And we have things like pret-a-review meetings and we have a capital meeting every month, where we will sit down and we'll start asking the questions. So is this achieving business case? Isn't it? What have we learned? Do we have to change it? I like the fact that we've got many things happening. There's always a balance of course. But you can talk about it and you don't execute it. So make sure that before you abandon it, you gave a really good shot at executing it. But there is a stringent process. We're not just throwing things at a wall, we think about the team intimately involved in it. And that's how we make the decisions. But...

## Q - Benjamin Shelton Bienvenu

Yes. David mentioned that the supply chain was, I think, 20 basis points of improvement in International. And it seems to me that as the world changes and we go down the next 10 to 15 years, transportation is going to change markedly. There are going to be significant opportunities. Where are you in what you have done for the rest of the company in supply chain? What do you think it will be? Then does that lead down to a thought process or maybe somewhere down the line, as you get fulfillment costs down and other things down to a permanent price reduction and maybe the shipping threshold, as that happens? Then I've also got a question about merchandising structures, maybe after you talk about that...

## A - Steve Schmitt {BIO 19791185 <GO>}

You want to do this, Greg?

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

Yes, sure. So Greg Smith, Greg joined us back in January. He joined us from Goodyear. And proud of that, ConAgra. And he runs the supply chain for the U.S. stores piece. And I'll hand to him in just a minute. But I -- is supply chain going to be an enormous competitive advantage? It has to be, doesn't it? When you've got a business that's doing, in the U.S., $300 billion, you're doing another $140 billion outside of the U.S., most of that is focused on circa 300,000 SKUs. Your ability to move that product more effectively than anyone else in the world has got to be an enormous competitive advantage. And we're focused on that. There's a lot of work that Greg and the team are doing. And Greg, over to you.

## A - Greg Smith {BIO 1926122 <GO>}

Yes. Thank you, Greg. A lot of work. And we're really excited about this plateau in opportunities. First of all, it's really the flow of the products and really being at speed and precise. A lot of focus with our vendor partners and all the way through our network to get our products moving through quickly and very efficiently. Greg indicated the benefits we have on our product with produce. So it's a key focus there, also in the way that we leverage transportation and look at our whole network. We've got a tremendous density in this network. So we're really excited about how we leverage our private fleet, how we leverage the third-party resource that we have in transportation and really get to the most efficient model that we can there while leveraging our overall asset base as well. We're also learning a new technology. So you'll start to see us just like the stores are testing. We're doing a lot of testing around robotics and automation. And we're starting to bring a lot of those into our workplace to be able to help us significantly improve our effectiveness and the cost of the overall supply chain. So very excited about what the next few years have to bring and what we have ahead of us in the supply chain.

## Q - Benjamin Shelton Bienvenu

Any quantification?

## A - David Cheesewright {BIO 7334339 <GO>}

I was just going to say it's another area where I think having a global business is a real asset because if you look around the globe, with our relationship with New Dada in China, we have a pure-play crowd-sourced solution. So we're getting a really good understanding of how that works and how it doesn't. In the U.K., we have our own fleet that does the last-mile delivery. We understand how that works. And our ability to work with Greg's team and plug them into the center of excellence and we look at different markets, in some cases, it's unique to the market and it's not going to apply anywhere else. But we've often got insights that if a business just stood on its own it just simply wouldn't have. And we can learn very, very quickly.

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

You had a follow up with it?

## Q - Benjamin Shelton Bienvenu

Well I was just going to ask, any quantification on what you've already gotten out of supply chain from maybe other parts of the company and other parts of the world? Then the idea of a permanent price reduction somewhere down the road in the shipping threshold for e-commerce, does that lead to that -- moving that? Because you have made a big case about this versus membership plan?

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

Yes, I think it could. There's basically this big optimization that we think is going to happen. But as you think about connecting people with product, the more nodes you have dispersed close to them, the more opportunity you have to kind of run this big regression across the top and figure out how to meet demand. And the more they tell us ahead of time, either with their voice or on an app that they want something, that's more of an opportunity we have to stage that and provide that to them in a way that's lower cost. So I think we have a lot of the components. But I don't think there's going to be this moment in next year's plan where there's a substantial price reduction because we had some breakthrough in fulfillment. I think it will be more gradual than that.

## A - Steve Schmitt {BIO 19791185 <GO>}

Dan, why don't you bring us home? We've -- for those of you we can't get -- if we haven't gotten to your questions, these guys will be around for a while during lunch so you'll have a chance to ask a question too.

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

Dan Binder with Jefferies. Since I'm last, I'll ask 2 questions. One was around friction online. You've talked a lot about reducing friction. 2 areas I'd like you to address if you could, is fulfillment by Walmart, it doesn't exist today. Does it need longer term to compete in the marketplace, especially on 2-day delivery? Obviously, because we can get that, I think, on like 2 million items with Walmart. But probably a lot more with one of your big competitors. Also, one click, if you could address that. I think when I go through Walmart checkout, it's probably 5 or 6 clicks right now. It's better than it used to be. But probably room for improvement. Then the second question was really around the portfolio of assets. Early in the presentation, you talked about divesting noncore. We have several examples of that already. Just curious your thoughts going forward. Is there -- is that largely done? Or is there more to do? Any color you can provide.

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

Marc, you want to go first?

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

Yes. You're talking about how many clicks it takes to navigate the website?

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

Yes. And I think kind of a pattern...

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

Those are simmering questions.

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

That was to cheat it through...

## A - Steve Schmitt {BIO 19791185 <GO>}

You're getting your money's worth.

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

So regarding checkout, I mean, that's one of the things that we're doing. We hired a new head of customer experience that started about a year ago, right when I was starting. And he's been really building out the entire customer experience team. And we've got a really good team. And you're going to start to see a lot of improvements in the actual on-site shopping experience, which will include the whole checkout flow. That's an area that we know that we can streamline. So we'll be focused. That's sort of part of the focus on fixing the fundamentals. So that was the one-click question and the other one?

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

Fulfillment by Walmart?

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

Yes, fulfillment by Walmart. We've actually got a few 3PL partners that we're using right now to do fulfillment on behalf of our third-party merchants. We are in at a place now where we want to bring that in-house into our own fulfillment centers just because there's so much opportunity and low-hanging fruit to bring products in first-party, which is really the experience that we're focused on fixing right now. So we'll see how it evolves. But there are options for 3P sellers right now.

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

On the portfolio, there's more work to be done. There are some things that are in the queue. Obviously, we can't talk about some of those things until they're actually done. But it's a deliberate piece of work. And we're prioritizing North America. You can hear us prioritizing omni-channel. We want to make sure that our resources, people, financial resources, everything, are aimed at winning in the most important places. And that's the way we think about it. Anything you want to add to that? Can I just say thank you? I mean, I appreciate the engagement that you all have in the company. A lot of you have invested a lot of your time to understand what we're working on. I really do appreciate you doing that. I hope you can sense from us today that our posture is improving. And with what we can see ahead of us, we think we have a great opportunity to continue to make improvement and we're working hard to do that. So thanks for investing your time and energy to understand Wal-Mart.

## A - Steve Schmitt {BIO 19791185 <GO>}

So thanks, everyone, again. This concludes our webcast portion of the meeting. We're going to have lunch served in a little bit. I'll let you ask some follow-up questions or some other questions you weren't able to.