Goldman Sachs Retail Conference

Company Participants

- Brett Biggs, Mart Stores, Inc.
- Matt Fassler, Analyst

Other Participants

- Unidentified Participant, Analyst, Unknown

Presentation

Matt Fassler

Good afternoon, everyone. I'm Matt Fassler from Goldman Sachs. I have the pleasure of kicking off this session moderating our discussion with Brett Biggs of Walmart. Brett, as you know, is Executive Vice President and CFO for the Corporation. He's been in that capacity for about a year, a little less. Prior to that, many of us knew him as the Chief Financial Officer for Walmart International. Prior to that, he had been CFO for Walmart US. He had a number of other roles at Walmart dating back to the year 2000.

Walmart, of any company among the 40-plus occurring at this conference, really needs no introduction. But I will tell you as big as this Company is -- and as you can see from our top 100 exhibits, it is the largest retailer in the world by a very generous margin -- the story today, I think, is more dynamic than it's been certainly in any time since I've followed the Company.

And I think it's very safe to say that Walmart is very much one of the meaningful disruptors in the retailing industry here in 2016 and one of the disruptive forces. And there are a number of real strategic thrusts, I think, that we have seen over the past year or less that I think we'll cover as we move from theme to theme in our discussion with Brett today.

Ordinarily, I would not have led with e-commerce in a discussion with Walmart. But you all sort of forced the issue by acquiring Jet just a few weeks ago -- or I should say announcing the pending acquisition of Jet. So talk to us if you would about the strategic play of this transaction.

Brett Biggs {BIO 17414705 <GO>}

Sure. And thank you for having us -- having me here. It's always a -- it's a conference we've come to pretty much every year since I remember coming to the Company. So we are always pleased to come here.

Actually, I got to spend a little bit of time yesterday with our new team hopefully very soon over at Jet. And got to spend some time with the team and getting to know them a little better -- the finance team. But also some of the business team. And we're really excited about what's going on at Jet and what we can do with the business.

There's a lot of different ways to think about, I think, the Jet transaction. And there's -- I kind of break it out into three different pieces. And the first would just be Jet on its own. Jet is an exciting brand. It's a fairly new company obviously. But they do some things that are really unique. They've grown very quickly. What they do with their smart card technology is really interesting and something that's unique in the way they build the basket and encourage the customer to build a basket.

And so having that brand, which is very interesting, very unique, is great for us. And there's things that you can do with a brand like Jet.com that's different than what we do at Walmart.com.

The second piece of value is the team. Mark Lore and the team have done great things with Jet -- they did great things with Quidsi prior to that. And so the ability to take what that team knows -- their industry knowledge -- and what they do and helping us continue to grow Jet but also Walmart.com is certainly a big benefit for Walmart.

Then our own existing business with Walmart.com, which is a sizable business. We now have a SKU count of about 15 million SKUs, which has almost doubled in the last year. There's a lot of exciting things we are doing there. We've been talking a lot about the foundation that we've been building at Walmart.com with the systems work we've been doing, with the fulfillment centers that we've been putting in place. And you saw some of the fruits of that in this last quarter with a little bit of acceleration in GMB to 13% in the Second Quarter.

So the team has built a really nice foundation in San Bruno with Neil Ashe and others. And now to have Mark and his team come over and take the great things they do at Jet and help the Walmart.com business and taking what we do well at Walmart.com and potentially doing different things with Jet, I think, is exciting.

Matt Fassler

Over time, how do you expect these brands to coexist? Will they coexist? Will one be folded into the other? Is there a good rationale being Walmart and having this amazing brand footprint and having a second e-commerce brand that stands for something else with consumers?

Brett Biggs {BIO 17414705 <GO>}

I'm going to take one second because I'm getting the nod from Steve Schmidt. I didn't talk about a forward-looking statement. And I want to make our attorneys really happy. So I might make some forward-looking statements today.

Go on our website, take into consideration everything we've said in making investment decisions. I think our attorneys will be happy now. So after that paid commercial let's go back to what we were discussing.

Matt Fassler

Sure. Think about sort of the long-term need for dual brands, for a second brand under the Walmart umbrella.

Brett Biggs {BIO 17414705 <GO>}

Yes. It's something that -- we've had a little bit with stores with Neighborhood Mart. It's a part of Walmart. But it's been a different brand. We definitely have that as you look internationally. Globally, we have a lot of -- a number of different brands across the world which gives you opportunities to do different things.

I think having a second brand with e-commerce, again, there's just opportunities to potentially try new things, access different types of customers. Jet has a more urban customer typically than Walmart.com has. So being able to just lever those brands differently potentially but taking the strengths of both, I think, is where the excitement is for the Company.

Matt Fassler

What about the economics of this transaction? One of the pieces of feedback that we get is $3 billion -- Walmart can afford to do anything with $3 billion that they want because it's Walmart. But still when we think about a technology and management team and some enhancements, that's a lot of money. So how do we think about the economics of this for you, which I'm sure you all considered as you (inaudible)?

Brett Biggs {BIO 17414705 <GO>}

Sure. I'll take a step back and talk about capital allocation. The first thing we want to do as a business is invest back into the business. And we realize we need to do that in a way that's return-enhancing over time. Our investors expect that and demand that -- we expect that of ourselves. But the first thing we want to do as a Company is ensure that we are a healthy business long-term. And you are going to want to allocate capital in a way that ensures that that happens -- understanding the realities of short-term and midterm expectations.

But the valuation which I just talked about -- the different streams of value of the Company -- we took all that in consideration -- the value of Jet, the team, the ability to accelerate our own business -- our own e-commerce business. And taking that e-commerce business and continuing to do what we do well, which is find that intersection between what we do in the stores, what we do with e-commerce -- there's a lot of value in that to us in helping accelerate that.

Matt Fassler

I'm going to talk for a moment about the marketplace business. This past quarter, I believe, was the First Quarter that we actually saw a delta between GMV growth and revenue growth in your e-commerce businesses writ large. Can you talk about your strategy for growing that marketplace business? I know the economics are probably better than the 1P, if you will, e-commerce business for you.

Brett Biggs {BIO 17414705 <GO>}

Sure. Marketplace is a different business. But again, stepping back, what we want to do is we want to be there for the customer. And that can take a lot of different forms. We want to be there if they want to shop in the stores. We want to be there if they are online. We want to be there if they want to pick up groceries in the store. We want to be there for that. And the ability to continue to pull all that together is what makes, I think, Walmart -- makes Walmart Walmart in the future.

We've made some systems enhancements and have done some different things over the last few months. And we talked about that kind of generically in the last couple of quarters in studying the foundation to be able to grow Marketplace more quickly. And so the ability to get sellers on more quickly, to give them an alternative as they want to sell their products -- that's what we want to do. We want to be there for the customers. First party, third party -- we want to be there for the customer in the way in which they want to shop.

Matt Fassler

Then one last question for now in e-commerce -- how different is your mix online versus in-store? I know you are doing less grocery. But I guess are there categories where you are really succeeding online disproportionate to the in-store mix of business?

Brett Biggs {BIO 17414705 <GO>}

Well you start with just types of businesses that are moving more quickly online. So you look particularly in electronics would be the first one that everyone -- electronics and media everybody would think about that are mix. While it wouldn't necessarily be different online, you may see -- at times, you might see a similar SKU online as you do in the store. But we'll have different types of SKUs online as well. So you've got to look first at kind of where the customer is going to buy in total.

So you will continue to see differences, I think, as we go into the future more with online versus in-store. But giving the customer the ability to -- for one pickup in our stores, we believe, is a very different type of convenience for the customer. Online grocery has been interesting. Our customers -- we've gotten great feedback from customers in online grocery. And it's because if you think about Walmart or our customer, 90% of the US population lives within 10 miles of one of our stores. So it is an element of convenience to be able to come to one of our stores and pick up your groceries -- not necessarily get the kids out of the car if you don't want to stop and pick it up versus waiting at home to get something delivered.

Matt Fassler

Then sort of melding the online and international elements, I thought a fascinating deal was your China deal, your JD deal, which was quickly overshadowed by Jet. But I don't want to lose sight of what you did there. Can you talk about why you did that transaction, why you benefit from that partnership? And a question that might be obvious, might not be, why the Chinese market is so different from others that you would go do this deal.

Brett Biggs {BIO 17414705 <GO>}

Yes. The JD.com transaction was really interesting. And we had a good business in Yihaodian. And we liked the direction in which it was going. And there were things that we could have done with that business. When you just looked at the landscape in China and you saw what a JD.com was doing. And then doing a lot of it through first-party e-commerce culture that I would say was fairly similar to Walmart -- it was an interesting alliance with them. And I think there's other opportunities with JD.com that we can take advantage of over time.

And being able to put together what they do so well from an e-commerce perspective and marrying that with what we do so well in our stores and with Sam's Club, it's a growing format in China, we believe, was a great answer for us long-term.

Matt Fassler

I want to segue, Brett, if I could from online to in-store and talk about pricing. And I want to get a sense as to how you would frame the changes that you're making. I guess I'll ask it open-ended initially.

Brett Biggs {BIO 17414705 <GO>}

We talked about a year ago in October that we would invest several billion dollars in price over several years. And then we talked about earlier this year that we were accelerating some of that price investment. Greg Foran, our head of our US business, has been talking about for a while that he wanted to get the shop in shape before he invited everybody to come over. And he felt like the timing was right to accelerate some of that.

And just to back up, Walmart always invests in price. It's not something -- there's not an on/off switch with price. There are times that we'll be more aggressive or more intentional about it. But we're always investing in price. As you can imagine, we have a team that pretty much all they do is pricing. And they think about competitive dynamics. They think about by category -- they think about by item. So there is a lot of analytics and a lot of thought that goes into those decisions. And I think one advantage we have is the ability to take price across a very wide assortment.

Walmart -- we always want to be the best price for a basket. So being able to price differently in GM as well as food and really show that customer value in different parts of the business, I think, is unique to how we can approach price.

Matt Fassler

What is the relationship for -- between the store improvements that you're making -- labor investment/store improvements -- and pricing? Is one necessarily the precursor of the other?

Brett Biggs {BIO 17414705 <GO>}

It goes back to that comment I just said a minute ago. And Greg has talked about wanting to get the house in shape before inviting everybody over. And I think that as he thought about the sequencing of it, that was in our minds as we thought about that -- is getting the stores in a little better shape from a customer perspective. And I think the team has done a great job with that.

The wage investment was an important part of that. You think about how we work with associates and what that looks like over a longer period of time. And with the market we felt like that was the right timing for that.

But if you look at the results and you look at the Second Quarter with the 1.6% comp and the traffic, I think you just have to the at a number of those things that all come into play. Another one being inventory -- if you look at our comp inventory being down 6.5% in the Second Quarter but in-stocks being up, that's a great combination if you can get that to work together. So Matt, I think it's just the number of things coming together at the same time.

Matt Fassler

I want to frame the next question by conceding that there probably hasn't been a Walmart analyst meeting in the past number of years where you haven't talked about price. I would say it does seem like there's something a little more palpable, tangible, broad. How -- what inning are we in? How much of what we are going to see have we seen so far -- whether it's your move through the mix, whether it's your geographic breadth in terms of the pricing enhancements that you are looking to implement?

Brett Biggs {BIO 17414705 <GO>}

I'll put it in the context of how we described it a year ago. And I think that gives you some sense of it. A year ago we said, again, it's several billion dollars over a three-year period, with the majority of that being in the second and third year, which would be next year and the year after. But we did say we accelerated some of that into the First Quarter -- I mean, the first part of the year. So we are ahead of where we said we would be about a year ago on that pricing journey but haven't been any more specific about how we're thinking about other than what we said last October.

Matt Fassler

Now, is there a merchandising of the mix going on? In other words, clearly you are cutting price in some categories that have good profile and that make a difference for you. And that's clearly helped your traffic. Are prices only moving in one direction? Is there a price -- can there be a price optimization exercise in lower-profile SKUs that would help fund some of that?

Brett Biggs {BIO 17414705 <GO>}

You always look at price optimization. I think the way you look at it, you've got to look at how you mix out whether it's online, whether it's in-store. And that's decisions that your merchants make every day. But you always want that customer coming away realizing that on a basket of goods that they got the best deal at Walmart. And that's who we are as a Company.

Matt Fassler

I want to ask about gross margin for a moment. And your gross margin has been moving higher. It's now, I think, four quarters running that the US gross margin has been up. Doug told a very interesting anecdote at the analysts' Q&A subsequent to the annual meeting in June about when he was a merchant in his early days -- in order to drive gross margin, cut price -- and talked about that, which was really clever at the same time. To those of us who haven't actually seen it work, it seems a bit still counterintuitive.

How would you frame the gross margin drivers? Now that you are cycling that first nice pop that you saw in the Third Quarter of last year, can you continue to implement the price investments that sound like they have a couple of years ahead of them and at least hold the growth, if not grow them as you have been?

Brett Biggs {BIO 17414705 <GO>}

There's a lot of elements to gross margin, a lot of elements to your question. So I'll try to address it a little bit at a time. I think with gross margin, one, is it would encourage everybody to look at it over a period of time. There are times where gross margin -- you get a benefit, you get something that's not a benefit. But you have got to look at it over time to get a sense of, I think, what a company is doing.

There's a number of things that drive gross margin. And so if you think about things like shrink, which we've improved some this year. We have talked about that. Obviously the cost going into the product. And we've been doing work with our suppliers around that. Logistics costs, which are helped a little bit right now with fuel prices -- so, there's a lot of things that drive improvement. And mix would be a part of that as well.

As you also think about gross margin rate, you really have to focus on gross margin dollars. And if you think about the productivity loop -- and I think that's where Doug was getting to this June. Think about the productivity loop -- if you can drive sales, you can lower cost, you could have a period of time where your gross margin rate is lower. But gross margin dollars are higher. If you can get the sales, the top-line growth. And we're seeing that top-line growth today as we take these initiatives.

And so I think you just have to look at all of it within the framework of the total company. And I'd add SG&A to that. We have certainly leaned into wages and some other things that have delevered our cost structure over the last couple of years. And that's been intentional. But you should still think about the productivity loop with Walmart when you think about expenses.

So there's a lot of levers to pull and a lot of buttons to push to get the business to where you want it to be.

Matt Fassler

I want to talk for a minute about that profit growth and gain. Everything you've done, you've basically said you would do -- or you've done what you said, phrasing it another way. For the moment, Walmart US -- you are growing a better comp -- you're not growing operating income. You have the investment and labor, it was foreshadowed. So there's no surprise there.

I'm curious about whether -- if you think about the markets, where you've cut price and the traffic has accelerated. And that strategy is working. Is the operating income trend in those markets better than in other markets where you have yet to implement the totality of those pricing moves?

Brett Biggs {BIO 17414705 <GO>}

Yes, I think there's a lot of things you have got to think about when you think of comp sales. And price is a piece of the puzzle, certainly operating the way you're operating a store, the customer experience -- all of that plays into what you see from a comp sales perspective. So it's hard, I think, to isolate one element. But it's certainly a big part of what we do and I think always will do as a Company. And it's taking all the pieces of the business and running them in a way that they can optimize. You can optimize each part of the business. But ensuring that long-term that it works in a way that makes sense for the Company as well as for the investor.

Matt Fassler

I want to move on if I can to the wage hikes and talk about what you think those have done for you strategically. I know that Walmart is supposed to think about its narrative, its prominent enterprise. Talk about what the consequences have been.

Brett Biggs {BIO 17414705 <GO>}

It's been, as you can imagine, very favorably received in stores. When you go to an annual meeting like I went to in Denver a couple of weeks ago, it's certainly discussed and certainly appreciated by the associates. And it puts more money in their wallets as well to spend. And we assume some of that is coming back into our stores.

You've got to be at least competitive with the wage market all the time. And that's something that we'll continue to monitor. But we want really good associates in Walmart. But we also want associates that want to make -- there are some associates who will want to make a career at Walmart. And we want to give them an entry point into which to start that career and let them have a pathway to bigger jobs. You look at our CEO, Doug McMillon, starting in a warehouse in Walmart. And you have stories like that. And it's really balancing all of that with the P&L of the business and ensuring that economically it makes sense over time. And I do believe part of that is some of the improvement you're seeing in the business today.

Matt Fassler

Great. Also in the domestic business, there's been some reallocation of labor around the box. Just last week there were some stories about reallocating rolls away from accounting and invoicing in stores, presumably either saving that money or reallocating it to selling functions. Talk about how you've thought about labor allocation, broadly speaking, in and around your boxes and where you stand in terms of that.

Brett Biggs {BIO 17414705 <GO>}

Sure. We just talked about efficiency and ways that Walmart can continue to be more efficient. We've made some really nice progress around shared services. And that's part of what you're seeing with this -- with the initiative. And what you are discussing is taking some of those functions and putting them in a shared services center where we're more efficient and can do things versus instead of doing that store by store. Now, a lot or a great number of those associates will continue to work with Walmart and be in another hopefully more customer-facing roles within the business.

But if you go back even to some of the changes we made last year -- putting more department managers back into the business. And if you go into Walmart today, you will see more people on the floor than you would have seen two years ago. If you look at some of the technology that we put into our back rooms which has had associates spend much less time in the back rooms, more time ensuring shelves are stocked, ensuring they are spending time with customers -- all of that has been from the standpoint of ensuring customer service is better.

Matt Fassler

Great. I want to move on -- actually, stick with the domestic business for one moment because it's just so topical. How are you managing food deflation, which is happening above and beyond your own pricing stance? And where do you feel we are on the food deflation continuum?

Brett Biggs {BIO 17414705 <GO>}

I'll start with the last part. I wish I had a crystal ball as to where we are with food deflation. It's been a category -- some categories have been around quite a while. Meat and dairy specifically have been around quite a while. So I'd hate to have to try to predict where that will go.

Again, when you look at our assortment we'll have probably different opportunities than maybe some other retailers in that. With GM and with food, you see different periods of time where you may have inflation in one category, deflation in another category. Food has been fairly significant. And we called that out in our earnings releases. But it does give us, I think, a little better opportunity of how to work with that. But long-term, again, we want customers shopping with Walmart. And part of that is making sure they get the right price at Walmart no matter what environment we're in.

Matt Fassler

I want to ask a question or two about international. And as I think about your three largest markets for the international business as being the UK and Mexico and Canada, the UK is the one that probably most deserves a little bit of discussion today. And you just had a management change. There's been a market share issue, frankly, for the entire legacy retail ecosystem in the UK. Talk to us about as those initiatives to regain market share -- you had always talked about out there very much in the portfolio context and the contribution to the international P&L.. How are you evolving that thinking today?

Brett Biggs {BIO 17414705 <GO>}

It's been a challenging market for a year, if not two years. And we've seen periods of time in the UK where the market has gotten a bit challenging. Three or four years ago probably, we were talking about vouchering and other things in the UK. And we didn't really participate in that. And I think long-term we're glad that we didn't.

It is a different environment in the UK today with discounters -- I think everybody realizes that. And how you compete with a discounter is a little bit different than you might compete with a traditional retailer.

We have -- we've been thoughtful about at Asda about how we think about the mix -- whether it's cash flow, whether it's profit, whether it's sales. And as Doug mentioned in our Second Quarter release, we have a sense of urgency about ensuring that Asda is successful. We're not happy with the comp sales that we see today in that market.

With a new management team -- I've known Sean Clark for a long time. He and I kind of grew up in the Company together. He's by far one of our most well-traveled executives. Growing up in the UK, I think, is helpful. But also having seen our operations in Germany, Japan, Canada, China and being able to now take those learnings back to the UK will be very helpful.

They're going to focus on what you would focus on, which is the fundamentals of retail. It's pricing -- it's how your store is operated -- it's merchandising. And there's a number of different things within those areas that we can always be better. Our store operations, I think, can be more -- I use the word retail-tainment. Probably need to get back to that maybe a little bit more at Asda than what we've had over the past couple of years. Our pricing has got to be sharp. Your private-label quality has got to be fantastic. We've always had good private label with Asda. And that's how you have to compete with the discounters. We have differentiators -- like George in the apparel brand, I think, gives us a differentiator with our customers. But we've just got to continue to get better.

Matt Fassler

I want to start the process of opening up the floor to mics. And it's extremely hard to see, particularly on that side of the room. So it may be hard --

Brett Biggs {BIO 17414705 <GO>}

It's very bright.

Matt Fassler

So we have -- if you can get the roving mics out and about -- and we have a couple of people up front. I'm going to start off by asking one of the four questions that we're asking all the companies at the conference. And, frankly, I think all four are probably relevant for Walmart more so than for any other company.

The first one is a very basic one. Are your expectations for the consumer backdrop for the second half of the year better, worse or even vis-a-vis what you saw from a backdrop perspective in the Second Quarter?

Brett Biggs {BIO 17414705 <GO>}

We haven't -- we said this before. we haven't seen a meaningful change in the consumer. I think the consumer generally is okay. There's things that are working in their favor -- whether it's interest rates, fuel prices, unemployment rate -- all of that is pretty favorable for the consumer. I think there's still probably a little bit of hesitancy in that that stems even back from 2009 and 2010 when people remember a tougher time.

And that's why you have seen the savings rate go up -- you have seen people paying down debt. You continue to see a little bit of that. I wish I could predict what fuel prices would be six months from now and how the consumer might react to that. But we haven't seen that dramatic of a change, really, in the past and would assume that's probably where we will go in the future.

We'll go back and forth -- the audience and myself -- for the first question.

Questions And Answers

Q - Unidentified Participant

I had two questions -- one on grocery and the trends there. And the other on wage rates and the economy.

The first one on the grocery business -- most of us would probably simply say that the grocery industry is a mess right now because of deflation and because of the competitive intensity. When you look at this year, is it solely -- do you think it's solely a function of deflation that has impacted IDs? Or do you look at your own market share as the largest grocer in the United States and say, no, we are up 50 or we are up 100 basis points in Nielsen scanner data from last year. And so is the competition?

A - Brett Biggs {BIO 17414705 <GO>}

Sure. We see the same data you do, for the most part, about how competitors are doing -- switching data, other things like that. I think you can never pin it down to one thing. Deflation is a piece of what you're seeing. We're focused on our operations. And again, the things we are doing from a pricing perspective, the things we're doing from a store standards perspective, we believe, are contributing to what we're doing.

Q - Unidentified Participant

Then with wage rates, you and others are leading. But generally, I think we've all anecdotally heard of stories of businesses having difficulty finding quality individuals to be their partners in business. And so that's led to a level of frustration and complexity that perhaps hadn't been there last year or two years ago. Could you discuss your HR practices and ability to hire and attract and keep people this year versus last year and the prior year?

A - Brett Biggs {BIO 17414705 <GO>}

Can you repeat that last part of the question? I'm sorry -- it's a little hard to hear up here.

Q - Unidentified Participant

Just how do you find the labor market in terms of getting people you need into your stores this year versus the prior couple of years?

A - Brett Biggs {BIO 17414705 <GO>}

Right. Part of getting the workforce that you want -- wages is a part of that piece. Training is a part of that. And I think a part of what was not missed necessarily but underplayed a bit on when we announced our wage rate increases was the dollars that we were also putting into training.

And part of having people happy in their roles is making their jobs easier. And so some of the things we've done from a technology standpoint in the back rooms to free up people to help customers, free up people to get items on the shelf -- that makes customers happy. That makes the relationship with the associate better. All of that plays into how you keep your workforce current and how you keep them happy. So again, I don't think it's any one specific thing than we're really focused on all of those as far as getting the right associates.

A - Matt Fassler

So the question I want to ask next before we go to the next audience member -- simplistically speaking, wage inflation -- given that you are paying more but you also have a customer who probably benefits from the net effect of rising wages --. And I want to separate your proactive or preemptive moves earlier and just think about the general wage inflation of the marketplace -- a net positive or a net negative for your business?

A - Brett Biggs {BIO 17414705 <GO>}

I think you could take either side of the question you just asked. Obviously if you add cost to your business, you need to get productivity and get benefit out of that increased cost, or your shareholders or your customer don't benefit from that. So you always have to keep that balance. Having our associates have more money hopefully makes them better associates but also puts more money in their pocket, as you were referring to. So I think you could take different points on that one.

Q - Unidentified Participant

In the last quarter you cited higher gross margins in food and consumables. Did deflation contribute to the arithmetic on those categories?

A - Brett Biggs {BIO 17414705 <GO>}

Well it plays a part of the gross margin equation. But again, you've got to look at the other things that we talked about that hit gross margin as well, whether that's shrink that throws from a fresh perspective. Whether that's absolute cost in on the product -- all of that goes into that equation. So it's bits and pieces of all of that.

A - Matt Fassler

Then on those things -- so, better COGS, lower transportation, lower shrink and probably lower markdowns because the inventories are lower -- would those things -- do you see those things continuing for the rest of the year as positives for you?

A - Brett Biggs {BIO 17414705 <GO>}

Sure. Improving inventory helps in so many different areas. Labor, accidents, time spent moving inventory -- all of that is a huge benefit for the store. Markdowns is a piece of that. As you're able to keep inventory at the level you want, certainly you have less opportunity from a markdown perspective. And if you can do that and, again, keep in stocks better, that's the equation. I've seen -- we've had periods of time where we've taken inventory down and have not had the right equation within stocks being better. Right now, we're able to do both. You have to do both to be successful.

Q - Unidentified Participant

Then the final thing I had was once we year-round the second wage increase and we get into spring of 2017, where would you see in the US your cost increases going? Or, said differently, where would the leverage point be from a margin perspective on cost on your SG&A?

A - Brett Biggs {BIO 17414705 <GO>}

From an SG&A perspective?

Q - Unidentified Participant

For the US business once we fully round-trip the wage increase.

A - Brett Biggs {BIO 17414705 <GO>}

Right, which will be the end of February basically next year. When you have a business the size of Walmart -- Walmart US by itself, there's a lot of different places that you can find those leverage points. And we've been great at that over the years. We haven't been as good as we should have been in the past few years. You always want to be more productive as a company. And you see things we're doing around scan-and-go, more self-checkout, again, getting associates where they can spend more time with the customer -- that's all about productivity.

There's not any one specific place from a leverage standpoint. I think there's just a number of things we can continue to do. I get the question all the time about what inning we are in from an expense saving standpoint. And we say the productivity loop is a loop for a reason. There really isn't an end to what we can do from an expense management standpoint. I've been here 16 years. And I'll go in a store, I can go in the home office. And there's just always things we can do better.

A - Matt Fassler

We have a question from Bert in front.

Q - Unidentified Participant

Could you please comment on your significant success last week and in general pre-Hermine and pre-natural disasters that you had better planning, better systems, better in-store to take care of the customers to sales-optimize before big opportunities, before storms where what we saw across the country, your competitors appear to be asleep at the switch -- your competitors in dollar, discount, food and drugs, as well as club. You along with two others were real significant standouts, to your credit, pre-storm for the Walmart team and seem to be the best in the US before natural disasters in terms of taking care of the community and the customer. Thank you.

A - Brett Biggs {BIO 17414705 <GO>}

Yes. We've always been pretty good at that. We have what we call EOC, the emergency operations center, that we have. And depending on the size of the storm or the severity of what's going on or in the country, we have people that are pretty much working 24-7 to ensure not only do we have product in the right places ahead of activity so people can get ready for that storm or whatever is going on.

But also we are really quick coming in behind that as well. And that's not just with what we do from an operations standpoint but what we do from a charitable standpoint in getting the community back on its feet.

And I'd use Baton Rouge -- the terrible flooding in Baton Rouge and the over $1 million that we put into that community after that event. And so we can help customers in a lot of different ways. Sometimes it is just getting food on their shelves and water to first responders and just ensuring that we're there for the community. But we've -- going all the way back to Katrina have taken that as a very serious part of our business.

A - Matt Fassler

I want to ask what might end up being the last question. You have seen more of Aldi and Lidl than any other US retailer, given your exposure in the UK. And Aldi is here and growing and Lidl is coming imminently. And they have certainly been on fire for many years and been very much disruptive in their own right. How do you think the US is different in terms of that format's ability to succeed or not? And how will you come at -- how do you come at markets where you compete with them differently, if it all, based on their presence?

A - Brett Biggs {BIO 17414705 <GO>}

Aldi and Lidl are fantastic businesses. Certainly, we are with them in Germany. And now we've met with them in the UK. And you have to look at the UK and look at lessons you learn from that and say, how could that be similar to the US. I do think there are things that are different. I think even just the scale of the country and size as well as the retail market here is a bit different than the UK. I think the ability to get scale in the US probably takes a little bit longer than you would see in the UK, again, even from a geographic standpoint.

But they're a very good business. And -- but it's like any other competitor that we have. We have so many competitors -- whether that's online or whether it's dollar stores or grocery stores or category killers. You've just got to do the same thing with the customer. You've got to be there in a way that's unique. We think we are doing that as we bring together our physical assets with e-commerce. You've got to be top of mind with the customer.

And there's just more and more ways -- whether that's with Jet or online grocery or JD in China-- where we're just giving the customers more ways to interact with Walmart. And we think that's the winning formula over time.

A - Matt Fassler

Great. We have a lot more questions, I'm sure, both in the audience -- and I have some as well that we won't have time for. Before we break -- next up in this room we have Under Armour, Samsonite in the Terrace room, Car Auction Services in the Centennial foyer and thredUP and curbside both in the emerging brands forum in the Champagne suite. Please join me in thanking Brett for his remarks.

A - Brett Biggs {BIO 17414705 <GO>}

Thank you, everyone.