Walmart Inc Investment Community Meeting

Company Participants

- Brett M. Biggs, Executive VP & CFO
- C. Douglas McMillon, President, CEO & Director
- Daniel J. Bartlett, EVP of Corporate Affairs
- Daniel Thomas Binder, VP of IR
- Gregory S. Foran, Executive VP, CEO & President of Walmart US
- Janey Whiteside, Executive VP & Chief Customer Officer
- John Furner, Executive VP, President & CEO of Sam's Club
- Judith McKenna, Executive VP, President & CEO of Walmart International
- Marc E. Lore, Executive VP, President & CEO of Walmart eCommerce US
- Mark Ibbotson, EVP of Realty & Central Operations
- Steve Bratspies, Chief Merchandising Officer of Walmart US

Other Participants

- Benjamin Shelton Bienvenu, Research Analyst, Stephens Inc., Research Division
- Beryl Bugatch, MD and Director of Furnishings Research, Raymond James & Associates, Inc., Research Division
- Edward James Yruma, MD & Senior Research Analyst, KeyBanc Capital Markets Inc., Research Division
- Gregory Scott Melich, Partner, MoffettNathanson LLC
- Joseph Isaac Feldman, Analyst, Telsey Advisory Group LLC
- Karen Fiona Short, Research Analyst, Barclays Bank PLC, Research Division
- Kelly Ann Bania, Director & Equity Analyst, BMO Capital Markets Equity Research
- Mark Stiefel Astrachan, MD, Stifel, Nicolaus & Company, Incorporated, Research Division
- 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
- Paul Trussell, Research Analyst, Deutsche Bank AG, Research Division
- Peter Sloan Benedict, Senior Research Analyst, Robert W. Baird & Co. Incorporated, Research Division
- Robert Frederick Ohmes, MD, BofA Merrill Lynch, Research Division
- Robert Scott Drbul, Senior MD, Guggenheim Securities, LLC, Research Division
- Rupesh Dhinoj Parikh, MD & Senior Analyst, Oppenheimer & Co. Inc., Research Division
- Scott Andrew Mushkin, MD and Senior Retail & Staples Analyst, Wolfe Research, LLC

- Simeon Ari Gutman, Executive Director, Morgan Stanley, Research Division
- Unidentified Participant, Analyst, Unknown

Presentation

Daniel Thomas Binder {BIO 1749900 <GO>}

I would also like to welcome all of you that are listening live on our webcast. After spending about 20 years coming to Walmart's Investor Meetings as a guest and an equity research analyst, I am really excited to be part of the team this year.

Together with our executive team and our Event Solutions group, the Investor Relations team is proud to present our program today. We appreciate your interest in Walmart. And I know the team looks forward to sharing its strategies with you and answering your questions.

Today's meeting is available on our website, stock.walmart.com. The presentations will also be posted to our website as they are completed. Today's presentations 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 and non-GAAP reconciliations on our website, stock.walmart.com.

Hopefully, you've had a chance to review the press release we issued this morning. I won't spend time on highlights. But did want to take a minute to discuss today's agenda. Doug McMillon, Walmart's President and CEO, will kick things off in just a minute, then you'll hear from our CFO, Brett Biggs; and CEO of Walmart International, Judith McKenna. At that point, we'll take a brief break. And when we return, you'll hear from our newly appointed Chief Customer Officer of Walmart U.S., Janey Whiteside. She will be followed by CEO of U.S. e-commerce, Marc Lore; and CEO of Walmart U.S., Greg Foran. Greg will be joined by Chief Merchandising Officer, Steve Bratspies; and Executive Vice President of Realty and Central Operations, Mark Ibbotson. We will wrap up formal representations with CEO of Sam's Club, John Furner. At that point, we'll take another break and will return for our Q&A session. At the end of our Q&A session, our formal meeting will come to a conclusion. And we invite you to join us for lunch, where you'll have an opportunity to spend time with our executive team. With that, let's get our meeting started.

(presentation)

C. Douglas McMillon {BIO 17082935 <GO>}

Good morning, everyone. Welcome. We really do appreciate you making the trip to Arkansas and investing your time with us. We look forward to answering all of your questions and hopefully, you'll leave here with a really clear idea of where we're headed.

We'll include some new presenters this year to give you a better sense for our depth. This is not a company led by one person or a small group of people. And I want to thank our broader, diverse leadership team for their great work and their sense of urgency. These continue to be exciting times that are full of opportunity. To seize the moment, we're changing. We're adapting. We continue to transform the company, how we think and how we work with one goal. And that is to earn the business of our existing customers as well as new customers today and tomorrow.

There are a few things you should take away from this meeting: First, you know us as a strong execution company. We're also an innovation company. Current and emerging technologies make it possible to serve customers better than ever before. And we're doing that.

Second, we're moving faster and we have momentum.

Third, we have unique assets that will enable us to win in an omnichannel world. And we believe that is the winning model.

Fourth, we can invest thoughtfully, plant seeds for the future while delivering good financial results in the near term.

Let's start with execution. We have momentum. And customers are responding to the investments we've made over the last few years. The team is executing well. And our plan to win in-store and online plays to our strengths. In the U.S., comp sales have been positive for 16 consecutive quarters. We had a strong first half. And our comp last quarter was the strongest growth in more than 10 years.

In our stores, more customers are coming through our doors as traffic has improved for 15 consecutive quarters and inventory keeps coming down. Many of our back rooms are empty enough that we built 128 of our 200 U.S. training academies in those back rooms where inventory used to be. We've invested in our people through training and development, higher wages, increased benefits and more are staying with us as retention has improved in a highly competitive job market. In fact, we've reduced our U.S. store associate turnover by over 1,000 basis points year-over-year.

When it comes to e-commerce, we're also delivering an improved customer experience. Our sales in the first half of the year grew by 36%. We've also relaunched Walmart.com and Jet.com, grown the assortment and added over 2,000 brands this year. Delivery accuracy is improving. And other e-commerce fundamentals are headed in the right direction.

Sam's Club here in the U.S. has reported a positive comp growth for 10 consecutive quarters. Sam's also had a strong first half, with our Second Quarter being our highest comp in six years. We're focused on club model fundamentals and members are benefiting. A thriving club business continuously reinvests in price, keeping gross margins low to drive membership sign-ups and renewals. We're seeing membership grow and renewals improve.

Outside the U.S., we've been executing well in the first half. And at the same time, we've been taking action to reshape the portfolio. We've had positive comp sales in our 4 largest markets for 5 consecutive quarters, with Walmex leading the way last quarter with over a 5% comp.

We're excited about the announced acquisition of Cornershop to further drive grocery delivery in Mexico and Chile.

In India, Flipkart positions us well in a very large and growing market. The Flipkart ecosystem will not only enable us to win in India. But it will also teach us more about the future of retail. Judith will tell you a lot more about that in a few minutes.

In China, Sam's Club continues to be a standout. And we're learning to deliver an easy and fast experience with partners through our supercenters. Our business in the U.K. has improved. And the proposed combination with Sainsbury's will be good for U.K. customers. We also finalized the majority sale of the business in Brazil in August.

Around the world, we're serving customers better; delivering financial results; creating value for shareholders; and at the same time, creating value locally in communities. Most recently, we're proud of how we responded to Hurricanes Florence and Michael here in the U.S. Together with our customers, we donated and pledged over $12 million to help those impacted by the hurricanes, with over $6 million of that coming from the company and the Walmart Foundation.

So as previous investments and strong execution deliver results today, we're also working on tomorrow. We've done a lot recently. Take a look at the time line behind me. These are some of the bigger milestones of the past three years. Let's scroll through them quickly. But we want you to understand the breadth and depth of the change underway. I want to challenge your thinking about Walmart.

Did you know we file thousands of patents a year in categories ranging from last mile delivery to biometrics to augmented reality? Did you know we're working with suppliers to remove a gigaton, that's 1 billion tons, of emissions from our supply chain? Did you know we're pioneering the use of blockchain for food safety at scale and that we'll be increasingly able to trace products directly to the farm in seconds? Did you know that we've developed a mobile video game to teach associates about store processes? Did you know we're using machine learning across the enterprise from our supply chain, to real estate, to merchandising, to legal and more? You may be surprised to learn that we've got tech hubs in 12 cities around the world and that we performed nearly 3 million free health screens for U.S. customers over the last four years and given over 10 million immunizations. Did you know that Sam's Club has a team of behavioral scientists that work to gamify the in-club digital experience for new members in a way that drives member retention. And we did it in three months? We're solving problems differently and more quickly.

Looking back, we had a proven model. And we naturally focused on execution. As the numbers grew, we worked on optimization and unintentionally became risk-averse. After all, a small mistake multiplied by a lot of transactions or stores is a big number.

But today, we're getting to reimagine retail in our business. To do that, we take risks, try quite a few things and learn from our failures. That type of behavior's in our D&A. And we're waking up that part of our original culture. Sam Walton himself said, "We're always driven to buck the system to innovate, to take things beyond where they've been."

There's a cultural change underway at Walmart. And we're enjoying it. That brings back memories of not only things that worked. But things that didn't work for us like Helen's Arts and Crafts and a stand-alone pharmacy that we call dot-drug. We opened Bud's warehouse outlets, where we tried a different approach with clearance merchandise. And we tried these huge stores called hypermarkets that turned into a concept you might be familiar with called supercenters. Sometimes we plant seeds and they grow quickly. Sometimes they take a while. Sometimes we start something, a 1.0 version, that doesn't work. But by version 3.0 or 4.0, it does. Expect us to test a lot and fail sometimes. But along that journey, you should expect some successes and occasionally, some big wins.

U.S. grocery pickup is a recent example. In 2014, we took you to our stand-alone location here in Bentonville when we were just getting started. We've scaled grocery pickup from nothing four years ago to over 2,000 locations today. And by the end of the year, we'll serve 70% of the U.S. population. And we haven't sacrificed quality. As we've scaled this business, we've consistently delivered one of the highest Net Promoter Scores we've ever had. Our customers love it. Having fresh food within 10 miles of 90% of the U.S. population is a structural competitive advantage that we are leveraging.

Customers also love our pickup towers, which we're growing from 0 two years ago to 700 by the end of this fiscal year. Now that we've learned to do pickup well, it unlocks our ability to provide delivery. By year-end, 800 of our U.S. stores will offer delivery, covering 40% of the population. By the end of this month, 50% of our Sam's Clubs in the U.S. will offer delivery through Instacart.

In China, we have a minority investment in JD Daoija, which is a last-mile grocery delivery company. One-hour delivery from our stores through JD Daoija grew from 16 stores two years ago to almost 200 Walmart stores in 30 cities today. You can now see last mile delivery capabilities being built in our key markets.

Of course, some of the things we've tried didn't work or haven't worked yet. We tried grocery delivery with Uber and Lyft. But switched to others as we all learned it's different to move a grocery basket than it is to move people or a restaurant order. We don't have the right model to scale associate delivery yet. But it makes sense. So we're working on the next iteration.

We're planting more seeds for the future as we speak. We're piloting our own open delivery platform in the U.S. called Spark. Sam's is piloting a club that uses technology to push the member experience to the edge of what's possible today. We're piloting Jetblack, voice and text-based commerce in New York. And there's a waitlist to join. We're testing autonomous shelf scanning technology to improve in-stock and modular accuracy and an autonomous floor cleaner.

We're also testing a fast unloader, a new technology for store receiving that helps make it easier to unload trucks arriving from our distribution centers. And we're learning how to automate picking groceries for online orders by testing AlphaBot, which brings products to an associate more efficiently to pack the customer order. And there's a lot more we're working on that we can't talk about just yet. So stay tuned.

Beyond the customer experience, we're also innovating to drive out costs and work more efficiently. We've rolled out a risk and casualty mobile claims app in our stores that eliminates paperwork and provides more timely information on customer or associate accident claims. Over time, we estimate that this will help us save $17 million through more efficient and effective claims management.

We're also implementing intelligent automation across the business with over 500 software automation bots using machine learning to complete manual and repetitive tasks in areas like accounts payable, payroll, benefits, logistics and transportation. They allow our people to focus on more engaging work and also help reduce expenses. This is saving us an estimated $30 million a year.

As the nature of work continues to change, we're innovating to empower associates to better serve customers, thrive in their jobs and grow in their careers. This year alone, we're on track to train 500,000 associates through our academies. By the end of the year, we'll have deployed 17,000 VR headsets for training. These investments are showing a return and helping fund future investments. For example, we know that managers who go through academies have better retention rates than those who do not.

We'll innovate in ways the customer can see. And we'll innovate to change from within. We have a holistic strategy. And you've heard most of it from us. And you're going to hear more throughout the morning as you hear from the team. But I want to spend the time I have left on a few areas that I and we are particularly focused on to drive change.

First, we're committed to making every day easier for busy families. No doubt, price leadership has been a cornerstone of our business. That won't change. It's central to our purpose as a company. We've also given them a broad assortment in terms of our store offer. But there's a lot more possible as it relates to choice or assortment breadth in today's world. And that's fantastic. So it's important that we keep adding items and new brands to our portfolio.

Over time, we'll use data much more effectively to serve up the best choice for each individual customer rather than a laundry list of choices. In addition to price and assortment, we're going to save customers more time. We're making it easier. We're making it faster. And our friendly associates are making it more fun to shop in our stores. Whether it's in-store or online, we'll serve our customers with great merchandise and engage them in a way that makes shopping more enjoyable.

Second, we're sharpening our focus on culture and becoming more digital. Our culture is unique. And it's always been an advantage for us. But to be successful in the future, it has to be shaped. Our 4 values are timeless: service to the customer, respect for the individual, strive for excellence and act with integrity. But behaviorally, we need more innovation. We need a greater sense of urgency and higher expectations. We must become more diverse and more inclusive to achieve our business potential. Diverse associates and diversity of thought drive creativity and innovation.

As it relates to becoming more digital, we're on the journey. The potential to gather data and put it to use more effectively is exciting. We're learning how to work differently. We're learning how to put product management, engineering and business leadership together to work in a more agile fashion.

We're improving many of our processes. And we're empowering our associates with better tools and technology. Unsolicited, on store visits, associates are saying, "Thank you for the improved processes." That's music to our ears. These processes are more intuitive. And we think associate experiences should be consumer-grade. So we're making progress in stores. But it's more than just that. Take our recent by the room launch in the home section on Walmart.com. One product manager, one designer and 2 engineers developed that from idea to launch in just 2 short sprints. That's 4 weeks in total. That's fast.

Third, to deliver strong efficient growth, we have to drive productivity, managing expenses aggressively and be decisive when it comes to our capital and our time. We have to operate with discipline. We developed cost-savings initiatives and a process to drive them that will give us additional flexibility as a company. You can see our disciplined focus in our portfolio decisions. There's a pattern back to our decisions to exit Vips restaurants and Suburbia apparel stores in Mexico, our financial services business in Chile, banks in Canada and Mexico, format in-store closures and the decisions announced this year related to Brazil and the U.K.

We are actively repositioning the business and will keep making deliberate decisions about where to play. We are prioritizing the U.S. Walmex, Canada, India and China. We are prioritizing comp store sales and e-commerce growth over new store growth. We're investing in technology, especially cloud, data and analytics and in the supply chain of the future, including last mile delivery.

We see the big picture as it relates to an emerging retail business model that operates as an ecosystem. We see lots of natural adjacencies to our core business. It starts with the customer and what they want and need. We can serve them better by leveraging data and relationships to create a unique network of assets, capabilities and services that provide solutions for them in an integrated and seamless way. Buying and selling merchandise is important. And it's a competency that takes time to develop at scale. We are thankful it's a core competency.

Building on that, from an omnichannel position with ideas like a third-party marketplace or an advertising business, for example, makes sense. As you saw from our recent announcement, we're expanding our entertainment ecosystem to bring new interactive content to our customers. We're in the pharmacy and optical business. But we can do more to help our customers when it comes to their health. We see a lot of opportunities.

And finally, we're building trust, which will become even more of a competitive advantage. We'll do that by improving the experience of shopping with us and by continuing to strengthen our compliance and ethics programs and acting with integrity. We'll also do it by strengthening the fabric of the communities where we operate and by making a difference in the world by using our scale for good.

Our customers want to feel good about shopping with us. And many of them value the role that we play in communities. When they feel good about us as a company, that increases trust. So we're telling our story better and we're giving them proof points. We've eliminated 77% of the waste from our system. As a result of new solar and wind projects, we'll more than double our renewable energy in the U.S. by the end of 2020. That means in two years, 35% of our energy globally will be supplied by renewables. And our merchants are innovating with suppliers to make our products and our packaging more sustainable. We're on track this year to reach our goal of providing 4 billion meals globally between 2014 and 2019 to those that need them, 4 billion.

We're also proud of the opportunities we're providing to our associates. In addition to better tools and training, we increased the starting wage for our U.S. associates several times these past few years. Looking back, we're convinced that this was a good business decision, as were the increases we've given them since then. We're performing better as a business and retaining more associates. We'll keep investing in our people, their wages, benefits and training by market as we have been this year. We've also expanded maternity and parental leave for salaried and hourly associates and announced that we'll help U.S. associates earn a college degree at accredited universities for $1 a day. We've also hired over 200,000 veterans over the last five years here in the U.S. In a world that's increasingly digital, it will still be our people that make a difference at Walmart and help us win the future.

So in summary, here's what we hope you'll take away today: First, we've proven we can execute. And you can see the innovation. We're not just reacting to a changing environment, we're shaping the future; second, we're moving faster and we have momentum; third, we have unique assets that enable us to serve customers better than others in important ways; and last, we're operating with discipline and investing thoughtfully while balancing the short term with the long term.

I can't wait for you to hear for -- from the rest of the team. So let's get going. Thank you.

(presentation)

Brett M. Biggs {BIO 17414705 <GO>}

Good morning. I'll also welcome you to Bentonville. And for those of you on the webcast, we really appreciate your interest in our company every year for this event. So as you can see from the video that we showed earlier. And that video has been a really slow, eventful -- uneventful year here in Bentonville. So a lot going on inside the company. It's a really, really exciting time at Walmart. I'm looking forward to explaining why I feel so good about Walmart's position and why I think you should, too.

I'm starting my 19th year at the company. And I see as much opportunity today -- or I see as much opportunity in the future as I did when I first came to Walmart. We're leveraging our scale, our unique assets and financial strength in ways that others can't to enhance and build structural competitive advantages. It's a great company. And it's an incredible culture that I feel certain will win with both customers and shareholders in the years to come.

So you've seen a few headlines from our release this morning. But I'll add some color over the next several minutes. There's a few things that I want you to take away from this morning. We continue to transform the company to win. Recent investments are paying off. Our long-term financial priorities remain consistent. We're making progress on costs, fueling our ability to win. We're delivering against our guidance. And we have good momentum as we head into fiscal year 2020.

Doug just described how we're planning to win in the future. And I'm going to expand on that with a financial view of the company and how we believe investors should view us. We're a diverse omni-company that looks quite different than we used to because of actions we've taken over the past several years, which you see here. But we still have the same DNA that has made us successful over the last 56 years.

When you take those actions and you put it on top of our existing business, you can see the full view of what we built. We have an ecosystem leveraging competitive advantages through omnichannel capabilities, stores, services, e-commerce sites, supply chain and a team of 2.2 million associates. It's an ecosystem that allows us to serve customers in a really unique way. No one has the asset base that we have.

Then when you combine the ecosystem with our financial strength, there really isn't a company like Walmart. We're the first company with $0.5 trillion in annual revenue; a rock-solid balance sheet with a AA credit rating; a diversified asset base, physical, digital, in the most important geographies; nearly 265 million customer transactions a week; and strong stable cash flow and in fact, over $28 billion of operating cash flow last year.

This financial strength gives us the ability to deliver near-term results while we're positioning the business for the longer term. Now three years ago at this meeting, we discussed investments that we needed to make to win long term. It was a challenging decision to reduce earnings in the short term. But those investments are paying off. U.S. store investments have led to improved customer experience leading to strong sales and traffic. In grocery pickup, three years ago, we had fewer than 50 stores offering this service. But today, we have around 2,000 stores with great customer satisfaction. The investments we've made in Walmart.com, in web site redesign, category specialists, have led to key new brands on our site. And we've been able to offer free 2-day shipping on e-commerce orders because of the fulfillment investments that we made in prior years.

We've also invested in technology and in process improvements that have helped increase productivity, manage inventory, reduce costs and serve customers in new and exciting ways. But during this period, we've continued to deliver strong comp sales, improvement in expense leverage, strong dividends and consistent share repurchase.

So one of the primary questions I get from investors is, "When will you be done investing?" A business that doesn't invest doesn't -- won't last. We all know that. We're going to continue to invest in our business thoughtfully and strategically. We're focused on ensuring the good returns from these investments over time. And we've tracked well against what we said we'd do.

The payoff from past investments is helping fund new investments. And that model is working for us. The great thing about the financial strength that we have and our -- the breadth of our business is that we can pull many different levers to ensure we find an optimal balance of investing long term with consistently strong financial results. There are a lot of different ways for us to find that balance. Many companies have to choose between defending their core business and investing in new businesses. We can do both and still deliver solid financial results.

Now a key reason why we can continue to thoughtfully invest in our future is that the core business is really strong. We're pleased with our first half performance. We've had some tailwinds this year, strong economies around the world. But I still feel good about our performance and in particular, the 3-plus % comp in Walmart U.S. in the first half. Our scale is just so hard to put into context sometimes. The percentages kind of lose meaning. But that level of comp over a full year at Walmart U.S. would result in growth of nearly $10 billion, which is quite amazing.

Walmart U.S. e-commerce sales have increased a strong 36% for the first half of the year. And we expect to be around 40% for the full year. The core Walmart International continues to operate very well. And Walmex is leading the way. Sam's Club had a good first half with traffic-driven comp sales and improvement in membership trends. We're achieving expense leverage across many parts of the company. And this leverage gives us the additional flexibility to invest in price, in omnichannel and in innovation. So overall, it was a good first half performance. And we're well positioned for the back half of the year.

You've heard me talk about our financial priorities over the past couple years. And they haven't changed. There's strong efficient growth, consistent operating discipline and strategic capital allocation. And I'll spend a few minutes providing more color on each one of these.

We continue to prioritize comp sales and e-commerce growth over new stores. And this chart I think shows our ongoing transformation as well as any. Over the past several years, we've made significant progress in generating more growth from comp sales and e-commerce while slowing new store openings, particularly in the U.S. So we see FY '15, approximately 2/3 of our sales growth came from new stores and clubs. That's represented by the blue shading in the slide. In FY '20, we expect this number to be less than 10%. As we continue to elevate the customer experience in our stores, you've seen momentum with four years of positive comp sales in traffic in Walmart U.S.

In U.S. e-commerce, we continue focusing on improving the customer value index. And you're going to hear more about that from Marc later this morning. We're also seeing good comp growth in International. And we're including expansion of omnichannel initiatives in key markets like Mexico and in Canada and in China. So you will continue to see us to invest in areas that will deliver strong, efficient growth.

I'm really pleased with the progress we're making around operating discipline. Our cost culture is more evident again in Walmart. It's impressive how the Walmart U.S. stores team has leveraged expenses for 6 consecutive quarters even after raising the facility start rates earlier this year. There's a lot of good work going on in Walmart U.S.

Last year, you heard me mention for the first time a formal zero-based budgeting process. You also now -- you'll hear that referred to as cost transformation or smart spin. We have a team in place that's helping the organization find and execute on new savings ideas. On my desk, there's a list of more than 300 cost-savings initiatives that are currently being worked or evaluated. There are some big ideas, some of which are going to take more time. And there are a lot of smaller initiatives that can add up. You know Walmart well. You can take a lot of small projects, scale them across the business and they can lead to some pretty impressive savings.

I'm also proud of the work we've done in working capital over the past few years. It's been a true total company effort. Over the past few years, we've taken out nearly $10 billion in working capital, which has allowed us to invest for future growth. We're leveraging technology, data and analytics in new ways to be more productive. We're testing robotics and automation to handle routine tasks so associates can spend more time serving customers. And if you were on the store tours yesterday, you saw a number of these examples.

Another example of a new approach to innovation is our new tech incubator in Austin, Texas, where we're working on analytics, AI and machine learning. It's a different approach that allows us to recruit some of the brightest minds to a tech hub to help us solve complex problems more efficiently and effectively.

So when we tie it all together, we'll continue to make progress on lowering expenses as a percentage of sales. We believe we can achieve about 20 basis points of SG&A leverage next year and believe we can generate a similar level of year-over-year leverage for the next few years, assuming consistent levels of comp sales.

Let me give you a few more examples of leverage opportunities. One example is utilities. We're in the process of a multiyear rollout of replacing all fluorescent fixtures with LEDs in our stores, our clubs and our parking lots. And not only is it good for the environment, these changes could reduce our annual energy costs by $200 million over time. A little more than a year ago, we brought together the financing global services organizations, the former group called Walmart Enterprise Solutions, to drive more efficiency across the business on common services and practices. The Austin tech hub you just saw is part of that group. It's still early in development. But we're making progress.

One of our focus areas has been on bots. And as Doug mentioned earlier, we're starting to automate these manual repetitive tasks in areas like accounts payable. And that allows associates to focus more in engaging impactful work, which is good for our associates.

Another area of opportunity I've mentioned over the past year is Goods Not For Resale, or GNFR. We buy tens of billions of dollars in goods and services just in the U.S. So think travel services, cleaning services, maintenance, supplies. Recently, we hired a new Chief Procurement Officer to lead GNFR, who has more than 25 years of direct and indirect procurement experience with multinational companies. We're really excited about having him join the company and believe this can be a big opportunity for us.

Here's an example how GNFR can improve our business. Take the floor wax that we use in our stores. We recently changed to a new floor wax. Not only is the new wax cheaper, it's also sturdier. It doesn't need to be buffed as often, resulting in less spend on the actual buffing as well as fuel for the machines. That one change in floor wax will save us over $20 million a year. So these small differences can make a big difference to Walmart. So I think you can see we're attacking costs differently than in the past. And it's starting to pay off.

When you see the changes in our capital allocation over the past five years, it's another opportunity you can see the company transforming. The allocation of capital is quite different from before and aligned with how we'll serve customers in the future. We've shipped the spend away from new stores and clubs in the U.S., represented by the black shading here. And have allocated more capital to e-commerce, store remodels, supply chain and technology. And this is roughly the type of allocation I think you can expect over the next couple of years.

While we transform, we continue to return a significant amount of cash to shareholders. Over the past 2.5 years, we've returned nearly $34 billion to shareholders. We've increased our dividend for 45 consecutive years. And we remain committed to our share repurchase program. When we instituted the current $20 billion program a year ago, we estimated utilizing this authority over approximately two years. Earlier this year, we paused buybacks for a while due to the pending Flipkart announcement. Now that we've returned to a more normalized pace of buyback, we expect to utilize the remaining authorization over the next 18 months or so. And that's considered in the guidance that we've given you today.

So speaking of guidance, let's turn to how all this comes together. Let's start with how we've done versus guidance we gave both at the first of the year as well as our recent guidance in August. Certainly, the Flipkart acquisition makes comparability a little more challenging. And we'll try to make that as clear as we can for you today.

In our Q2 earnings release, we updated full year guidance for this year on several metrics that excluded the impact of Flipkart as it hadn't closed when we had our earnings release. Today, we're reiterating that ex Flipkart guidance as we still feel good about the underlying momentum of the business. However, today, as you saw earlier, for simplicity, we're formally updating our FY '19 EPS guidance to include Flipkart. When we closed Flipkart, we noted that we expected a negative impact to FY '19 EPS of approximately $0.25 to $0.30, adjusted pro forma for a closing date. And this included, if you remember, operating losses as well as interest related to the debt that we had issued. So we're adjusting our full year '19 EPS guidance down by $0.25 to adjust for Flipkart. So the $4.90 to $5.05 adjusted EPS ex Flipkart from August will now be $4.65 to $4.80, including Flipkart.

Okay. So to be clear, there's no underlying change to the EPS guidance that we gave in August. This is only an adjustment to include our best estimate of the Flipkart impact in FY '19 EPS.

So in coming back to the slide, as you can see, when compared to the original 4-year guidance provided in February, we met or, in most cases, exceeded and raised our guidance in our August update. One number I want to call your attention to is the International net sales number. It's about halfway down the slide. When we gave guidance early in the year, it didn't include the Brazil transaction because it hadn't been done at that time. If Brazil were in our sales number for the rest of the year, we would have exceeded our February guidance, which is why we have that check mark by that number even though the actual number will be lower than we guided in February. And I just want to make that clear for you. So we're doing what we said we'd do.

Let's turn to expectations for our next fiscal year. Before I get to the guidance, though, I want to mention a couple of things. Certainly, we're in a dynamic period of time. And that includes the current environment around tariffs. It's important to remember that 2/3 of our U.S. purchases are made in the U.S.A. and that we import from numerous countries around the world. Our merchant teams are monitoring market pricing and will respond as warranted. Our goal is to always be the low price leader. We will actively manage pricing and margins through this period. Of course, we never want to raise prices. And we will minimize impacts on our customers as much as possible while balancing the interest of investors.

I hope you'll appreciate today that we're giving you as much guidance as we believe practical given that we're still several months away from the start of the fiscal year. And we'll update this guidance for you as we get to February as we typically would. All of our FY '20 guidance includes Flipkart. And that's how we'll report in the future. However, in order to give you a better apples-to-apples sense of our business performance in the press release this morning and in our discussion today, I'll reference a few metrics ex Flipkart.

Judith will talk about Flipkart in a few more minutes. We know you want to understand Flipkart and particularly, things like the path to profitability more clearly. We're very excited about this investment in India. It's a dynamic market. And we certainly intend to win there. And as you can imagine, it is our objective to be profitable over time. We're going to continue to find a balance in giving you some visibility to Flipkart. But we ask you to also understand the competitive aspects of disclosure.

As I said earlier, we have a lot of levers to pull across the business to ensure the total company results are what we expect and also what you expect. So with that, let's talk about guidance. As always, guidance includes a number of assumptions, including net inflation, currencies, tax rates and economic conditions stay relatively consistent in all of our major markets. Guidance also excludes any changes in the value of our minority interest in JD.com as we had an accounting change this year. Also, recall that Flipkart is only in our FY '19 numbers for only a little less than half the year.

So let's start with top line growth. We expect to deliver total net sales growth of at least 3% on a constant currency basis. Now as a reminder, we had Brazil in our consolidated results for a bit more than half of FY '19 and it won't be in our consolidated results in FY '20. We'll also continue to see additional planned reduction of tobacco sales at Sam's as we pursue our strategy there. Those 2 items will account for about 100 basis points of headwind next year. Without those items, we would have expected sales growth to be more in a 4% range.

We expect continued momentum at Walmart U.S. with FY '20 comp sales growth of 2.5% to 3%, which includes Walmart U.S. e-commerce. Walmart U.S. e-commerce is expected to continue strong sales growth of around 35% in FY '20 on top of the approximate 40% growth expected this year. So with those 2 growth rates, that would represent nearly a doubling of that business over a 2-year period.

In International, we expect continued strong growth from Walmex as well as the addition of Flipkart to drive International sales growth of around 5% on a constant currency basis. Sam's Club comp sales, excluding fuel and tobacco, are expected to grow approximately 3% on top of solid growth this year. We expect Sam's total sales to grow only about 1%, though, due to the tobacco sales reductions that I just mentioned earlier. So overall, we expect continued strong top line growth.

Turning to profitability. We expect operating income dollars to decline by low single-digit percentage next year, primarily due to Flipkart being in for a full year next year and only a partial year this year. If you were to exclude the operating losses from Flipkart in the current year and next, we would expect operating income dollars to be up a low single-digit percentage next year. In other words, we expect the profitability of the underlying core business to increase. We also expect EPS to decline by a low single-digit percentage in FY '20. Excluding the approximately $0.60 full year EPS dilution expected from Flipkart versus only a partial year dilution this year, we would expect EPS to reflect a low to mid-single-digit percentage increase.

Let me talk for a minute about e-commerce profitability. We've been saying for a while that breaking out the profitability of stores versus e-commerce is becoming more challenging given that the customer is shopping in an increasingly omni fashion. As the lines blur further, we will likely find it increasingly challenging to break this out for you. However, we do want to give you some guidance for next year. As you know, we did increase our loss expectation for Walmart U.S. e-commerce in August. And given how we measure it today, we expect losses to increase some next year.

We continue to accelerate investments in same-day grocery delivery, people and technology in order to nail the fundamentals of e-commerce, including increased investments in Store 8 to help shape the future of shopping. In addition, some of the acquisitions we've made as well as getting additional home and apparel brands online will help improve margin mix over time. But overall with the company, the profitability of the total underlying business is in good shape.

We've made good progress on being more efficient in lowering costs, especially in Walmart U.S. stores. And as I mentioned earlier, we expect to leverage expenses by about 20 basis points next year. And it would have -- I would have expected it to be higher excluding Flipkart.

As to tax, we expect the tax rate in the range of 26.5% to 27.5%. This may seem a little high to you. But remember that the Flipkart losses will have very little tax benefit in the near term as we said earlier when we announced the closing.

We expect CapEx of around $11 billion in FY '20, fairly consistent with prior years. And we expect the allocation of capital by segment also to be pretty similar to what you see this current year. We expect to only add a few new stores in the U.S. next year, which has been the trend.

In International, we continue to see good opportunities for new store growth, primarily in Mexico and China. So we'll add slightly more than 300 stores across International in FY '20, many of which are fairly small in size.

As I said earlier, we're in a dynamic period. But we feel good about the things that we can control. And as I stand here today, we believe our momentum will carry over in FY '20, as you can see from this early guidance.

As I close, I hope you've gotten a sense of why we're excited about the future and the strategy that we're executing. We're leveraging unique assets in ways that few can. Our business is strong. We're changing how we work to operate with discipline. We're leveraging expenses. We're balancing investments for growth and profitability. And we continue to be thoughtful on how we allocate capital. And we're delivering against our guidance.

This is a unique company. And I could not be prouder to be part of the team that you see sitting over here. We have a lot of leverage to pull in order to deliver the near-term results while ensuring that we win long term. I'm confident that we're going to be a winner. And I want you to leave here today feeling the same way. Thank you.

(presentation)

Judith McKenna {BIO 4806787 <GO>}

Good morning, everybody. It's a pleasure to be with you this morning. Well it's certainly been a busy eight months in my new role. And we've got a lot to talk about. And I know this morning many of you want to talk about Flipkart. And I promise I'm going to focus on that shortly.

But first of all, I'd like to set a broader context around the changing shape of Walmart International. Today, we're a $118 billion business. On a stand-alone basis, we'd actually be the largest retailer outside of the U.S. Over the last four years, International has delivered a consistent performance. We're seeing sales rising around 3% and profits growing ahead of sales. There's been a really clear strategy. But we recognize today that what got us here won't necessarily get us to where we need to go in the future.

Around the world, customers' expectations are increasing, competition is intensifying and the macro issues are more complex than they've ever been before. And Doug spoke about seizing the moment, about adapting and changing. And that's exactly what we've been doing. We've been proactive. We've taken thoughtful and deliberate actions to position our portfolio and each of our markets for future success.

Over recent months, you've changed -- see us change the shape and structure of the portfolio. We're linked in to e-commerce and omni channel, investing in Flipkart to grow in India, strengthened our last mile capabilities in Mexico and Chile with the announced acquisition of Cornershop. And in Japan, we entered a joint venture with Rakuten for grocery delivery. And Doug mentioned our partnerships in China with JD and JD Daoija.

But as well as investing, we've taken deliberate steps to simplify our business. We're divesting of noncore assets like our bank in Canada and our financial services business in Chile. And we've made more fundamental moves to position our business for that long-term success.

In June, we announced the sale of an 80% stake in our Brazilian business to Advent. And in April, we announced the intention to merge our U.K. business, Asda, with the #2 retailer there, Sainsbury's. And we'll have a 42% shareholding in the new combined business when that concludes. Now some of you might have seen this morning a statement from the U.K. competition authorities. That's simply an outline of what they're going to investigate and how they're going to investigate. And just so that you know, that contained no surprises for us whatsoever.

The common link in all of these actions is that we're being deliberate about where and how we choose to operate. And as a result, we're creating strong local businesses; accelerating omnichannel capabilities; prioritizing our resources; and ultimately, providing greater access to growth because Walmart International's role in Walmart is to create long-term sustainable and profitable growth. And we're going to do that through a strategy that is really simple: strong local businesses powered by Walmart. Strong local businesses means locally relevant, customer-focused in each of the markets in which we operate. And powered by Walmart is the competitive advantage that's created by being part of the Walmart family.

Around the world, we know that one size does not fit all. And to be a successful international retailer, we need to be even more local in the eyes of our customers. But at the same time, we have to continue to be deliberate about where and how we allocate our resources, both people and capital. And that equation is going to be different by market. Today, there's 3 of our business I'd like to add some color to for you before I move on to talk about powered by Walmart a little and then India: Canada, Walmex and China.

Turning first to Canada. We've got a really strong business in Canada. It's closely aligned to the U.S.. And it's going to continue to be one of our most profitable businesses with strong returns. And in addition, it continues to provide real talent for the rest of the Walmart world. The team there are innovating to modernize the store base. But at the same time, they're rapidly building out omnichannel capabilities with a focus on getting a greater access to urban centers across Canada. They're partnering with forward-thinking companies like Penguin Pick-Up in the Toronto area for grocery and general merchandise. And in Vancouver, they're partnering with Food-X, a company that specializes in last mile delivery of local unorganic groceries.

So turning next to Mexico round Central America. Walmex are the market leaders. And they have got attractive scale, positioning and performance. And before I talk any more about them, I do want to say congratulations to the Mexico team for being shortlisted on the IGD's global store of the year. They're doing a fantastic job.

And overall, Walmex continues to be one of our most successful business. Last year, their total sales were $30 billion. And they provided strong returns. And that strength continues. So far this year, Mexico specifically have delivered a 7.5% comp. And as that market continues to formalize, we're going to continue to invest in our physical stores and our clubs.

But the team there are also increasingly focused on e-commerce. Our store footprint, our logistics network and our leadership position gives us a unique opportunity to build an omnichannel ecosystem tailored to the Mexican customer.

So for example, we recently launched an app called Cashi, which gives customers a secure and flexible form of digital payment on their mobile phone. In a market where most people are unbanked, what's unique about Cashi is that it allows customers to come in to our stores and load cash onto their mobile device. It can then be used in our stores, on our online sites. And they can also use it to pay bills and utilities. It's available in more than 200 stores today with plans to be in many more by the year-end. It's a great innovation. But it's also solving a real pain point for Mexican customers.

And moving on to China. This continues to be a significant opportunity for growth. With 1.4 billion people, a rapidly evolving retail environment, it's going to be the single biggest source of global retail growth over the next five years. Last year at this meeting, we told you we were rebalancing the business, differentiating our customer value proposition and partnering for omnichannel success. We're executing on all 3 of those. We've continued to open new stores in our priority provinces while, at the same time, closing stores when necessary. We're evolving our customer value proposition with improving fresh food quality, a new supermarket format, smallest footprint supercenter and a future-thinking Sam's Club layout, the first of which will be a remodel in Shanghai opening in December.

And alongside our ecosystem partners, we continue to imagine retail for the future for our customers, trialing new concepts, investing in our digital offering to serve them even better. One of my favorite examples of this is what we're doing for Walmart and Sam's Clubs there with small urban fulfillment centers. Think 2,500 square feet, around 2,000 items tailored to Chinese families' everyday needs. The items are picked in around 5 minutes by our team of associates and delivered to the customer by JD Daoija in less than 60 minutes. I saw one first-hand in Shenzhen recently. And they are really busy units. And we're learning a lot from the concept. These are going to be an important part of our omnichannel offering going forwards.

So strong local businesses. But let me turn to powered by Walmart. This is an area where we're sharpening our focus, simplifying our approach to maximize the value we can bring from our unique scale and capabilities. Some examples would be leveraging capabilities and partnering with the U.S. to accelerate grocery pickup and delivery in Canada, developing centralized cost analytics tools to equip merchants in every market to more effectively negotiate with suppliers. And we're investing in our sourcing capabilities, technology, processes and people to increase our leverage in this area. If I just stay with sourcing, it's worth saying that we're taking our scale and expertise. And we're learning how to provide sourcing services for commercial partners such as Advent in Brazil. And that's something that we might in the future develop as an external service even more broadly.

And finally, on powered by Walmart is people, an incredibly important part of it. Our people make the difference every day right around the world. And one particular aspect for us is global mobility. Not only is it a great way to develop leaders. But it actually allows us to effectively share best practice and learnings across markets really fast. And we're introducing some new programs this year specifically to support that.

So let me turn now to talk a little bit about Flipkart. I want to talk to you about our rationale, to give you some color about the ecosystem that's operating there and then also to give you some insights into how we've been thinking about some of the key questions that you've been asking.

So on the rationale, I think of this in 3 parts: Why India, why e-commerce and why Flipkart. Why India? Well people forget that we've actually operated best price stores in India for the last 10 years. They're our cash-and-carry format. So we know the challenges of the format -- we know the challenges of the market. And that gives us the confidence that we can operate there. But we also understand the tremendous growth that's available.

Today's population in India is 1.3 billion people. They have a median age of just 28. There's a developing middle class and GDP growth. And the Indian economy is projected to be the third largest in the world by 2030. So given that, why e-commerce? Well this is a market that I can promise you is generation skipping. There are more than 300 million smartphone users in India today. And while e-commerce is only about 2% of retail sales today, it's growing at 4x the rate of total retail. And to give you some context for that, China was at 2% in 2009. And today, it's at 25%.

So we have no doubt that e-commerce in India is the right place to be, which brings me on to why Flipkart. Now this is already a very successful business. They've built significant scale and momentum and have got leading positions in key categories like mobile, appliances and apparel. They're a homegrown business with a strong team who are really focused on developing innovative solutions for the Indian customer. And what I can tell you, that this is a unique market and it needs a unique local approach. And that's because there's many Indias. There's 22 different official languages across 29 states. The cities, towns and villages at really different stages of development. I was visiting the team out in India a couple of weeks ago. And I visited a rural farming community on one hand and on the other hand, one of our best price stores in a more urban location. They were extraordinarily different experiences. And one of the states that I was in, which is Uttar Pradesh -- and by the way, if it was a stand-alone country, by population, it would be the fifth largest in the world.

Flipkart's leadership team understands these differences. They're making customer-focused decisions and customer-focused solutions. And it's an integral part of their approach and their success. I am really confident having spent time with the team that at all levels, that team is one of the real strengths of the business.

So this is a successful business already. They finished their financial year to March 2018 with net sales of $4.6 billion. And sales momentum continues to be strong. They have e-commerce active customers have grown to 64 million. And Flipkart is continuing to build out their ecosystem through organic development, acquisition and partnership.

So let me talk about the ecosystem for a while. Now there's a lot of parts to this ecosystem. But there's a couple main ones that I'd like to describe in some more detail to you. 3 e-commerce platforms, Flipkart, Myntra and Jabong. And I'll talk about those first. Then I'll come on to talk about the logistics business, eKart and PhonePe.

Flipkart is the core platform. It represents around 80% of total revenue for the group through a broad category offer. They have got a true passion for solving problems unique to that Indian customer, whether it's in the project that they sell or the technology platform that they've created. From Day 1, the Flipkart team recognized that bandwidth would be an issue for smartphone users. So they designed their app to be able to use the smallest possible amount of data. And it's a real advantage for them. And they've applied that kind of thinking to categories as well such as mobile phones. They were the pioneers in this category. And they partnered with suppliers to develop a full range of products across price points. They've even created their own successful private brand called Billion to increase affordability without losing functionality. And to round out the offer, they introduced a guaranteed buyback program, warranty and repair services and installment payment options.

So you can see that what Flipkart have done is actually built out an important relationship with the customer through a mobile phone. Access and affordability brings in new customers, while service and reliability builds trust and earns repeat business. It's just one example of their laser-like customer approach. But they've also got leading positions in many of the categories that count.

They're also looking to continue to build out their customer offer, whether it's appliances, furniture, apparel, books, electronics. But they've also recently entered into grocery, starting with a small pilot in Bangalore and plans to expand into 3 more cities this year. That's an area that as they learn from the trial, we really think we're positioned to support them.

Turning next to Myntra and Jabong. And these are the group's fashion specialty sites. Their vision is to make the world a more stylish, colorful and happier place, which I quite like. But together, they're the market leaders in online fashion. They offer a wide range of international brands, including more than 100 exclusive labels.

And they've also created a strong private brand offer that includes celebrity partnerships.

But it's not just their leadership position in assortment that's impressive. Their innovation in technology is as well. I was there recently. And I was able to test their shoe sizing functionality on their app. It uses augmented reality to measure the size of your foot. And by the way, it's accurate because I've done it. So the result is you're happy because you get a shoe that fits. But cleverly, we also minimize returns. So it's also cost-effective. It's really clever. And by the way, yesterday, we launched Myntra product on the Walmart Canada website just in time for the festival season.

Now as Flipkart grew, none of the existing delivery partners were able to keep up with them. So they created their own logistics service called eKart, another key part of this ecosystem. It picks up from sellers, it operates fulfillment centers and it delivers to customers. They provide a personal doorstop service. With a network of fulfillment centers that serves 90% of Indian ZIP codes, eKart have a low cost-to-serve model with one of the broadest reaches in India. Today, they deliver on average around 600,000 packages a day. And at peak, they'll deliver more than 1.5 million.

They continue to focus on their service and reach with eKart, which brings me finally onto PhonePe. This is part of the ecosystem. But it's also a platform in its own right. And it's one that's anchored in digital payments. We're really excited about the possibilities here. It's a business that only launched in September 2016. And they designed their app to work with an interface that was developed by the Indian government for interbank transactions called UPI. And because they were an early mover, they're already becoming -- or they already become India's second largest payments company.

Today, they have 130 million app installations. 100 million monthly transactions. And as of September, their annualized transaction processing value, TPV, was $32 billion. And to give you some idea of a perspective for this, in their last quarter, TPV grew by over 1,000% year-on-year.

Their growth is impressive. But what I really like about them is that PhonePe is an open platform that helps create real stickiness for the customers who use it. They can send money across the country in real time simply by exchanging a phone number with another user. They can pay for anything, from utilities and mobile charges, to insurance premiums and credit card bills. You can even buy and sell gold online, which, if you understand India, you'll know is a really important category.

But at the same time, PhonePe are expanding their reach. For example, they have micro-apps that allow you to pay for your ride share through Ola, book a hotel room through OYO or even pay for your meal at any McDonald's in India through the PhonePe app.

But the real advantage for them is they recognize they're not going to win with a single use case. They're providing simple solutions for customers to send, spend, manage and grow money. And I promise you, their tech team that is delivering this is really impressive. We've seen in other markets around the world how powerful payments in financial services can be. And that's why we're excited about this particular part of the system.

Now switching gears. You might have heard about Big Billion Day, which is the annual online event created by Flipkart. It's their biggest week of the year. And it took place last week. It was their most successful event ever with record numbers of customers coming to the site and purchasing. But to give you a bit of a flavor for the excitement that builds around there and kind of the way they present this, let me show you a couple of adverts.

(presentation)

So you can see, it's a business with personality and a sense of humor as well. Now I recognize that a lot of you have questions about Flipkart. I got a number of them last night. So I thought I'd end by trying to give you some insight into how we're thinking about some of those questions. How will Flipkart win? How will we keep their entrepreneurial spirit and operate Flipkart? How do we think about balancing growth and profitability? And finally, are we still on a path to an IPO?

Well on winning, I hope that I've illustrated the capabilities and approach that Flipkart have got. But I'd sum it up by saying this: they're focused on the unique needs of the Indian customer. They're leading in key traffic-driving categories such as apparel and mobile. They're innovating in the use of data and AI, not only to serve and acquire customers but to drive efficiency and lower costs. And they're building out a sticky ecosystem that includes PhonePe, a tailor-made, digital platform anchored in payments, all with the foundation of a strong management team at all levels through the organization who have the vision and the expertise to win. We expect to see strong competition in India. We were aware of that when we entered the transaction and we're prepared for it.

And I'd also remind everybody that Flipkart was successful in a very competitive market long before we came along. But one of the things I really like about the Flipkart team is they keep their focus firmly on their customer and how to serve them, not on what everybody else is doing.

And that customer focus is part of who they are as is their entrepreneurial spirit. We've been very deliberate in the way we've partnered with this business and our fellow shareholders to preserve that. We've made no changes to operational management. And that management team continues to run the business, with the Flipkart board guiding strategy and financial performance.

The board structure has representation from Tencent and Global and Tiger Global, along with Walmart and independent directors. We trust this team to test and learn and absolutely empower them to innovate at a local level with speed. It's very much part of the spirit of strong local businesses powered by Walmart. And where our global scale, leverage and best practice can help them, we're making that available. And we set up a new function called partnership services to make that easy.

So how do we think about balancing growth and profitability? It's always a challenge to articulate this. What I'd tell you is that we're in India for the long term and we're in India to be successful. You've heard me say that the business has got good momentum. And as Brett said, we have a long-term path to profitability. But we're not changing our guidance today. The team are thoughtful about how they scale the business, though. They deliberately grow categories such as apparel, which helps the overall margin mix, letting them grow in a healthier way.

In addition, they're looking at how they use data and services to create new revenue streams and lower transaction costs. One example of those services would be at Volta, which is one -- a Myntra application, which is using AI to digitally design clothing product. But it also informs range selection as well. That product can be licensed externally.

We know that the key here is long-term success. And we're going to continue with Flipkart to create a strong and healthy business model for the future, which leads me to the IPO question. You should take it as a measure of our confidence that we believe that this is the right path for Flipkart. It's important for retaining and incenting the right talent. And although we're not putting a time line on it, we're supportive of it as is the Walmart -- as is the Flipkart board.

So let me sum up for Walmart International. We've improved our access to growth. And winning in India is a key focus for us. We're accelerating our omnichannel capabilities around the world. We're prioritizing our resources and actively working with partners for long-term success. And we're committed to building strong, local businesses, which are ultimately powered by Walmart. Thank you.

Daniel Thomas Binder {BIO 1749900 <GO>}

Okay. Well I hope you found this morning's sessions informative. We're going to take a 15-minute break. And when we get back, you'll hear from our newly appointed Chief Customer Officer of Walmart U.S., Janey Whiteside. Thanks.

(Break)

C. Douglas McMillon {BIO 17082935 <GO>}

If everybody could start to find their seat, we'll get on with the next part of our program.

Daniel J. Bartlett {BIO 3071809 <GO>}

I'd like to introduce 2 leaders; they are new to Walmart. Barbara Messing, would you please stand? Barbara's our new Chief Marketing Officer for the Walmart brand here in the U.S. Barbara was most recently the CMO for TripAdvisor. She's responsible for creating brand consideration and awareness across our U.S. stores and e-commerce businesses as she leads the marketing team. Thanks, Barbara.

I'd also like to introduce Janey Whiteside. Janey, you can start making your way this direction. She joined us in August as our first ever Chief Customer Officer for the U.S. She's working with Greg and Marc to deliver seamless omni-experience for our customers. When we created this role, we thought it was really important to have someone whose entire mission was to think about everything that touches the customer. That includes marketing. But it also brings together customer care, product management, customer experience, insight and data strategies and Jet.com. Janey and her team will ensure we infuse customer centricity, integrate design thinking and work in an agile fashion to ensure we show up where, when and how our customer wants. Janey joins us after spending more than 20 years at American Express, where she led the expansion of Amex products into new areas, connecting with younger customers and creating experiences and rewards for card members.

Please welcome Janey to the stage.

Janey Whiteside {BIO 20679101 <GO>}

Thank you, Doug. Good morning, everybody. It is a really special privilege for me to be here today. After such a long career at American Express, I knew that if I was ever going to leave, it needed to be for another purpose-driven brand. And I consider Walmart to be the ultimate purpose-driven brand. In these increasingly anxious times around the world, it's vital that we don't lose our humanity. And that's why I am proud to be part of a company that is people-led and tech-enabled.

So I've been on the job for a whole 11 weeks now. I've had the chance to travel the country and meet so many of our associates. And having met them, I am even more proud to have the opportunity to serve alongside them. Now Doug has been very clear with me that it is my job, it's my responsibility to represent the customer and be their advocate and voice across everything that we do. I like to think about my job as understanding the role that Walmart can and should play in customers' lives and ensuring we put an exclamation point on the customer experience in every interaction. There is only one customer and no interaction with them happens with us in a silo. And that's why it's important that we create one seamless Walmart experience. One that is contextual, consistent and frictionless, no matter when, how, or where the customer wants to engage with us. That's the beauty of putting marketing, customer experience and strategy, product design and customer care all under one roof. It allows us to think differently, to work together to solve problems on behalf of the customer.

So what does that all mean? Well let me give you an example. It's probably not surprising that the #1 question customers ask our associates in the store is, "Where is a particular product?" Enter Store Maps, what I consider to probably be the ultimate omni-channel project. We used an agile iterative process to bring teams together across the organization to quickly develop a solution that spans the in-app experience digitally and changes physical signage in the stores.

I had the opportunity to go to a store in Alabama 2 weeks ago and associates were excitedly telling me about how they thought this is going to help customers change their lives by downloading the app and making finding things easier. And that made me feel really good. But not only are we making customers' lives easier, we're also making our customers feel special. Take, for example, our grocery pickup customers. On Mother's Day, every mom that came to the store to pick up a grocery order got this bag of treats designed just for her. Think shampoos, chocolates, flowers and all presented with a simple signed card from their personal shopper. The reactions were pretty touching, just like this one. "I have 3 adult children and the card I received from Walmart was the only card I received. I even have it sitting on my table. Thank you, again, one very satisfied customer for life." Honestly, I doubt she's shopping our customers -- competitors anytime soon.

So first order of business for me has been getting to know the customer better. I think most people have pretty preconceived notions about who our customers are. And I think they'd be surprised to find that our customers are actually the fabric of America, no matter how you look at it whether by age, by income, by household size, or by ethnicity, the Walmart customer and the American population are a near mirror image of each other. It makes sense, right? 165 million people come through our doors each week, as many as 100 million people visit Walmart.com each month. And in fact, 90% of America shops with us at least once a year. So while that's all well and good, we wanted to understand the American shopper better.

So we went back to look at our data. In fact, we looked at loads and loads of data. We looked at proprietary data. We looked at public data. And we've linked that data to actual purchasing behavior. And what did we find? Well we found 6 broad shopping behaviors. What's common across those shopping behaviors is that everybody is looking for value. What's different is the way that people define that value. We're seeing the value equation as being a function of price, convenience and the emphasis that shoppers place on quality. We're just starting the work to lay out how each of these groups solve this equation with their shopping habits and more to come on that over time. While today, we serve all of these groups to different extents, we have the opportunity to expand our share of wallet and drive growth by offering new assortment and new ways and places for customers to shop with us. Think about all of our offerings. Our stores, our omni-channel options, Walmart.com, Sam's Club, Jet.com and our newly acquired brands. These assets work in harmony to help us serve more of America. And as we do that, we balance out margins and gain entirely new customers.

Our core customer is most concerned with price. We can't lose this customer. We won't lose this customer. And we will always fight for them. But we can't achieve our growth ambitions without expanding beyond them. And we're going to do that by focusing on what it takes to win the hearts and minds of 3 design targets. If we can appeal to these customers in the right ways, we will simultaneously pull in customers from other groups too. For example, when we design a great experience for a time-pressed mom who needs grocery pickup on the way home from school, that service is just as valuable to a convenience-seeking baby boomer on the way home from the golf course. Or when we design technology to speed transactions for unbanked core customers, this technology allows us to reinvent the way customers interact with services, with pharmacists and with our returns process. And as we designed voice shopping technology for tech-savvy millennials, we're shaping the future of retail for everyone.

By focusing our team and our assets on specific customer personas, we can achieve something really special. So let's have a look at some of the customers we're designing for. And why don't we let them tell you more about themselves and their thoughts on Walmart.

First, let's meet Casey, our core customer. Casey is working hard to provide for her family by working 3 jobs. She's a single mom of 2 kids and is juggling a busy schedule, finances and everything that life is throwing her way. Let's meet Casey.

(presentation)

So Casey represents the largest segment for us, both in terms of population. But also in terms of wallet share to Walmart. Many customers like Casey spend most of their retail dollar with us. 76% of these customers want consistently low prices over the best sales. Grocery makes up most of her retail spend, more than 60%. Casey needs us and we will continue to work vigorously to protect and defend Casey.

Now let's take a look at Erica. We've got a lot of opportunity with her. Erica is all about family. She's a busy mom of 4 who went back to school and started her own counseling business. Let's hear from her.

(presentation)

So as you can tell, Erica is busy and she puts a premium on her time. She's seeking the ultimate value equation, quality products at a low price in an efficient way. You heard her. She loves grocery pickup. Customers like Erica use grocery pickup 2.5x more than other segments. But she still needs to keep her budget and nearly 70% of customers like Erica set a firm budget before they set out on shopping occasions. This is an important customer for us. As you've heard from us before, an omni-channel customer spends more with us. In fact, about double what a store-only customer spends. This is our sweet spot. Erica. And those like her, care more about brands. They're twice as likely to buy the latest trend and 3 out of 5 are buying organic. Today, Erica shops with us for some things but not everything. We're changing that. We have a huge opportunity to continue to double down and win with this customer.

Finally, let me introduce you to Mindy. She's our Jet customer. Mindy lives in Brooklyn. She's just engaged. She's about to settle down and get married. She's younger. She's more affluent and she's managing the hustle and bustle of the city, a job and trying to keep a social life. Here's Mindy.

(presentation)

So just like Casey throws apples into her shopping cart, Mindy tosses Apple AirPods into her online basket. While Mindy represents a much smaller piece of the overall pie, winning her over is important and doing it early even more so. We'll do that by the newly acquired brands like Bonobos, ModCloth and ELOQUII. And diving into things like conversational commerce that will thrill her. These are unique offerings that add differentiated value for our customers.

Let me be clear. Our primary focus is on Casey and Erica, our core customer and our sweet spot. But we can't take our eyes off Mindy, who opens up entirely new avenues for growth. By focusing on these 3 design targets, we'll deliver great experiences that capture more share of their wallet and allow us to expand our customer set. And as we get this right, we grow.

So let me leave you today with 3 takeaways. First, we're infusing customer centricity into everything we do. We will show up when, how and where our customers want us to. Secondly, we know our customers. Quite frankly, we've always known them and we will always serve America. But in order to grow, we have to be strategic about designing great experiences for our customers. And thirdly, our customer set is widening. And as we build omni-channel convenience and add new brands and services, we will continue to lean into that. It's still very early days for me and for this role. But I'm really proud to stand here today and to start to share a clear vision for our customer. I'm looking forward to continuing the dialogue and sharing more with you over time. Thank you.

(presentation)

Marc E. Lore {BIO 3597588 <GO>}

Good morning. Welcome. It's great to see so many familiar faces. I really enjoyed all the great questions in the discussion last night. I really did. Hopefully, we'll have some more discussions again today.

So last year, I shared our e-com strategy with you and since then, we've been making really good progress. We're moving fast, we continue to add really strong talent and we keep testing and learning. We still got a lot of work to do. But I feel really good about where we are.

Brett talked about the financials. Let me just tell you that last year, we told you we expected to grow approximately 40%. And we're on track to do that. Then off a much larger base, we expect to grow about 35% next year.

So here's the strategy I shared with you last year. It hasn't changed. There's 3 parts. First, we have to focus on the fundamentals. We have to get that right. But equally as important, we have to leverage our unique assets and start to play offense. And this is an area that gets me really excited. When I think about playing offense, I think about how do we make sure Walmart.com is the primary destination when people think about shopping for their online orders. Then while we're doing both those things, we also need to be thinking about the future. How do we win the future of retail? So let's spend the majority of the time here talking about the fundamentals because that's where we're really focused.

Last year, I introduced this concept called the CVI, the customer value index. This is an index we created to track our progress against the fundamentals. It's comprised of 5 bellwether metrics: have it, find it, display it, price it and deliver it. Do we have the products people want? Can they find them either via search or through navigation easily? Are they displayed with all the content, pictures, descriptions, reviews necessary to make a decision? Are they priced right? And are they delivered fast and on time? And if we could do all 5 of those things really well, we believe that the fundamentals will be in a really good place. So we set a pretty aggressive target, as you can see there in the green line in terms of our plan to grow CVI over the year. And we're running well ahead of that right now. So we're making really good progress, primarily driven by have it and deliver it. Those are the 2 biggest areas of opportunity and 2 of the biggest areas that we've seen the biggest improvement.

Now if you think about CVI, that's really about the inputs. Do we have the products? Are they priced right? The Net Promoter Scores, the output, what are customers saying? Are they willing to, now, refer the experience to a friend more so than they were a year ago? And the answer is yes. If you look at the Net Promoter Score, it's gone from 44 to 53 in one year, that's a 9-point increase. That's a big increase for those of you that know NPS. So really happy that customers are telling us that they are noticing a difference in the value proposition.

So I want to spend a little time on have it here. So when we think about have it, we kind of think about it in 2 pieces. We think about sort of the top million SKUs, which are largely driven in the experience driven by humans and then sort of the long tail, which is really driven by technology. On the top million, I mentioned last year that we're going and start hiring category specialists to really focus in on categories, to make sure the experience is perfected. And I said we're going to add about 40 to 50 category specialists a month. We've been doing that steadily every month since last year. So we've got a really nice size group of specialists and when they get trained up, we see that they're making a big impact, not only on the customer experience but also on contributed profit. So revenue is growing, profit's better. We just need more category specialists focus on more categories. But feeling really good about that.

We've also launched this next-generation dashboard we call FlightDeck, which is really empowering customer -- sorry, empowering the category specialists to be able to do a lot more faster. And as we invest more in that technology, we'll be able to get even more leverage out of those.

The other big area of focus for the category specialists has been breaking brands. We know how important it is to increase that have it score and have the brands that customers want. And over the last 12 months, we've actually added over 2,000 new brands. It takes time. And we're starting to see momentum. And I'm really happy with the progress on that front.

Moving over to the long tail, let's just start with Marketplace. Marketplace, we were adding SKUs really fast, if you remember, just got to like 70 million SKUs last year. We're adding so fast that we hadn't really kept a very high bar in terms of the quality of the SKUs and the quality of merchants on the site. So last year, we took a breather. We added more than 20 million SKUs to Marketplace. But at the same time, we took down about an equal amount. So the overall quantity didn't change but the quality did. The quality's much better. And you can see that the Net Promoter Score went up almost 20 points as a result. So I feel like we're in a really good spot. We've got a really high bar for merchants and for SKU assortment. And we're ready to sort of kick that into gear.

The other place that we're adding and investing in sort of that long tail marketplace is to retail partnerships. And the first party business long tail were really helping accelerate that with specialty retailer acquisitions. It's really important that we get this long tail growing and we add those brands and fill in those missing gaps because one of the biggest challenges we face is margin mix. We've got a really robust head business and we do really well in the best-selling assortment, the assortment that you would typically find in the supercenter. But we have not made enough progress in that long tail and the money is made in that long tail. That's why we're so focused on really building out the tail in multiple different ways.

The 2 big ways, I just said, the partnerships and specialty retailers, I think we made really good progress in this last year. We did a partnership with Rakuten Kobo e-books. We launched Lord & Taylor premium shop, which added about 150 premium brands. We launched EV1 with Ellen DeGeneres. And that's doing really well. The Love Denim Jacket actually sold out in 3 weeks. Things were selling really fast. We think that's going to be a really good brand for us. Then just this morning, we announced a deal with Advance Auto Parts to create a specialty automotive store on Walmart.com.

So you're starting to see a little bit of a trend here with Lord & Taylor, Advance Auto Parts. We think it's an opportunity to create lots of these types of partnerships. While no one on its own is going to make a huge difference, when you start to add up and string these together, it can and it will, not only for assortment but also for margin. On the specialty retailers side, you know about Hayneedle shoes and Moosejaw. We just recently also added Bare Necessities. Now, these specialty retailers are very separate and distinct from the digitally native brands we're buying. These retailers are really meant to help augment our first-party long tail business. We're buying experts -- merchandising expertise. We're getting product content. We're getting vendor relationships. And we're improving our contributed profit in these long tail first-party categories. So we're looking every day for special retailers in different categories that could help accelerate our business and expect us to do more both partnerships and retailers in the coming future.

On the deliberate side, we've also made really good progress. I talked about last year the importance of inventory mirroring. We've been doing that pretty aggressively and it's really helped with delivery speed. The number of orders that it delivered in 2 calendar days has almost tripled. And the way we define 2 calendar days is with a midnight cut-off. So if you order at 11:59 p.m. on Friday, it means it has to arrive on Sunday to count. And we've almost tripled in the last year the number of orders going out with that speed. And at the same time we're driving speed, we're also driving down the cost of fulfilling an order. So the variable cost per unit has gone down 10%. So we're doing both at the same time.

I'm also really happy about the team that we brought in. We brought in some really amazing leaders across both replenishment, transportation and fulfillment itself. So I feel like we've got the right team. We're in a really good place. I mentioned last year that our network, the way our warehouses are positioned and where we've got CapEx that we had the potential to deliver 87% of the country overnight via ground and 99% in two days. And so as we start to mirror the inventory, we get closer and closer to being able to deliver on that. So I think we're really well positioned to dial up delivery speed next year and start pushing out more product overnight. And that gets me really excited. I think that's a big opportunity, I'm feeling really good about how we are positioned there.

In addition to the CVI and the 5 bellwether metrics, we've also focused on elevating the experience and the look and feel of the Walmart.com site. This is, again, is as much for the customers as it is for attracting brands. And again, there's lot of premium brands that currently aren't on Walmart.com that we want to attract. And this was a big lever that needed to be pulled and it's working. We're definitely seeing more interest from the brands. So this was the homepage before and I'm sure you've all seen this. But this is the homepage after, you can see it's much more modern. It's more personalized. It's more localized. And in the bottom left there, we really make pickup and same-day delivery a much bigger focus. And we're definitely seeing traffic -- a lot more traffic come in through in that regard. So a couple of other things I'll show you, this was Shop by Room before. I think Doug mentioned this. And this is Shop by Room after. Notice the rich imagery here is a theme that you'll see throughout the entire site. Also, all those products in that image can be bought on Walmart.com. This was the nursery before. And the nursery after. Again, look at the imagery. Baby is a really big focus for us given our focus on busy families.

Then, we also, at the same time, just recently launched a new Jet.com website. And we really wanted to position Jet.com and push it more upmarket and really focus on the higher income, urban millennials. It's much more curated. It's got that sort of themed homepage, it says NYC there. We're going to be rolling up themed homepages for each of the major cities. We're definitely attracting much more premium brands on this site. We've got Nike. We've got an Apple Mac store. Bonobos is coming onto the site in another week. So we're definitely targeting a very different customer with Jet than we are with Walmart.com. And I think both brands are very complementary. They're both leveraging the same back end infrastructure and logistics. So we're getting a lot of synergies there. But on the front end, they are targeting very different customers. The Jet.com relationships we're building with brands, we believe, will be beneficial in helping to bring those brands onto Walmart.com in the future.

So that was the fundamentals but the fundamentals we know aren't enough. It's really important that we start playing offense and really leveraging our unique assets to do things that only Walmart can do. And so I want to talk about a couple of areas that we're playing offense. One is sort of intermediate and one a little bit more longer term. The biggest area that we're playing offense right now is with our stores. We've got, as Doug mentioned, 4,700 stores within 10 miles of 90% of the population. And we know where the puck's moving. If you look at delivery speed, it's moving towards same day. Customers want products faster than ever before. And nobody is better suited, better situated to deliver same day. We can deliver same day the entire supercenter fresh, frozen and everything else at a lower cost to serve than anyone else because of a few things. One, we're moving product in full truckloads. From the RDCs to 4,700 stores, that's something that the stores have really mastered. So that's number one.

Number two, these stores, they're already profitable. So if you think about them doubling as a warehouse, when you think about that marginal cost to pick that item out of there, all the fixed costs are covered. If you would open up a dark store warehouse, you got to cover your fixed. And you need to do a certain amount of volume. So you have this incredible volume. You have lower throughs on fresh food because you've got, in some cases, more than $100 million of sales coming out of one location. Then we've got picking capability now in over 2,000 stores going to 3,000 next year. And so we've done really the hard part. And it's just about same-day delivery using third-party crowd-sourced vendors and doing it ourselves. So I think we're in a really, really good place to start playing offense with same-day delivery. But we've actually started to play. The beginning of the year, we started to roll out same-day delivery and the store's team has done an amazing job of rolling this out with speed. So by the end of this year, 40% of the U.S. will have access to same-day delivery, that's in over 100 markets. And by the end of next year, over 60% of the population, that's about 200 markets.

So you can see that we've actually started to make things happen. This is something that we haven't really, in essence, we really haven't levered up until the beginning of this year. So I expect this to be a great way to sort of build that sort of primary destination back with consumers on .com. Then as we bring together that same-day delivery, grocery, combine it with the Walmart.com site in the future, hopefully, we would have monetized those relationships of people coming back every week to sell into that long tail that we're so focused on building.

The other area that we're playing offense. And this is a little bit more longer term, I'd say, is with digitally native vertical brands. So we bought ModCloth last year, we bought Bonobos. This year, we launched our own incubated -- our own mattress company called Allswell, which is doing really well. We proved that we can actually incubate these brands and then we recently bought ELOQUII. And I think it's really important to just stress the difference between these digitally native vertical brands and the specialty retailers. I think a lot of times, people want to just come by and say, "Walmart's making these acquisitions." Then they'll throw ELOQUII and Bare Necessities together because they're both in apparel. But they couldn't be more different. Again, the specialty retailers are really about helping to sort of grow our first-party business and accelerate and they're selling third-party goods. So they're getting us access to a lot of brands. This is much more offensive. This is thinking about a future world in which there's SKU parity.

We pretty much get parity on pricing now online with everybody matching. There will be a point in time where everybody sells everything that everyone else sells. And so how do you differentiate? How do you actually create a reason for customers to shop on your website versus your competition? And I think this is one way. This is one big way. Having proprietary content. It's not going to be just 4 brands aren't going to do it. But imagine 40. So the idea is over a long period of time, they continue to incubate and buy and build so we have a portfolio of brands and unique content. And the other great thing, the margins are incredible. The margins run about 40% in terms of contributive profit; that's after all variable expenses. That's not gross, that's sort of after all your variable expense of 40%. So imagine 5% of sales at 40% CP, you're adding almost 200 basis points to the entire business. So before when we talked about the importance of needing to sort of mix out margin and push into more premium, higher margin goods, this is a big critical part of the strategy.

The third part of this strategy is really about innovating for the future. We need to prepare to win what future game looks like 10 and 20 years into the future. And that's where Store 8 comes in. So last year, we told you that we formed this umbrella called Store 8. Well we've been really busy in the last year. And we've actually incubated 5 companies inside there. These are companies that have the potential to shape the future of retail. Ring fenced from the rest of the organization, they're able to move with speed. We hire a CEO, we give them capital and they run. This is not a sandbox or an R&D sandbox. Each startup has a vision for how and what it wants to be and how it's going to change the future of the company. And again, we're thinking more like 10 years out. So we have talked publicly about 2 of these. Jetblack and Spatialand, the other 3 you'll hear about this year. With respect to Jetblack, I couldn't be more excited about this one. This is conversational commerce. This is about using text and voice to buy absolutely anything you might want. So you can just text Jetblack and say water, iced tea, Cheerios. Because you would've gone through an extensive onboarding, it knows what brands, it knows what sizes and all you have to do is text those things and you get a text back that says here's the prices coming today. So you can also say, need a gift for 15-year-old girl, $200 and it'll come back with 3 amazing recommendations. The recommendations are so good because of the onboarding and the personalized approach that 79% of the time, people are actually taking the recommendation that we make.

So I think this really plays to Walmart's unique strengths around product and merchandising. So we're investing a lot in sort of the recommendation engine. We're investing a lot in the decision trees. And we're seeing lots of conversations. And because these conversations are, sort of, today, largely human-powered, we're seeing exactly how people would ideally want to converse. We need those conversations because the more conversations we have, the closer we are to be able to use machine learning to automate it. So that's the long-term goal. 10 years from now, we're not going to be humans. We're going to have seen enough conversations that this will be automated. So super exciting. Customers love it. As Doug said, we've got a waitlist. The NPS score is over 90 and I do think that this is the future in the way people are going to shop. People are not going to, 10, 20 years from now, be using search the way they do today. It will simply be a voice or text communication.

The other story company that we mentioned, we went out and acquired Spatialand, which is a virtual reality company. This is definitely a lot further out. But you can think about this as the natural extension of conversational commerce. Once you get to a point where people are just conversing via voice and buying stuff, the next thing is immerse me, show me, let me experience these products in a way that's not possible through a 2D-type world. So really excited about that. But that's definitely much longer term. Before I leave Store 8 here, I just want to leave you with a little taste for where the future of retail is heading.

(presentation)

Well isn't it exciting to think about where the future of retail is heading? Imagine just coming home from work, opening the fridge and there are the groceries. We definitely think that this future is a possibility and what's even more exciting is nobody's better positioned than Walmart to be able to deliver this. Having fresh and frozen food within 10 miles 90% of the population is a must to pull this off, having picking capability in the store and having the ability to deliver it. So we've got the capabilities to deliver on this and so it's really exciting to think about what's possible.

So that's the strategy. We're doing all 3 things at once. I can't tell you how excited I am about next year and I can't wait for you to see what we have in store. I just want to leave you with a few key takeaways. We're getting traction on the fundamentals. You can see it. It's evidenced by the CVI score moving up so aggressively. At the same time, we're playing offense, especially with same-day delivery. And at the same time, we're building companies to shape the future of retail. We haven't lost sight on what it's going to take to win 10 years out. Thank you.

(presentation)

Gregory S. Foran {BIO 4687375 <GO>}

Good morning. And thank you. Thanks for making the trip to be involved and spending some time and learning more about our business and getting out to 5260 yesterday and seeing some of the innovation.

Let me begin by giving credit where credit is due. And that's to our associates. You're going to hear us talk a lot about leveraging our physical assets. But those physical assets don't amount to much without the human capacity to power them.

And frankly, it's our people that do that. More than that, however, our people can create a personal relationship with customers. And that's something that we believe that Walmart is uniquely positioned to do. When all is said and done, it's probably personal relationships that are likely to be our biggest competitive advantage. When we met last year, I talked about the challenges in our U.S. stores business of moving from fixing to leading. And we put a plan in place to take us in that direction. And as I stand here today with you, I can say that we did what we said we would do.

The productivity loop is turning. We're buying for less. We're selling for less. We're growing sales. And we're operating for less. And I think our results proved that we implemented the right strategy four years ago. We invested in our associates, notably compensation and training. We've reduced inventory throughout the supply chain. We lowered prices. We've steadily improved the customer experience. We're adding services, including new and enhanced apps for our customers and associates. Our comp store sales have increased. And we've been able to leverage expenses in stores. So we're pleased with these achievements. But at the same time, we know that we have a lot more to do. And in this competitive environment, not only we -- must we clear the bar. But we must continually set it higher. And here's what I mean.

I'm out in stores constantly. And the other week, Doug and I happened to be in Alabama at the same time. So we shut out early to go and do some store visits. Frankly, the first store that we went to was not all that good. We were off process. Store's a bit dirty. And it certainly wasn't equipped for the day's trade. So we got into the second store. And actually, that is what we would call an average store. We were on process. It was certainly a lot cleaner and we were ready for business. The third store that I got into, arguably, our toughest one in the market to run, was actually in great shape. That's what I expect when you've got a terrific team of associates supported by a fantastic and impressive store manager. Everything was on process. We were spick-and-span. We were wonderfully reflective of the neighborhood that we were operating in. So again, I think we have made a ton of progress. But as I saw with the first store that I was in a week or so ago, we still got our share of outliers, which is why we continue to pursue the fundamentals of the strategy that we set out last year, strengthening those 4 key pillars: one, running great stores; two, delivering value; three, being great merchants; and four, providing convenience. And as we progress from fixing to leading, we'll refine how we'll execute.

Now we've got 3 areas of focus. We'll continually improve the retail fundamentals. We won't ever let up on that. Two, we'll build the tech-empowered store. And three, we'll extend our omni-channel capabilities. So back to the retail fundamentals. We began this journey four years ago and I can tell you that our passion for it has not lessened, not even for a minute. We ask a lot from our associates and we hold ourselves to account for everything from the cleanliness of the parking lot to the quality of the asparagus, from the in-stock of herbs and spices to clean and empty back rooms. From fast and efficient service at the front end to a personal touch as we load the groceries that you ordered online into the trunk of your car. And regardless of how well we're performing in any one aspect of our business, we mandate improvements and we force innovation.

And this requires several things. Perhaps above all, truly engaging with our associates, training them and equipping them with the latest tools to do their jobs as efficiently and as effectively as possible and creating learning experiences through academies and promotions, university institutions. And when we do these things, we hold firm to one of this company's founding principles, a principle that has made Walmart great. Our people make the difference. Not just a difference, the difference. But we have more to do. And when it comes to retail fundamentals, we know that the standards are never met. They just keep getting higher. Now, one of the ways we'll raise the standards is by creating a tech-empowered store, a place where the customer and associate-facing technologies are seamlessly integrated. And you're going to hear Steve and Marc talk about this idea in some more detail. But the core message is simple. And it's this: remove friction from the way that associates and customers interact with a physical store. Create efficiencies, help people save time and money and, ultimately, grow the sales. Two quick examples, one from grocery pickup and delivery. When customers use a check-in app, we're able to get their order pre-staged. We get an alert telling us that they're about to drive up to our store. So that when you arrive, we're ready and what that results in is really fast, friendly service.

Well one that, I think, is going to be a big hit with our customers that Janey spoke about, Item Finder (sic) (Store Maps). Thanks to the blend of digital and physical, you can now basically Google Map your way to each and every item in a store. Those are just some of the elements that make up the tech-empowered store. Now finally, we're going to bring the foundation of our retail fundamentals together with the tech-empowered store and the result is going to be powerful omni-channel capabilities, which provide convenience and value. One of the central features of this combination is a store as a fulfillment center for both online and offline shopping. This model has game-changing potential. But make no mistake, it's going to be hard. It's going to require the combination of retail expertise with supply chain expertise, associates who will need to be highly ambidextrous. But I'm confident that we can do this. We've already proved we can do many things others thought were not possible. To sum it up, the plan we have put in place four years ago is working. We've made meaningful progress to run great stores, deliver value, be better merchants and provide convenience. We're doing well. But we can and must do more. And to that end, we've put a plan in place that will focus our efforts to execute against our goals. We will continue to improve our retail fundamentals. We will go deeper on building the tech-empowered store. And we'll create omni-channel capabilities.

Now I'm going to hand it over to 2 of our great colleagues that I have the privilege of working with: Steve Bratspies, our Chief Merchandising Officer; and Mark Ibbotson, who looks after our Realty and Central operations. Steve, over to you.

Steve Bratspies {BIO 18295554 <GO>}

Thank you, Greg. Good morning, everyone. At Walmart, we offer customers great items at everyday low prices. It's a key part of the productivity loop of selling for less. It's a bedrock principle for the day our company was founded. So today, I'm going to talk about 2 important elements of that, growing sales and reducing costs. So let me begin with growing sales.

There are 3 core components that we talk about for growing sales: price leadership, great assortment and customer experience. So let me start with price leadership. Now our position on price is clear. We will maintain price leadership, full stop. We believe, more than ever, in the power of the EDLP model. So you're going to see us remain committed to the price investments that we laid out three years ago. The momentum and the comp sales performance that Greg referred to prove that our pricing strategy is working. We see it in traffic. We see it in basket metrics. And we see it in our expanding price gap with competitors. And we're going to continue to make thoughtful investments. But we're not going to win the price battle on investments alone. So we're using advanced analytics. And by doing so, we're able to identify categories where increased price gaps drive overall box market share. And we're going to continue to learn and refine our models. And as we do, we'll adapt to shifting market dynamics and various competitive situations. All of this is going to drive more sales.

Now the next piece of the equation is assortment. And at Walmart, we're item merchants. We'll never lose that focus and the importance of delivering great products to our customers. We think about assortment in a couple of different ways. We think about simplicity. We think about quality. And finally, innovation. So let me talk to you a little bit about simplicity. Now the guiding principle here is to have the best, roughly, 100,000 items that our customers need and want. This is what we refer to as the head of the assortment. And we're going to continue to improve upon it. We're using new data sets and advanced analytics. We're able to refine our offerings store by store. And we've gained a deeper understanding of our customer, about customer loyalty, about item substitutability. And about incrementality. And this understanding helps us to drive more sales through assortment.

On quality, we're going to maintain a relentless focus on quality. Now, there are a lot of great stories I can share here. But I want to just take a minute and talk about fresh. We're spending a lot of time through sourcing, buying, supply chain. We've elevated the quality of our fresh produce and our meat and bakery in our stores. And strawberries are a great example. There's almost no product that does a better job of communicating fresh to our customers. And with our new fresh speed network, we've removed steps in our supply chain to give our customers an additional four days of freshness, that's basically doubling the freshness that a customer gets on that product.

We also recently announced the use of blockchain. Doug referred to this earlier. It's establishing an unprecedented level of quality control and visibility throughout the produce supply chain. And we're also collaborating with agriculture entrepreneurs to test models for vertical indoor farming. Our work is paying off. In Q2, fresh food sales were strong and led to the best grocery comps we've had in nine years. Our commitment to quality isn't just limited to fresh, though. We extend it to all of our private brands. So whether we're talking about great value, equate, market-side, mainstays or our new apparel brands, we're going to continue to innovate and invest to ensure that every product at Walmart delivers great quality. So for example, in our GM business, we're now using data for return rates and customer reviews to get closer to our customers and improve on the product development process. We've leveraged this in development and launch of our 3 new apparel brands. You can see them over to my right and sales are accelerating. Customer feedback has been great. We're really excited about this and I'd encourage you at a break to go over there and touch, feel the product. I think you'll be really impressed with the quality. The attention to design is something we're really excited about.

Now, another terrific quality of play is over here, which is our winemaker selection. Now, this is a premium private brand wine and our goal is to increase our quality perception and build customer loyalty. It is selling great. We've launched the first 10 varietals in May and they added nearly 100 basis points to our overall wine business. So we're going to add another 11 SKUs next spring. It's been a real winner for us so far. Now hand-in-hand with innovation -- with quality is innovation and we've got a lot of product innovation at Walmart. And we're going to continue to add new items and capture the innovation that's in the market. We do it with our private brands and the addition of new national brands like Nix, Yankee Candle, Cuisinart and Bose.

We're also really proud of our ability to bring our customers exclusives that no other retailer can. So this holiday, in toys alone, our customers will be able to get more than 1,000 items that they can't find anywhere else. Now one standout item is this one right over here that's sitting up front. This is our Barbie Dream Camper by Power Wheels. This toy is half traditional ride-on and if you come around to the back, it is a full-play kitchen for our customers. This is exclusive to Walmart. And the first 5 to 6 weeks, we're selling about 6,000 of them so it's really, really accelerating. And we think this will be the #1 ride-on item this season.

One more I want to share with you. Are there any Galaga and Pac-Man fans out there? Doug, I hear you're pretty good at Galaga, yes, your favorite. Well this item right here is capturing the trend of retro games. It's been a huge trend in the past two years. Pac-Man and Galaga are the #1 and #2 arcade games of all time and we have both of them exclusive at Walmart this year. $299, I really think it's going to be a huge winner for us this holiday season.

We're also innovating as we build upon our historically strong physical media business, right? Walmart has dominated that business for a long time. But it's changing. So we're innovating with VUDU, with e-books, with shoppable ad capabilities, plus joint ventures with Echo and MGM for original content. We're innovating to deepen our engagement with customers and their daily digital habits.

Finally, the third component of our strategy to drive sales is a great customer experience. Now there's a whole lot that contributes to a great shopping experience. So today, I'm just going to touch on 2 of them. Store space and customer apps. So reimagining store space is key for us to take full advantage of our physical footprint. So a few things we're doing. You're going to see an updated entertainment set, a new apparel pad and a hardware destination that we call Tomball. We're also testing next-generation space, expanded seasonal pads and service counter consolidations amongst sporting goods, paint and auto centers.

Finally, we're being opportunistic with space. There's a lot of toy volume up for grabs this year so we've bought broader and deeper in this category. But more importantly than that, we've expanded permanent toy space in over 235 stores to winning toys today and tomorrow. So the takeaway on store space is that we're moving with speed and purpose to leverage space as a unique advantage for Walmart.

Now, of course, the customer experience isn't just defined to the physical space. But the digital space as well. So we're reimagining the customer experience with a robust set of Walmart apps. Apps are designed for the customer first. The goal: low friction and high-speed. We've got Mobile Express Returns, pharmacy and money services. And our Mobile Express services lets you complete much of the transaction before you even get to the store. Once you get there, you can skip the line, finish the transaction. And bang, you're done. It's that simple.

So there's a lot there under growing sales. And we plan to keep up that momentum. Now the other part of the equation for generating growth is to lower our costs, leveraging our assets to drive greater efficiency. And again, there are 3 things I want to talk about: how we buy it, how we ship it and how we sell it. Now, a big part of buying boils down to relationships with our suppliers. As with everything we do at Walmart, we buy with the customer in mind. We approach negotiations from the standpoint of being advocates for the customer. And as I think most of our suppliers would tell you is that we're pretty tough. But I think they'd also tell you that we're fair and that all sides realize the benefits from the growth that we're driving.

Now I know many of you probably also have tariffs on your mind and you heard Brett talk about them earlier and I had the opportunity to chat with a lot of you yesterday about tariffs. My point to you is no, that we are actively working to minimize any impact on our customers and our shareholders.

Next, ship it. Under leadership of Greg Smith, our Executive Vice President for Supply Chain, incredible work has been done over the past 1.5 years. We are strengthening our supply chain today and at the same time, innovating for tomorrow. And we'll share a lot more of that with you in the future.

Finally, there's selling costs. Now earlier, I talked about simplifying the assortment. But we're also implementing cost-cutting measures, things like inventory reduction, a more precise feature-planning process, leveraging AI tools for smart forecasting and the use of packaging for truck-to-shelf precision.

So those are just some of our initiatives that focus on both growing sales and reducing costs. The customer is responding. We're proud of the progress and we know we can and we will do even more.

So now it's my pleasure to introduce Mark Ibbotson to share a little bit more about how innovation is going to drive both sales and lower costs. Thank you very much.

Mark Ibbotson {BIO 17944301 <GO>}

Well. Good morning. It is such an exciting time to be at Walmart. You've heard us all talk about the omnichannel retail platform. We talk about operations inside of the store. We're really thinking about the heart of the omnichannel experience. It's an end-to-end process powered by people and enabled by innovation. The result, it's an unparalleled retail experience for our customers. At the heart of it, we have an empowered associate who have the tools to own their work and more customers that walk away satisfied.

First off, empowering associates. With our store-based apps and training technology, we're enhancing how our associates work and how we help them drive efficiency and increase sales. Three solid pillars: first, training; secondly, managing inventory; and lastly and most importantly probably, growing sales.

So training. That's where it all starts. Associates can't help customers if they don't have the right training. Our academies have made a real difference in the skill level many of our associates have. But academies focus mainly on store managers and department managers. What we've now done is deploy virtual reality, VR technology in all our stores in the U.S. It brings the same level of training to more than 1 million Walmart associates across the entire U.S. Currently, our VR training is being used to help associates learn how to operate our pickup towers right in their store. It even allows associates to be trained before the towers are actually installed. So VR is being used to train associates on many things, including Check Out With Me, which is a brand-new program. And I'll talk about that in a moment. The training only takes a few minutes. And because associates can do it when they want to, we can pick and target slower times of the day.

Finally, we've actually gamified a good deal of our training. And we just introduced an app called Spark City. It's a sim-type game that lets associates learn store process and customer service in an interesting and engaging way. Because it's right on their phones, the associate can play anytime. And here's something else: anybody, anybody in the world can download this app. If you go on the app store now, put in Spark City, download the app. I encourage you to give it a try. And if it's not too much trouble, if you could rate it as 5 stars. That's my appraisal in about two months and it'd go a long way.

So app technology is ushering a new and an exciting sea change into inventory management. The Availability app is a great example. Gives associates insight into how their store is performing over time. It automates information about products that are out of stock and shows associates specifically what time that out of stock occurred.

When taken together, our entire productivity suite of apps, these tools eliminate the amount of time spent on the mundane. Instead, associates are on the shop floor helping customers find what they need.

What about sales? Let's start with volume-producing items, VPIs. VPI was a concept introduced by Sam Walton. He wanted to instill the thrill of merchandising in all our associates. His goal, to help underperforming items become great selling merchandise. With the VPI app, we've actually digitized this program, making it far easier for everybody to participate. We now have more associates participate with the VPI competition in one month than we previously had in an entire year.

Another way we're helping associates drive sales is the Check Out With Me program. Sales associates can use a handheld cellular device with a Bluetooth printer to check out customers and provide an electronic paper receipt on the spot. The program will be rolled out chain-wide by Black Friday. The technology adds yet another great customer convenience for the busy holiday season.

The initiatives I've described to this point empower associates through better process and digitization. Behind these is a set of automation and robotic technologies that liberate our associates from the burden of predictable, repeatable and manual tasks. Not only does automation drive efficiency in the store, it frees up associates to engage in the aspects of their job that they find more interesting, more exciting and ultimately, fulfilling. Those of you that were in the store yesterday may have seen a couple of these.

I'll start off with the FAST unload. Until now, product was unloaded as it arrived at the store through a complex, highly manual process that's seen little innovation in the last 20 years. The FAST unload automatically scans and sorts the items based on the department. Takes about 1/3 of the time out of the truck unload. Most importantly, it prioritizes out-of-stocks. Bottom line, we're seeing significant improvement in the efficiency of unloading a truck. But just as important, we're seeing corresponding increase in sales at the same time we're seeing a reduction in turnover in an area of the store where associate attrition tends to be unusually high due to the onerous nature of that work.

We have a shelf-scanning robot, provides real-time view on on-shelf merchandise availability. It improves the process of restocking by identifying where the in-stock levels are, where they're low, where they're out of stock, where prices are wrong or where labels are missing. The information then directs the associate to the area of the store that needs the most attention. We're currently testing this tool in 50 stores. So far, we've logged 7,000 miles, 12,000 hours over about an 18-month period, during which time we captured over 1 billion images of our shelves.

We have a fully autonomous floor scrubber. It relieves associates of a job that, quite frankly, is unpopular. It's being used in 85 stores throughout the country. We plan to roll this technology into about 360 by the end of this fiscal year.

These technologies all communicate. Out-of-stocks are captured by one, sorted by another or reducing the friction for associates and increasing the sales. We're building a connected network in our store. Technology in this network brings together several signals which we can quickly read and then direct an intervention. The sum of the parts is far greater than the individual element.

We're innovating today with tomorrow in mind. We're currently piloting a robot pick technology in Salem, New Hampshire. It automates the process of picking items for grocery pickup. It uses robots to gather items from a high density storage system located in the back of the store. The current test will pick 20,000 SKUs at a rate that's about 10x of what we see in our stores.

Next is an innovation that we're piloting in Sherman, Texas that automatically dispenses grocery pickup orders. It's like an ATM, as it were, for fresh, frozen and ambient food. And as some of you saw yesterday in 5260, we're automating the storage, allowing us to double the capacity a store is able to fulfill for grocery pickup.

We've got electronic shelf-edge labels or ESLs. On average, there's about 600,000 price changes per year per store. Our associates have to print, apply each one to every shelf in the backroom and on the sales floor. ESLs will revolutionize this process by automatically updating pricing and the tag content. It will improve accuracy, ensure compliance and crucially, remove a generally cumbersome process. Because the ESL will communicate with some of the autonomous scanning I described earlier, we'll be able to communicate ESLs in the backroom, alerting associates when to fill an item, adding another element to the network.

Over the past few minutes, you've heard me talk about associate apps, technology and automation. Now not only are we transforming our stores, they're playing a big, big part in our grocery pickup and delivery. We're becoming more robust and more integrated. We believe they form the basis of a vision of the store as a fulfillment center, part of an end-to-end supply chain from DC to doorstep, serving customers where and how they want. We see the store as a fulfillment center is a significant advantage as we continue to expand our omnichannel capabilities and build a dynamic retail platform.

I'll now turn to Greg who will wrap up. Thank you.

Gregory S. Foran {BIO 4687375 <GO>}

Thank you, Mark. And thank you, Steve. That was terrific. That's a lot, I know it. And at the risk of sounding like Yogi Berra, it's a lot because it's a lot. But everything you saw yesterday and everything that we've just talked through today is geared to improving productivity and increasing sales in order to drive better SG&A. And when those things are happening, we can lower prices. And that helps our customers save money and time. And we can help their families live better.

So as I said at the top, our plan is working and customers are responding. But trust me, we will not rest easy. And we will continue to challenge ourselves to be better. And we're going to maintain a laser focus on our goals: grow the top line and the bottom line, win in fresh, accelerate our omnichannel capabilities, create a seamless physical/digital experience to take friction out, drive productivity. You can't have low prices unless you have the best costs. And finally, leverage technology and automation where appropriate to drive efficiency and SG&A savings.

This is truly an exciting time at Walmart. When you walk through the home office or when you're out touring stores, you can get a real sense, you can feel it, that we're moving out of the fixing stage and we're starting to assume a leadership position.

And as I hope we've shown you, we've got a lot of substantial and strategic work going on. So our feeling of energy and excitement is firmly rooted in the fact of the hard work we've done and the momentum that we're generating. Thank you.

(presentation)

John Furner {BIO 19351533 <GO>}

Good morning. Well look, I know we've talked about a lot this morning because there is a lot to cover. But I plan on leaving you with some optimism about what we've got going on at Sam's Club.

So when I talked to you, many of you, here last year, we spoke about the need we had in the business to improve our position and accelerate growth and accelerate our comp growth in a meaningful way. So I talked about a plan that had 3 parts. One was respecting the past. And that means executing to the business model we have. The second was managing the present. So we needed to focus on delivering great results and raising the expectations. And third, we have to innovate for the future. And so what I want to do today is talk about the plan, where we are. And I want to start by explaining how we've become more focused.

One way that we got really focused is by concentrating on our target consumer. And our target consumer, just to remind you, is a family that earns somewhere between $75,000 and $125,000 a year. They've got 2 to 3 kids at home. And they've usually got 1 or 2 jobs and some own a small business. And the best way that we can serve our core member is to focus on our core capabilities which are our people, our product and our digital capabilities.

And so under people, we've been investing in some really key differences that are making a difference. And those include our merchants, our fresh associates in the club and then finally, our technologists.

So for merchants, we decided to make the merchandising job at Sam's Club a destination job. And I've spent most of my life in different jobs around the company in different countries and I can tell you, it's hard to find too many positions that can make more of a difference than a Sam's Club merchant. And we've got less than 100 senior merchants in the business. And in that environment, with limited SKUs and the need to focus, we need each and every merchant to be an expert in the category. So we raised our pay, we raised our expectations. And we've seen our tenure and job double in just the last three years. And the reason that's important, I just want to show you an item that some of you have seen before. And this is the cotton candy grape. Now this is an item that -- it's named the cotton candy grape because it actually tastes like cotton candy and then has to do with how sweet it is. But this is one took five years to develop. So Russ Mounce and his team worked on this five years from the time they had the idea until launch. And they're now working on how they can get more acres grown. And this product goes from the vineyard, where it's harvested for about 4 to 6 weeks each year, straight to the clubs. So the tenure is really important to bring products like that from the idea all the way to life.

Now second on people, we invested in additional manager in our fresh department in the clubs. We also put a new incentive structure out that gives the managers incentive to drive sales in fresh. Then we launched a new training program for fresh associates in the club. And associates who become certified over the program, which takes anywhere from 1 to two years, can receive up to a 40% to 60% increase in their salary, which would result in an annual earning position of over $50,000 a year. So big progress in fresh in the club.

Then the third is, we invested in a robust technology team. So we built a team of technologists who are allowing the business to move with speed and innovation. And some of the team work here in Bentonville, some are in Dallas, others are in India and China and then several are in the SamsClub.com building out in the Silicon Valley. And we've also really improved our position with a really strong product management team led by Eddie Garcia. And that team has been able to build us a long list of commercial-grade tools. And those are for both associates and for members. And a lot of the tools they're building, some of the apps they're building, they can get launched in just a matter of weeks from the idea to test. And it's been really impressive to see how fast they're moving.

Then as I mentioned before, we talked about the grape already. But the whole point to a wholesale club is great product. You can't have a great wholesale club without a great product because people pay us a membership fee so that they can get access to something they love, that they can buy at Sam's Club or something they just can't get anywhere else. Items like the grapes and the fresh food, those help us drive traffic. And we've seen our fresh traffic grow about 5% this year.

And we've really dialed up our focus on the Member's Mark brand. Now about three years ago, we got all the brands narrowed down and we got to just one brand. And the power of having one branding has been really strong and then we hold ourselves to a really high quality expectation. So the other item that's here, this is the Member's Mark Donut Shop Coffee. And this item came about from about one year of work. The team had to go around the world. And they tested over 100 coffees. They went through a number of different roasting facilities. And it took a year of work to get to the coffee that we landed in the club. And we think it's just great quality and the flavor is outstanding. So again, focusing on one brand has helped us grow penetration pretty significantly over the last few years and it's really working.

Then additionally, you can't talk about membership value without talking about price. We made a number of strategic investments in price around the club. And it's important because warehouse clubs, Sam's Club has to have disruptive retail prices. And we have to do it in a way that doesn't compromise product quality just like we've talked about. So in the clubs where we've made these targeted investments, we've seen sales grow, we've seen units grow, we've seen more sign-ups. And we are seeing higher retention rates, which is really important.

Now something else we've talked about and you heard already from Brett this morning is the movement that we have in our tobacco business. So we've removed tobacco from a number of clubs already. And it is a category that it ends up being sold to a final consumer that's quite different than our target consumer. And so by removing it from certain clubs, it's helped us focus the business back onto the things that make us serve our target member much more effectively. So by the end of the year, we'll have tobacco out of about 150 clubs. But we'll keep reporting our comp sales with tobacco. So I'd encourage you, when we release our numbers, to look at our impact or look at the impact tobacco is having on the business to understand a better picture of how we're managing the core of the business.

Now the third area of focus I talked about earlier is digital. And look, it's been a lot of fun seeing how a legacy brand can change when introducing new types of technology in the business. And we see the same sweet spot that Greg talked about and Janey talked about when someone downloads the app or they shop at SamsClub.com or they use Scan & Go, their overall spend goes up. But also their overall likelihood to renew also goes up. And you saw in the opening video, we simplified our membership tiers into just 2 tiers. There's a club membership and there's a Plus membership. Then following that announcement, we announced that for the Plus membership, you can get free shipping on SamsClub.com on about 95% of the assortment. And so far, the response has been a lot better than we expected. Since launch, we've had over 1 million members upgrade to Plus, which is a great number. And we've seen 28% growth in the first half of the year just in e-commerce sales. Then we started partnering with Instacart for same-day delivery for members.

So a number of things on the digital front have really helped. One of which we had talked about before is Scan & Go. And Scan & Go allows you to shop with your phone and then skip the checkout line altogether. And we're the only warehouse club to date that offers that service. And we've seen penetration grow another 180 basis points this year. And we're about to add adult beverages to the Scan & Go category, which will pretty much make Scan & Go a tool that you can use then across the entire box.

And I also need to talk about tools that we built for our associates. So we've launched a number of new tools that help them all over the business. They've saved hundreds of pages of paperwork per person in some cases. And that's a significant amount of time that they're now able to spend out on the floor and get out of backrooms.

Then the final thing I want to talk about on digital is Workplace. We launched Workplace about a year ago. And this has just been a fantastic tool for the teams to rally around ideas. And so what happens, we can put direction out and then you'll see clubs immediately posting what they've done. And the clubs are competitive. So they'll look at other clubs' posts and then it's a race to get things done. So this is one of the things we did earlier this year. It's #uncomfortablyfull. And when we asked the clubs to try to focus on getting everything they could out of the steel and onto the floor for sale, it was just a matter of hours until the posts were up and running and then we're off to the races.

Now an important part of the plan is to realize we looked at all parts of the business as it aligned to the new focus. And I talked about that a bit last year. Under the lens of focus, we looked at all of our programs. We looked at our membership offering. We looked at our merchandise categories. We looked at our locations. And after doing that, we've become a healthier business. And so as I stand here today, we have 2 tiers of membership. We have 597 operating clubs. And we converted several of our older clubs to fulfillment centers. And we're focused, at this point, on absolutely the right categories to serve the target member, particularly in fresh food.

And as for our goal of accelerating comp growth at Sam's in a meaningful way, we're pleased with what we're seeing. So this is a graph I showed you last year regarding our comp performance and here's where we are today. And we're really proud of the team because we ran a 5% comp last quarter, which is a big change in trend. And something that we did share already is that we do have a significant amount of comp activity from the transfer of members from the clubs that we closed early in the year. And that's been going better than we expected. So about half of our comp just last quarter was from transfer. So overall, good strength on the top line.

But the thing we think a lot about as we look to the future is, how's our membership program going? So trends are healthy in membership. And just a reminder that membership is primarily the way we make money in our format. So year-to-date, our rates are up on renewal. Our sign-ups are up. Our Plus member penetration is growing and our member count per club is up. And in fact, even with our smaller footprint, at the end of this year, we think our membership count is going to be very close to what it was a year ago.

So these are promising signs. And I want to be really clear, it didn't come from just doing one thing. They resulted from the team thinking about the business in new ways, a lot of new initiatives and a lot of hard work and follow through. And I'm really, really proud of the team for the way they're constantly focused on serving members and they're just obsessed with getting this right on behalf of our members.

Now we know we've got to go faster and we know we've got to move farther. But I'm proud to stand here to say, this business is much better positioned than it was a year ago. And we're real excited about where we could still go in the future.

So just a few key takeaways. When you think about Sam's Club, just think about we're building a healthier business, we're making changes actively to serve our target member, we're staying disciplined and focused. And we are innovating for the future.

And we're innovating for a future where we use technology to keep eliminating friction for both associates and for members. So I want to leave you today with a look at some of the technology that we're building and that will absolutely change the way you shop at Sam's Club in the future. Thank you.

(presentation)

Daniel Thomas Binder {BIO 1749900 <GO>}

Okay. So we're going to take about a 15-minute break and then we'll return for Q&A and take your great questions. Thanks.

(Break)

If everybody could please start to find your way back to your seats, that'd be great. So we're going to invite our executive team up in a moment. Just in terms of the format of the Q&A, I'd ask you, for the benefit of the audience and the webcast, if you could just state your name and your company affiliation. And we appreciate it if you can keep it to one question and one follow-up.

And with that, we'll have our executive team join us up here on the stage. Thank you.

C. Douglas McMillon {BIO 17082935 <GO>}

In case you're wondering, hiring Dan Binder has not reduced the number of difficult questions he asks us. It only increased his access, which we didn't completely think through when we made the decision.

I want to introduce Jacqui Canney. Jacqui, would you stand up for a second. I've got a few direct reports that haven't been on stage today. Jacqui Canney is one of them. She leads our people area. And one of her focus points is digitizing the associate experience to be consumer-grade and making good progress doing that.

Dan Bartlett leads communications, sustainability, corporate affairs, areas like that. Does a great job.

Then Rachel Brand joined us in April. And Rachel is the Executive Vice President of Global Governance, Chief Legal Officer. And she's the Corporate Secretary. She came to Walmart from the U.S. Department of Justice where she served as the Associate Attorney General. As the leader of our global governance organization, she's got responsibility for not only legal. But compliance, ethics, our investigative functions, security and aviation. So she's got a bunch of pilots that report to her, too.

We're excited that she's part of the team. So wanted you to meet those 3 people and welcome to Rachel, in particular.

Questions And Answers

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

Okay. I guess we'll get started. I'll start right up here in front. Bob?

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

Great. So I guess I'm going to try and take Dan's role and have a 12-part one. And it's Binder, right?

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

Dan Binder. It's Dan Binder.

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

I'm going to miss that. So on the guidance from this morning, the implied gross margin guidance is lower. And I was wondering if you could address it throughout the various aspects of the business. Online, what the pricing environment is online with the SKU growth? Then where do you think we are in the price investment within the stores? Just the various pieces, wonder if you could break that out for us.

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

Okay. Why don't I kick off the floor with gross margin and turn it over to Marc and Greg to talk as well. So we gave you -- I knew when we gave you leverage guidance, you would go right to gross margin. And what I'd ask is that we keep -- I really wanted to give you the leverage guidance to get you focused on leverage and the fact that we can lever as a company. And we're starting to get good traction with that. That does imply the gross margin deleverage, as you mentioned. I keep saying this. And I think you may be getting tired of me saying it, about the levers that we have to pull. And so getting that leverage gives us. And we've talked about this for a long time, it just gives us flexibility to do what we need to do as a company to make the total work. So we're very thoughtful about price investments. These guys can talk about it. We like, as Steve said earlier, we like where our price gaps are today. We'll be very thoughtful and strategic about price investments. But that leverage gives us some flexibility that, I think, our competitors probably don't have.

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

Yes. I've been asked a few times to ask sort of how we're feeling about the price investment, what are we into now, about our third year. And our intention is to continue down that track. I like the shape of a P&L for the stores that has margin coming down and costs coming down. I don't see the environment out there less competitive. I actually see it more competitive. Steve and I were out on the stores on Saturday. And our competitors are out there selling -- I'm talking about Aldi in this particular case -- a gallon of milk at $0.99 and a dozen eggs at $0.99. And I'm not prepared, neither is Steve or any of our team, not to get out there and be on the front foot with pricing. So we're sensible about how we do it. We have got a reasonable process for doing this. We build the muscle. And we're fortunate that, as Brett mentioned, we've got some levers that we can pull. But the actual shape, I think, of having SG&A coming down and gross margin coming down is a good shape for Walmart when you're in the business of saving people money.

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

Just go to Peter, right next to Bob.

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

Peter Benedict at Baird. Want to talk a little bit about wages, maybe what you're seeing in trends in wages, both in the stores. But also in the distribution channel. Then with the stores becoming so much more tech-enabled and actually serving as fulfillment centers, how do we see, you go down 3 to five years maybe, what level of labor investment is going to be required in the stores? How different is it than it is then that you see today?

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

Look, it's a good question. And to answer it fully, it's quite complex, would take time. So let me try and give you some of the highlights. When I reflect, Doug, on where we were four years ago, we were paying, I think, $7.63 an hour. And thanks to you, thanks to the board, thanks to the family, we moved it to $9, moved it to $10. Judith, you were part of all of that and you encouraged us, me, to get us to $11. And that's our starting rate at the moment. But the reality is, I could take you to any number of stores around the country where that's not the starting rate because this is a big company and we operate right across this vast country. So if we're in California, we pay a lot more than $11. So we have quite a large number of our stores where we already pay well above $11. We have other parts of the country where $11 is the right amount of pay. We have a process where every 2 weeks the field team collect the data, they bring it back in and there's a good, robust discussion around what we call hotspots. And we take action where appropriate.

Remember that our stores, it's not just starting rate. You heard Doug mention in his opening address about benefits, whether it's maternity, whether it's parental leave. Our PTO is a very good part of our program. And we spend circa $650 million a year on store bonuses, what we call MyShare. Every single associate in Walmart has the opportunity to earn a bonus. And I think, from memory, about 95% of our stores actually got the ability to earn a bonus. Now if you max on that bonus, it's a pretty decent amount. You're talking $550. The average is less than that. So our associates look at the total package. And we deal with hotspots as appropriate.

Specific to fulfillment centers and distribution centers, nearly all of them are $15 or above. And in fact, the average is, in fact, well above $15. So not any significant pressure there over and above what we just deal with day to day.

When you think about all the things that Mark, in particular. And his team showed you yesterday and you think about the things that we shared again with you today, is that going to change the way that we operate a store? Yes. Is it going to be significant? Yes. And that's a piece of work that Julie Murphy, who looks after our people in the U.S., working very closely with Mark. And in fact, we were meeting early this morning, half past 6 this morning, talking about it and working out actually how we step this forward. But roles will change, how we work will change, ratio of managers to associates, a lot of those things are things that we're thinking about and working through so that we maintain the shape of the P&L. We get the GP coming down and we get the SG coming down without damaging either the associate experience or the customer experience. We actually want those to go up. But there's a lot of change. And with 1.3 million people, associates, boy, I don't underestimate how challenging that's going to be for us. But we think we can do it.

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

Only thing I would add is that the conversation frequently is about starting wage rate. But with our retention going up and the training academies and how we're progressing people through the system, what is the number of hourlies? Our management ranks are like 2/3 came from our hourly ranks. So there's a pipeline here that you get pulled through. So as we talk to our associates, we're thinking about that whole relationship. And if they were here, as we've talked to them in stores the last few weeks, they would say, don't remove the MyShare bonus, don't remove what you do for stock purchase, thanks for what you did on the benefits. And those of us that have been here for a while just want to be rewarded for the work we're doing, taking advantage of the training. Don't, talking to us, get too hung up on where the starting wage rate is.

Now having said that, as Greg said, we'll be competitive by market to get the talent that we need. But it's not just about the new people we've hired, it's about the people that have already been here.

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

And it was interesting. I was out touring a store with Dacona Smith, who looks after our west division the other day. He's got 1,000 stores. He's been with us a long time. And we're in a store and we were talking about the difficulty of getting some associates to unload the trucks. And you've seen some of the innovation that we've got going there. And Dacona, I didn't prod him or anything, he just jumped in with the manager and said, "Haven't you got a bunch of colleges around you? Great. Why don't you go out and access that talent? Think about the shifts that you want to run. And remember that if those students stay with you, $1 a day and they can get a university education." It's for real. Some of the stuff is actually going to play out and that helps with retention.

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

Michael?

Q - Michael Lasser {BIO 7266130 <GO>}

It's Michael Lasser from UBS. One for Brett and one for Marc. Brett, how would you rank the different factors that are going to weigh on the gross margin next year? Looks like if you unpack the guidance, there may be 30 to 50 basis points of gross margin degradation for the business. How would you rank things like e-commerce losses, price investments, tariffs, mix of the business?

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

Yes. There's a lot you had in your question, Michael. There's a lot of things in gross margin. I'm not going to pack that fully, which I think you would expect. Transportation expenses have been a challenge this year, whether that's driver availability or fuel prices a little bit as well. We're expecting that, that will continue some into next year. When you look at price investment, we talked about that. We like where -- I said earlier, we like where our price gaps are. We'll be thoughtful about that. But we're prepared to ensure that we will continue to be the low price leader.

When it comes to tariffs, there's a lot of things going on with tariffs and a lot of potential outcomes that we could see over the next several months. And Greg and Steve, as you heard earlier, their teams are thinking through and working through all of those potential scenarios. And the assumption we've made as we look at gross margin, again, it's the challenge of talking about something today that we'll talk about again in February. But the assumption is that we will manage through what comes out. As I said this morning, we'll do everything we can not to raise prices. But there are certain environments where we would raise prices because of those tariffs. And we'll have to manage margins in a way and price in a way that makes sense for customers and shareholders. So the gross margin question, there's a lot in that, Michael. And that's just about, from a competitive standpoint, about as much as we'll talk about it.

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

I remember being up here and feeling like we could forecast an annual margin number with some accuracy. I don't feel that way today like we did then. And for some time now, it's been much more fluid. So we have a cadence that we follow. We'll get together again tomorrow, going through our forecast, thinking about what's happening with e-commerce growth and e-commerce investment; where is Greg on markdowns, how is he thinking about the price investment we're working through; John, how's Sam's Club looking; what's happening in international with a number of variables? Then saying, okay, change this, do that, let's roll this way and we kind of know where the quarter is going to come out. So we're going to be making in-flight adjustments tomorrow, next month and the month after that. But we've given you the best guidance we can give you in terms of how we think we'll bring it all together.

Q - Michael Lasser {BIO 7266130 <GO>}

And a quick follow-up for Marc. Seems like the e-commerce profitability is a little bit behind where you thought it was going to be a year ago. If you broke that down between the head and the tail, maybe you're a little bit behind in the tail. But how is the profit pool associated with the head performed over the last year? Has that been shrinking such that it's been difficult to fund some of the tail investments that you need to make and that's also weighed on the profitability of the business?

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

Yes. It's not really -- it's more of a mix issue. So we're driving a lot of the growth in the head. We just need to have more balance between the head and the tail. And right now, we just don't have that assortment to really lever the head traffic that we're bringing in. So that's the reason why we're pushing on specialty acquisitions to accelerate the first party, why we've elevated the website design to attract more premium brands, like all the things that we talked about and the strategy there are really to help improve that mix.

Q - Rupesh Dhinoj Parikh {BIO 22151706 <GO>}

Rupesh Parikh at Oppenheimer. So 2 questions on Flipkart. So as you look at the pricing of Flipkart versus your other e-commerce players and brick-and-mortar, how is pricing compared to peers? Then second, as you look at the consumer, how do you rank the reasons why consumer chooses Flipkart versus competitors? Is it pricing, assortment or something else?

A - Judith McKenna {BIO 4806787 <GO>}

So on the pricing one, Flipkart is committed to being competitive on pricing. And one of the ways that they've done that is by the use of private brands as well. So they are very strong from a private brand and a private brand development perspective. That's their way of keeping items affordable in India.

So actually, if you think about the mobile phones example I was talking about, that's why they introduced the Billion brand was to help lower the prices overall. But at the same time, not compromise in any way what the customer has. It's slightly different by category that they operate in. But they understand the Indian consumer is just as price-sensitive as any consumer around the world. And that's why they focus on that.

From a future perspective from that, they'll continue to develop out private brand and just look at how they can get some leverage.

From a -- why do we think they're a successful business and why do we think they're going to be successful? Again, talked about that. One of their greatest advantages is that they're an Indian business. They're local to that market. And they understand the ins and outs of their customer in a way that probably outside really customer-centric businesses like a Walmart do. So I think that's one of their real advantages in it. But the whole ecosystem that they operate is the thing that really made it special for us, which is there's no one part of it that you'd single out and say, "That's the winning formula here." It's all of that together and the way they're creating stickiness for customers for the long term. So I think that's one of the reasons that we think that, long term, they're the right business for India. And I was just talking to somebody earlier who was saying that they're a Flipkart user. And it's a great experience. So that's one happy customer in this room. So I'm keeping working on it.

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

We'll go to Matt next.

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

It's Matt Fassler from Goldman Sachs. And my question's focused on U.S. e-commerce. Today, you heavily emphasized same-day delivery and the last mile and your focus on the store as a vehicle for that service. Can you talk about what's getting you there on cost and logistics, also the evolution of your customers' expectations on that front and anything on the fee structure that will enable you to make this work?

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

Okay, yes. So I mean, the strategy is pretty clear. We're going to drive and become the primary destination, largely by leaning on same-day delivery out of the supercenter, as really building that relationship where customers are coming on a weekly basis. We're going to need to bring together the sort of grocery experience and the Walmartomics experience together so we can monetize that traffic to sell into the long tail, which will be delivered by the FCs and logistics network. And we're continuing to push on faster delivery times there. As I mentioned before, we're now at a place where we can do a lot more overnight delivery via ground in one box. So that will really drive down ship cost. And fulfillment cost come down 10% last year. And we see lots of opportunity to continue to drive that down in the future.

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

A lot of hands up over here. Go to Chris next.

Q - Unidentified Participant

A couple of questions on Flipkart as well. Covering the stock like Wayfair, a lot of times, when you get momentum in that -- in the money-losing business, sales grow faster and beat your expectations. You end up losing more money. So as you think about potential for that over the next 18 months, is the business at a point where actually the underlying profitability improves, such that if you beat your top line expectation, it doesn't become a big drag to the bottom line? Then in thinking about the $0.60 headwind, I think about $0.40 of this in the operating profit dollar portion. How would you think about that pressure between the grosses and the SG&A and how that dials up to this implied 30 bp hit on gross margin next year?

A - Judith McKenna {BIO 4806787 <GO>}

Okay. So from an overall basis, that business is doing a really nice job. It is true that if the top line accelerates -- now we've clearly taken a lot of that into account by the forecast that we've got. However, what they're doing a great job of is balancing out the mix of categories that they've got. So it parallels a really great example with both Myntra and Jabong and a parallel on Flipkart as well, where that is a much higher contribution margin than some of the other categories. So the mix is no different to some of the things that Marc talks about, which is mixing out the categories and also long tails versus head in order to think about how do they grow this business in a healthy way over time. So we are happy with the guidance that we've given, based on everything we've seen in the business today. How we think about it versus kind of margin to SG&A? We're not going to break that out. But what I'll tell you about that business is they are focused on every dollar, on every rupee. And I think part of that comes from the fact that they were a funded business. So therefore, they have a real EDLC mindset, which is not a rupee to waste in that business. And what that they're doing is using that to find ways to keep their investments where they need to make them. The other really interesting thing that they're doing is they're using data and they're using artificial intelligence to make them more efficient and more effective. So if I think about areas like the eKart network, in the same way that Marc talks about fulfillment cost as one of the key drivers in the business, it equally is for them as well. And the data analysis that they're doing is helping them become more efficient in the way they're operating that network. So there's plenty within there for them to pull levers on, just like in any other business.

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

Okay. Take one from Robbie upfront. Then on the side -- then we'll come back to you. Plenty of time for Q&A.

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

Well just a few quick general questions. First, I apologize if I missed it in the past. You guys have, on e-commerce, talked about a ratio of when you convert a store-only customer to an e-commerce customer, that their total spend goes up. I think you've said numbers like 2 to -- 2x. Is that still 2x?

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

Yes. Janey briefly mentioned it. But we didn't elaborate on this as much as we did last time. But that still holds.

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

Then just on stores. So the comp guidance for fiscal '20 of 2% to 3%, can you give us any thought on what component of that you would expect to be store traffic and also what component you'd expect to be ticket?

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

I don't think we provided any guidance on that. So no.

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

And that can -- traffic and ticket can ebb and flow some too with fuel prices losing. For instance, if fuel prices go up, sometimes you get a little different mix of traffic. So it would be tough to try to forecast that exactly. But we like the trends we're seeing right now.

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

Then just last, just on Spark. Any -- is that a membership fee model? Or can you give us any...

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

Yes, happy to talk about it. Greg, would you like to do it? Or you want Mark to pick it up, Spark?

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

Walmart Spark. Yes. It's not -- simply...

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

Come grab a microphone.

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

I've got one.

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

You've got one. There we go.

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

Let me see if that works. So Walmart Spark is our crowd-sources. It's a Walmart crowd. So like Uber, like Lyft, like DoorDash, we've set our own crowd up. People join it. We've got a couple hundred drivers. We're in about 4 markets. First delivery is made by a student, 21 year old young lady. So far. So good. We have high hopes for it. And we're just going to let that grow as part of the different way we will deliver in the future. If you're interested in being a driver, by the way, there is no fee.

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

Let's go stay on this side of the room, upfront to Chuck. There's Chuck. There he is.

Q - Unidentified Participant

On the ability to go to the long side of the tail, how quickly do you think you can add some of those new brands, Marc, in terms of trying to expand in some of the digitally native companies? Then for the U.S. business, obviously, the Second Quarter was phenomenal, 4.5% comps. Wondering if you guys could try to unpack that? How much was micro? How much was macro company-specific stuff? How much was weather? Clearly, the economic backdrop is really good. Just wondering how sustainable that level of traffic increase can be.

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

I'll start. Look, in terms of the comps for the Second Quarter, I think we've all seen out there in the market 2 things, that April was unseasonably cold. So that depressed sales for everyone, not just us but Home Depot, Target. So we got a rebound then in

May, which, of course, took that into the Second Quarter. So that was a bump of some significance. Overall, I would say that our sense of the market is that it's really good. It's really solid. Trying to unpack that down to how much is due to this and how much is due to that is really difficult. But look, we're happy with how we're traveling.

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

And in terms of the tail, this is more of a multiyear sort of problem. It's not going to be fixed in months. We onboarded about 2,000 new brands since the beginning of the year. And we're starting to accelerate on a monthly basis, especially retailer acquisitions are helping but they just take time to integrate, same with the DNVB. So making good progress. I think the site redesign has helped a lot. We're definitely getting a lot more inbound from more premium vendors and merchants than we ever have before. So I like the direction we're heading. But it's not going to happen overnight.

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

We're going to hit this cluster here. Let's go to Simeon and then we'll go to Karen after that and then Paul.

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

Simeon Gutman, Morgan Stanley. I think mine are both for you, Brett. First, high level on guidance. You talked about eComm losses stepping up a little bit next year. And while some of us were hoping they'd go the other way, in a way, it feels that the overall guidance for EPS growth is more conservative. Because this year, they ended up being higher than you thought. So I just wanted to get your sense on that point. Is it fair? The second question is assuming you're not going to disclose the contribution from click-and-collect, can you tell us whether the -- in fiscal '20, there's a big change in the click-and-collect contribution to comp versus the core business?

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

Yes. I mean, our guidance is -- you use the word conservative. Our guidance is what our guidance is. That's what we feel good about today. And when you put all these pieces together, being able to give you a range, put it all together, that's where we think we'll end up when we get to next year. We haven't talked -- haven't unpacked that eCommerce to total versus online grocery click-and-collect. Online grocery is an important part of that number. And we've said that. Obviously, that's growing next year. Our growth rate's still pretty much in line next year with what we've had this year. So it's really all of those pieces, add it up. And that's about as much as we'll break it out competitively, Simeon.

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

Good try.

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

Karen Short, Barclays. So this is also for you, Brett. Looking at your free cash flow growth. So I mean you can take whatever time period. But maybe starting '11 through to today, it's kind of been in that 8-ish % range. So you can you talk a little bit about on how to think about it going forward?

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

Yes. Our -- if you look at that period of time, I'm going back and think about FY '11 in my head, we've had nice growth, as you pointed out, in free cash flow. And it's been -- the operations are -- operating income has come down. But when you look at what we've done from a CapEx standpoint, CapEx is actually quite a bit lower than it was six years ago when we were building out the supercenter business. And over the last 3 to four years, working capital has been a really important part of that free cash flow. I mean, I mentioned in my presentation that we've grown $10 billion -- or taken $10 billion working capital out over the last few years. I don't -- it's hard to predict that we can continue that pace of working capital improvement. But every piece of the business is really doing a nice job in work capital. So I do expect working capital to get better next year. We look at that free cash flow number, we know it's important. It's how we pay you back, the shareholders, is what that free cash flow. And so we're very aware of it. But I appreciate you mentioning that it has gone up. I appreciate that.

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

Then just a second question for Marc. I mean, I think there's some perception out there that the brands or the companies that you've -- assets you've acquired maybe are perceived less favorably by their core customers so that the sales may not be robust. Can you maybe talk a little bit about what the sales have been doing at the acquired company?

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

Sure. Definitely, early on, there's some press when we first do the acquisition. But if you look a few months later, the repeat curves, the traffic, everything sort of comes back. So actually, all the brands are in a good place right now. And I don't think that that's something to really worry about going forward, just that initial dip from some of the early press.

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

So Marc, as it relates to incoming momentum and why we make these acquisitions, what you said earlier about the distinction between DNVBs and acquisitions that are done for assortment, maybe it's worth repeating. On some of these -- maybe Marc can say this better than I can. So I'll say it briefly and he can elaborate. But on some of these, we're trying to acquire a merchandising team that has depth of knowledge and experience in a category, brand relationships that can accrue to Walmart or Jet, hopefully both. And then some cases, others, whether it's Hayneedle or Moosejaw. And do that with speed. And these acquired businesses are finding that it's really hard to scale because of the cost, the cost of a new customer. So they may have a good offer, good prices, good service. But the cost to acquire, the CAC, is so high that they stall or they reach a level where they can't punch through. It makes sense, actually. In our case, we've got all this traffic. So if we can take a great assortment and a good team and give them the volume that we've got, we'll benefit from that over time. There is probably a set of tipping points as we do this, because just doing one of them doesn't move the needle that much. Doing them collectively so that a customer can find everything they're looking for would. So that's part of what's going on.

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

Yes. And just to add on top of that, too. The other benefit you get is first-party sales in a long tail category. So walmart.com might not have a lot of sales in a certain category that's long tail and we can't afford to bring the product first party because of the holding costs are too high. But then when you add the volume of the specialty retail, suddenly, it make sense to carry first party, which comes with higher margin. So that's -- and better experience as well because we're able to warehouse the stuff and ship it in the same box. So.

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

Got a lot of dots to connect here. When brands that are thinking about selling to us consider it, they look at website design, they look at on-time delivery, hitting the date you said you were going to hit, the holistic offer. So the CVI that Marc covered today, this customer value index that we're measuring and that ability to deliver on time while bringing together the assortment from all others, doing the website redesign, connecting it to the mobile app in the right way, all those things have to all be worked on. And I think it's just a gradual improvement as you earn -- and earn business that you will also attract more brands.

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

Paul?

Q - Paul Trussell {BIO 20732173 <GO>}

Paul Trussell, Deutsche Bank. 20 basis points of expense leverage is impressive, just given it's a consolidated number, including Flipkart, including the incremental drag from eCommerce. So if you can just talk a little bit about how we should think about that in Walmart U.S. versus international or Sam's, if there's any additional color that you can provide on smart spend or to what extent the automation and digitization is already playing a key factor and contributing to the leverage today versus is that something that's more to come down the line? Then I mean, you already spoken on wages a bit. But just overall, to what extent, as we think about overall hours, are you leveraging payroll? Then just lastly, on the same topic is to what extent then is the comp threshold that's needed to just maintain flattish expense rate on a year-over-year basis? Is that something closer to, I don't know, 1.5 comp? How should we think about that?

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

Let me, I'll let Greg deal with wages. From a leverage standpoint, 20 basis points would be -- it's an inflection from where we've been. And it's -- like I mentioned in our -- in my presentation earlier, it's a lot of different things. Some of it is -- we've never -- we didn't lose the EDLC culture. That didn't get lost. But it wasn't what it was several years ago. And if you're in our office now versus a year ago, I think you'd hear a different conversation about expenses. So some of that is, I think just getting back to the culture a little bit and everyone looking at expenses a little differently. We're approaching it differently. I think that's why it's getting maybe more traction than it has in the past, where in the past you might just say, "Hi. you cut 5%. You cut 5%, you cut 5%." It's really not what it is. It's go change your process, go figure how we can put technology into something to change the way we're working. So not just get more effective -- I mean, more get efficient, get more effective as well while we're doing it. So I think those 2 things matter. The fact that we started a year ago on a formal process, I think, helped a lot to say, we're going to go do this. And we have Amanda Whalen actually in the back who's leading this effort and doing a great job with that. But the partnership with the people you see up here in the stage has been phenomenal. I mean, this has been -- everybody is saying, this is the right thing to do for the business. And we're going to go make it happen. There'll be some big things that come up. I think goods not for resale is something that's going to benefit us. We're really early innings in that. But it's kind of all those things together, Paul. You -- and to your kind of your last question, you remember times where we leveraged expenses at flat comp. I can remember that back to 2010, 2011. But it wasn't how we wanted to get there. It was more of that cutting, like I was just mentioning earlier. And that's not what we want to do. I don't -- 3 comps help a lot in leveraging expenses. And it's not lost on me. And that's why I gave the guidance the way I did today. But I think there are -- there's a leverage point that's below a 3 comp. It just depends on kind of where the sales growth is coming from.

A - Judith McKenna {BIO 4806787 <GO>}

Just to add to that from an international perspective, which is the same focus is happening in every market around the world as well. So -- even the programs, the programs are being shared, the best practices are being shared because everybody recognizes that in order for the productivity loop to work, we need to find ways to be smart about costs in the business. So each one of the markets equally has a smart spend program. We have a Center of Excellence in Canada for that, for example, that has teams in every market that's leveraging. And Amanda and the team will take learnings from them as well as we go to that. So it's not just a U.S. program. It's a program for us and I know it's a program in Sam's as well.

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

I think fuel prices are about $2.90 a gallon compared to $2.50 a year ago. The tariff issue is there. Interest rates tick up. You've got mortgage pressure on customers that you didn't have six months ago. We're not assuming that tomorrow's environment is today's environment from a mindset point of view and acting in a way that would set us up to be successful in a more difficult environment. Business is cycle. The U.S. economy will cycle. It always does. And the older we get, the more cycles we've seen.

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

The only other bit I would add is complexity that I spoke about briefly at the store becoming a fulfillment center. So you're now picking Online Grocery. We've got over

2,000. We drop in another 1,000 next year. We continue that. But then the assortment expense, just from being food and consumables to seasonal general merchandise to other key general merchandise categories. So -- part of hopefully what we've been able to demonstrate to you is that we have a bit of a road map that says, "Put in fast unload, start to develop the automation that's going up and down the aisles, work out how to do electronic shelf labels." And as we put those things in, you can expect that hours that we're assigned to do that is task come out. Now some of that's going to get added back in again, because as we expand the ability to pick and ship from a supercenter, we've got to convert that over. But net-net, it does come down. And it's going to be a real task and challenge to deliver that. So keeping the sales up is one way that helps you do that. That's why the merchandise is so important.

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

Okay. We're going to clean up this cluster here. We'll go to Kelly. Then I'll go to Scott and then Greg.

Q - Kelly Ann Bania {BIO 16685675 <GO>}

Kelly Bania from BMO Capital. Wondering if you could talk about your long-term profitability objectives for both Flipkart and U.S. eCommerce. I think I got the message that Flipkart, the objective is to be profitable over time. So just curious on the time frame. Is that a 10-year process? Or any color you can give? Then also in the U.S., this is the third year of talking about losses bottoming and now it's going deeper. So will it ever -- will that discussion ever change? Is this a 10-year process? Or just how should we think about that over time?

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

Yes. I'll just hit -- take both of them actually. Judy said there's a lot of similarities about how you -- whether it's Flipkart or it's U.S. eCommerce business, how you end up leveraging that business and getting profitability where you want it to be. We want to be profitable in these businesses. And we wouldn't have continued to invest here or made that acquisition if we didn't plan to be profitable over time. U.S. eCommerce. And I mentioned this in my comments, is getting tougher and tougher in the U.S. business to say what's Marc's profitability, what's Greg's profitability. Obviously, we have a way to look at that. But the customer is so omni that it is going to get more challenging for us, I think, to communicate well with you, what the split is between those 2 things. Flipkart, when you look at the opportunity there, there's 2 countries in the world that have 1.3 billion people. This is one of them. And you look at the increasing middle market there in India, the business that we bought. We plan to win. We knew it's going to be competitive. We know it's going to be competitive. But for us to try to put a time frame on that today just wouldn't be practical.

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

Just to add that this ecosystem conversation is a shift in business model that may generate profitability over time in different ways than we might've imagined years ago, not to relieve any pressure on just pure eCommerce profitability. That's there. But there's also a business model shift that's being architected.

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

Scott?

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

Yes. Scott Mushkin from Wolfe Research. So a little off of Kelly's question. This is really to you, Doug. I mean, you take a step back and look at Walmart today versus when you first started. And it's incredible what the team has done and what you've done strategically. The one challenge you run into is if you look at the financial performance. And granted free cash flow is being good. But if you look at earnings, you look at EBIT, I think EBIT, I was looking this morning, is down 24% since fiscal '14. When do we inflect? I mean, I know this is something we talked about as, again, ROIC. And that's also going to decline again next year with Flipkart. When do things inflect and we see this great strategy, great team bring it to the bottom line?

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

Yes. I wish I could tell you exactly. When I moved in this job, I did not anticipate all of this happening, by the way. I think we're learning every week, it's amazing what the cycle times look like. And a year ago as we were sitting here, we didn't know we were going to go do Flipkart. There were conversations under way. We were aware of them, certainly, aware of some of the things happening in the market. But things accelerated in a way that I wouldn't have anticipated. I think it's going to take some time. I think the guidance we've given you for next year is the best guidance we can give you. And I don't think we should try to forecast out beyond that year. I am, though, excited about building out this ecosystem and bolting on things that are core -- or to our core. And the story I keep telling everybody, it may not be the best story, is one when I was at Sam's Club and we were paying people to haul off the core, get bales from behind the club. We thought -- we've baled the cardboard and we needed it to leave. And somebody was willing to take it away as a service and we pay them. And we went through this lens change, John was part of it, where we looked at the world differently and somebody said, "Plastic is oil. Cardboard is trees. There's value here." And in one year's time, we went from paying somebody to take it away to making $15 million at Sam's Club in income because we should have been selling it all along. Well our data has never been monetized. And we have a tiny ad business. It could be bigger. We can make progress on the margin number on eCommerce. It's taking longer than I thought it was going to. And I've been surprised at just how many brands there are out there to get signed up. I keep asking Marc and Scott Hilton, "How can I help? Because we got to get these brands online." It's exciting that we've got 2,000 of them. Who knew we needed 2,000 of them? I didn't. I thought I knew retail and kind of knew all the brands. But the Pareto chart in eCommerce looks different than it does for the stores. So most of the people we call want to be part of what we're doing here. Some of them need to be recruited, some of them will be on Jet before they'll be on Walmart. That's not all within our control. So I hope that in a year's time -- there aren't that many Chinas and Indias in the world. But if something came up in China that looked like a great opportunity, even considering what's going on politically, I think we would consider it because we want to be positioned to have a business that's large and growing for the long term. Hopefully, you think that the decisions we're making on portfolio focus are important. We think they are because we can't do everything. The automation that you saw on the stores this time, we shared with you a little earlier than we might have normally. We tend to hold things back until we're ready to scale them. But one of the reasons why we decided to show it to you is because it's -- there are specific examples of things that we can do to drive the productivity loop that will help relieve profit pressure. So to the extent we want to reinvest, we can. I'm trying to balance short term and long term. But if you force me to choose, I'd lean long term. We're trying to balance sales and profitability. But if you force me to choose, I'd lean toward sales because of the customer relationship and the long-term viability of this company. I believe that the culture of this place, the associates we have and the role that we play in the world is worth investing in to be here for the long term. Now having said that, I know -- even if you're on our board, any member of our board, by the way, will say, "Yes. We want to make the right decisions for the long term. And when are you going to grow profitability? And when this return on investment turnaround?" These pressures are coming from the board as well as from you, all of them. So we're trying to do the best job we can of balancing it out. But we're not going to run this thing for one quarter or six months. We're going to run it for longer than that. So I hope it turns quickly. And I hope you're here and we can smile and say, "We finally delivered that for you." That's our objective. But that's where we're at right now.

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

Greg?

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

Greg Melich with Moffett Nathanson. So I guess I want to follow up on your point, Doug, precisely because I think it gets to the heart of where we're going longer term. If the free cash flow has improved and if CapEx looks constrained, say, $11 billion versus where it was. So CapEx and D&A are roughly flat. How do you think about the board's willingness and your own to sort of take on another Flipkart, not next year or something. But just in the next 3 to five years? I guess is there a point where instead of thinking about the geography, you think about a capability, perhaps buying a marketplace that already exists or you've seen Amazon finally monetize their Prime membership through 3P fees and advertising. It sounds like you mentioned a little bit about other ways to monetize. I just want to get your thinking about when you think about that CapEx budget longer term, you think about sustainable margin. Is that a lever that we need to go so that Walmart truly can monetize this great franchise that's been built on the retail side?

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

Yes. We would definitely be open to things like that, capability acquisitions that would deliver profitability and return over time. The board and I would say, "Every single investment we make needs to be made because of an expected return on investment." So all the rigor that you would expect to see relate to those investments exist. I think the only disagreement we might have with some people in the room is payback period and how fast it happens, the long-term, short-term trade-off. But yes, we would be open to that. Some of the things we represented on the ecosystem chart would point to you -- that point you towards the types of areas we might be interested in as we work to deliver for the customer more holistically and generate returns.

Q - Benjamin Shelton Bienvenu

Ben Bienvenu with Stephens. I wanted to ask a follow-up question as it relates to working capital. Inventory improvement, understandably, has received a lot of the focus as it relates to improved cash flow. But the payable days has been really impressive too. And that improvement has been congruent with improving comps. Can you help us understand how important comp growth is to improving your payables days? And is it reasonable to expect that as comp growth sustains, that we would see corresponding improvement in payables days?

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

I'll let maybe Marc -- I mean, Greg talk a little bit about that piece with the suppliers. Inventory has been amazing. And it really started with Walmart U.S. and what we've done in inventory and being able to take the days of inventory we did out and continue to increase in stocks is a real testament, I think, to Judith, when she was in the stores and Steve and Greg and Marc, great testament to them. On payables, we were driving a lot of comp growth. Then I talked about earlier with the 3 comp in Walmart U.S., you're talking about almost $10 billion of growth. And I think it's tough for suppliers to find $10 billion of growth out in the market. And what I would say is we just -- we need to ensure that we're getting what we should and what's fair because we're driving that level of comp. It's -- you just don't find that very many places in the market today. I don't know, Greg, how you think...

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

Steve, why don't you maybe pick up that?

A - Steve Bratspies {BIO 18295554 <GO>}

I think -- Brett, you said it. Our goal and we're going to (survive) and I said it on the stage and you just said it again, it's tough but fair. And we're working with them to understand how we create leverage from the sales that we are driving in the marketplace and when we run high comps, it certainly makes a big difference. We've gone back and looked at all of our policies and our terms with our suppliers. And quite frankly, we weren't always this consistent as we needed to be. And we spent a lot of time driving consistency across our suppliers and having those discussions. And it's made a difference, clearly, in the numbers. And we'll continue to do that and stay disciplined on it. That's my job with the buying team, to make sure we stay disciplined with our suppliers, drive those terms. But more than anything, they're looking for growth. And if we can deliver that growth, it puts us in an advantageous position.

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

I just want to seize this moment to say thank you. The job that Greg, Steve, Judith, you and the Walmart U.S. team has done over the last few years, that included reducing the number of tabs to get back to EDLP, reducing promotional activity, getting modular discipline, taking markdowns on time, cleaning up these backrooms, is the best I have seen. We were not in a great place. And if you know much about retail, inventory management is a great indicator of the quality of management. And not only the -- I mean, the payables number and cash flow are an outcome of that inventory management focus. And it's extraordinary. With the company, cannot thank you enough for the work that you guys have done. Got to keep it going.

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

John, you have any...

A - John Furner {BIO 19351533 <GO>}

Yes. I think I'd add a couple of other points that helped. One, there's been a lot of work that's been done all across the company in supply chain. And I'd want to recognize the work that's happened upstream and everything, from the number of DCs we've operated per operating unit has improved over time. So with the same amount of inbound and more outbound, it's easier to keep inventory levels lower, because at a point, the boxes just can't handle more inventory. You physically max out your space. And to the second, there's been a lot of great work done in technology that enable associates to work realtime on the floor, whether it's the CAP program at Walmart or own your inventory in Sam's but around the world that make it easy to find out-of-stocks, issues with inventory, find the inventory, get it in front of consumers very quickly so that the turns are better. And we're even going as far as gamifying some of those experiences so associates have fun and actually can compete versus other associates in their market or their region to have the best availability inside the clubs. And all those, it's a bunch of things, everything Steve talked about, supply chain and the way we operate, that all adds up to different pieces of it. And I think you can improve inventory in turns in a way that doesn't require comp sales growth. Certainly, it helps. But a lot of things we've done have improved it even without that.

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

We're going to go to Joe.

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

Dan, we're a little bit right-handed, I think.

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

I know. We're going to move that way in a minute.

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

Yes, okay.

Q - Joseph Isaac Feldman {BIO 4772233 <GO>}

Joe Feldman, Telsey Advisory Group. I wanted to ask, with eCommerce, what's your view of the 3P versus the 1P? Because it seems like that whole marketplace model does seems to make a lot of sense. How do you build that? Do you grow that? Do you want that to be a key driver for you in the future?

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

Yes. Both 1P and 3P are both, I would say, equally as important. We sort of think about 1P as sort of being the head of the assortment and call it the top 100,000 products and then that long 1P tail. Then 3P, you're thinking about the 3P that's warehoused and the 3P that's not. You kind of take the 2 pieces in the middle, which is the 1P tail and the 3P warehouse, put that together, that's where the profit's really made and that's the hard part. It's getting millions of SKUs into the warehouse to be fulfilled, together in the same box with the same means of shipping. That's the challenging part. That's the piece that we're sort of attacking right now.

Q - Joseph Isaac Feldman {BIO 4772233 <GO>}

Isn't it -- just a quick follow-up. How do you guys plan to integrate VUDU more and make that part of the ecosystem? Is that central to creating the whole loop in some respect?

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

Yes. Steve, you may want to comment, too. We've got an opportunity -- go ahead and pop up. Going to let you answer most of this. So we've got an opportunity, without investing a ton of money, to improve our customer offer. And there are lots of people that are coming to us asking for us to participate in this. And I'm excited about the steps you've taken so far.

A - Steve Bratspies {BIO 18295554 <GO>}

Yes. I think that VUDU is a wonderful platform. And I'd encourage you, if you haven't used it, I think it's one of the best ones out there. And I would argue, Doug, that we probably haven't done enough of it over the years. And we can do a lot more. There's a big opportunity there. And we're talking to a lot of different people, looking at a lot of different opportunities. But this idea, to be more integrated into the digital lives of our customers through entertainment component, is something that we think has a lot of opportunities. So you have VUDU, signed opportunities with e-books. We're starting to put our toe in the water in a small way in original content. But we're thinking about what does the future look like for entertainment in a Walmart way. So we're not going to follow anyone else's model. We're thinking through what that uniquely means for us. But VUDU will certainly be an anchor platform for that. But there's a lot of discussions going on. And I'm sure at some point, we'll come back and talk about it a lot more.

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

Okay. We're going to go to Budd.

Q - Beryl Bugatch {BIO 1504748 <GO>}

Yes. Budd Bugatch with Raymond James. As part of the Walmart improvement and the productivity, a couple of years ago I recall we changed the table of organization in the store between the assistant manager and department managers, changing that mix. And now with the continuing change in the productivity we see, do we see much change again in table of organization inside the stores? What looks like the task and versus some other kind of work will change over time as some of that productivity happens, I'd be curious to see your thoughts on that, Greg.

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

Yes, lots, lots more change. And as I mentioned previously, we're starting to work through that at the moment. But you can probably get a sense that what we've done is we've standardized a number of processes. So what happens in this department is actually now the same as what happens in this department is what happens in that department. We've taken away tasks that we think we can automate. And quite frankly, we've struggled to find associates who want to do those tasks on an ongoing basis. And a combination of that, along with more technology that we can start to introduce, I think, is going to see that the ratio of management to associates will change again. We'll expect, I guess, a broader span of control from the leadership in the group. We took some action earlier on this year where we reduced the amount of co-managers we had in the stores. So many of the stores were running 3 or 4 co-managers, now they'll run 2 co-managers. And if you're below $85 million, you'll run one co-manager. So all of that is up for grabs and changing. But you have to change the way that you work. And that's simplifying some tasks, training people. And if you do all that in concert, then I think we can make a really meaningful difference to the way that we operate a Walmart store in the future. And we need to do that. So that's part of our thinking and part of our planning. Now as that unfolds -- we've got a number of trials running at the moment. As it unfolds, we can share more with you. But we are early into that at this point.

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

We go to Ed.

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

Edward Yruma from KeyBanc. Two quick ones from me. I guess first in Latin America, it seems like Amazon is really pushing it to Mexico. You kind of have MELI that's kind of coming up from South America. How do you think about kind of remaining competitive in those markets, particularly as it relates to eComm? Then second, when you refer to China, you kind of teased out that you might be open to an acquisition there. How do you feel about your asset base in China and how much investment is required from an eComm perspective to kind of keep that competitive?

A - Judith McKenna {BIO 4806787 <GO>}

So to start with Latin America. So clearly, we've just announced the investment in Cornershop, which is important to us, because what's really clear overall at the markets in which we operate is that omnichannel and last mile delivery is going to be one of the really key winning strategies. The markets that we've gotten, the positioning and the market-leading positions that we've got, mean that we're really well positioned to be able to do that. So the primary focus for the teams is omnichannel. The teams are still continuing to build our eCommerce as well. But the primary focus is the omnichannel. And we've got partnerships in some of the markets where we appear on other people's websites with our product in order to drive some of the other eCommerce businesses. So key area of focus. It's an expanding area of focus. And I talked about Mexico in particular. We think that we've got an opportunity to build out a kind of ecosystem now that's tailored very much for the Mexican customer. It's unique for us to be able to do that because of the assets that we've got there. And from a China perspective, I'll just comment on the assets that we have, which is that we told you last year that we were looking to still balance the portfolio there. And that's what we're continuing to do. So prioritizing the provinces where we know we can create -- grow strongly in, we're doing that. We're continuing to open new stores there as well. But the asset that we've really got there is, again, this omnichannel. It's a theme that you're hearing through every single part of the business, which is how do we use our store footprint or, in China's case, the kind of new mini-fulfillment centers that we're doing to anchor our sales as part of a broader ecosystem in that market. So the opportunity in China is still significant. And we're still learning all the time about what combination of assets at work. So that's definitely one that, today, we're focused on. How do we grow our stores where it matters, how do we develop some new formats and how do we make most of the partnerships that we've got with the last mile delivery being a really key part of that? And JD Daojia and the investment there was critical in ensuring that we did that.

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

I was there last week. And the new supermarkets, this smaller supermarket format, I think we're going to have 7 of them by year-end, looked really good. So we've got an opportunity there not just with super centers. But supermarkets. And Sam's Club continues to be great. And then this delivery capability is important.

A - Judith McKenna {BIO 4806787 <GO>}

The thing -- one of the skills that we've got in China is fresh food. And again, common theme is you see about things that people are focusing on, have an excellence in fresh food in whichever market that we operate in is really important to us. And we're taking lots of learnings from each other. And the supermarkets are opening in China, took a lot of learnings from neighborhood market and other markets around the world as well.

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

Can we come back to Budd and let him ask his second?

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

Yes. I was just going to say that. Looked like you had a second question there.

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

Unless it's hard, in that case, we have a...

Q - Beryl Bugatch {BIO 1504748 <GO>}

It's not really hard. It was for John, talking about Member's Mark. You've converted everything to -- or all the private label to Member's Mark. I wonder if there's much left to be done in terms of curating new SKUs and what penetration we might see going forward in that particular area.

A - John Furner {BIO 19351533 <GO>}

Well there's certainly more that we can do. And Budd, you remember back about three years ago, we started assembling a really great team of people, led by Chandra Holt and others, to develop great quality products and then source it away where we can provide a great value to. And pretty good growth the first couple of years where I'm really happy. The penetration, it's in the high 20s now and sales and even higher in units. But there's certainly a number of items that we think we can continue to improve and categories that we still haven't entered in. We've been strong in general merchandise over time, packaged foods and then condiments and confection have started to grow. So great progress. But it's important part of the mix. And there was probably a point when we had so many brands, we thought a private brand is way to improve margin. And that's really shifted over the years, where now we think of -- this category and this brand, the mini categories, that is the offer and it is the best offer. And margins not really the goal of it. It's in line with the rest of the box. And it's the primary item -- the primary and the items in the categories where we're driving volume.

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

One right back here.

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

And we have right one over here. I saw a hand right up here. Right here, (inaudible) James and Mark?

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

Yes. Right in the middle. Keep going, James. Sorry, we've got 2. Go which one -- ever one you'd like to. We'll get both of them. Full service.

Q - Unidentified Participant

(Pria Oregato) from Barclays. Brett, I just wanted to get your thoughts around sort of the flexibility for potential acquisitions down the road. We've seen a theme more recently from other AA-rated credits that have increased their willingness to flex outside of AA ratings, specific to strategic acquisitions. So I just wanted to get a sense of how you're thinking about that down the road.

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

Yes, sure. We like our AA credit rating. And when you look at the bond deal we did to finance Flipkart, it was really a good deal. And that AA helps. What we've seen, though, is go back eight years ago and you had some AAAs, you had more AAs, we've stayed AA. But relatively, we're better than we were even a few years ago because a lot of people -- a lot of companies have come down. So we're in better shape. As you can imagine, we took the rating agencies through Flipkart in great detail and helped them understand how we saw the company long term. We're not married to that credit rating. It's important to us. And it's benefited us a lot as a company. If we wanted to do something that we felt was really good long term for the business, that credit rating in and of itself wouldn't be the reason why we wouldn't do something. It would be considered. But it wouldn't be the reason.

Q - Unidentified Participant

I have a $1 million question. (J. N. Kniffen, Jay Rogers Kniffen.) On the auto parts deal, can you give us a little more about what this does for Advance and what this does for you?

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

Yes. I mean, this is part of the strategy of just trying to bring unique assortment onto walmart.com, to give customers a broader assortment and also to help with margin mix. So it fits squarely in our strategy. For Advance, it's opportunity to leverage the traffic on walmart.com, which is quite a bit. And either another auto player is going to take -- get access to that traffic or it's going to be Advance. So I think it was a good deal on both sides.

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

Okay. I think we got time for maybe 1 or 2 more.

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

Mark's back here.

Q - Mark Stiefel Astrachan {BIO 15313233 <GO>}

Doug, the business model shift that you referred to is very exciting. But it does add complexity and risk, especially versus the simplicity of the historical productivity loop of Walmart. As we're on this journey, what are the due proof points that we should be focused on? So you've gotten deeper into one key initiative, which is driving the same-day delivery with grocery and then trying to cement the relationship to get that customer to shop long tail on the dot.com. I guess it's early here. But is there any data or evidence you can give us to show that this is working? Then, I guess what are some of the other new proof points that we should be focused on that this evolving business model is going to pay off the way you hope it will?

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

Yes. Obviously, it's really early. We're talking to you in somewhat of a conceptual manner. And I think the way you evaluate us shouldn't change too quickly. You understand what it takes to run great stores and what metrics you should be watching. You're starting to hear more and more about how we're building eCommerce but when you think about health care, financial services and some of these areas, I think the way to think about is through the lens of the customer and how our relationship with them, measured by share of wallet or share of household spend, goes up over time. And the commonality that exist today is related to data and logistics and some platforms that enable you to reach the customer in all of these different ways. And it looks to us less vertical than it used to look. When I was going to business school or my early days at Walmart, we heard language and thought of our businesses in silos. We have Sam's Club. We have Walmart. We have eCommerce. And I don't think that's the way to think about things today as much. I think it's more of a holistic lens related to the customer, how they spend their time, how they spend their money and what assets do we have including the capabilities of our own people that can be used to have a more holistic relationship with them. So I think there'll be metrics that'll emerge over time. But share of household wallet, those kinds of metrics, I think, are going to be part of it. NPS score, obviously, will matter a lot. We talk a lot more about NPS than we used to in various parts of our business.

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

okay. So that's going to wrap up our Q&A. I know Doug, you thought you can avoid my 2-part question. But I just want to know 2 things. How did you score on Galaga during the break? And did you have fun?

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

I did have fun. And I got interrupted. I had to give up. I'll play Galaga later.

Let me just wrap up by saying thank you to the team, first and foremost. Dan, you and your team have done a great job preparing for this.

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

Thanks.

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

This leadership team, hard-working, committed to the business and loves learning. We are learning together, we're adjusting, we're adapting, in some ways creating together. And it's a lot of fun. And I really have a lot of respect for this team that I work with. And I'm very appreciative of how they're helping get this company ready for the future. Many of them are represented in this room. Even Dave Cheesewright is back here. He didn't present today. But he just had to come watch because he's still involved with the company, which we're appreciative of.

Then just maybe to you, I hope you can sense -- Karen and I were talking a little bit about this last night, that there's a change within the company that is related to mindset, culture, behavior. And we're inventing again, not that we ever completely stopped. But it's different today than it was even one year ago or two years ago. And so I hope you'll assess us as a company of the future and not just think of the company in the way that you might have thought about it years ago. Coming and spending time with us is probably the best way to get your mind around that.

So thanks for making the investment. Have a safe trip home.

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

Great. Well that will conclude our meeting. We have lunch that will follow. And we appreciate your interest. Thanks.