

Wal Mart Stores Inc at Goldman Sachs dotCommerce Day

Company Participants

- Neil Ashe, Mart Stores, Inc.

Other Participants

- Heath Terry, Analyst, Goldman Sachs
- Matt Fassler, Analyst, Goldman Sachs
- Unidentified Participant, Analyst, Unknown

Presentation

Matt Fassler

So good afternoon, everyone. On behalf of Heath Terry once again we want to welcome you to lunch in the middle section of this day. Thinking about the progression of our program today, we have already heard from one of the world's largest retailers in Home Depot.

Certainly some of the world's smallest but most exciting retailers on some of our panels this morning. And some really interesting innovative and disruptive companies including those in some of those in businesses where Walmart, in fact, is operating with dominant market share thinking about Instacart and Ocado.

And I think we have a very appropriate, robust back-to-back couple of sessions here obviously first starting art with Neil and then, after you eat, with our private equity panel.

It is my pleasure to introduce Neil Ashe to you and to engage with Heath in this discussion this morning. Neil is the President and CEO of Global eCommerce for Walmart. And as you know, Walmart operates an e-commerce business well in excess of \$10 billion globally --.

Neil Ashe {BIO 5665242 <GO>}

\$12 billion.

Matt Fassler

Fair enough, in excess of \$12 billion globally. He joins --

Neil Ashe {BIO 5665242 <GO>}

\$2 billion is a lot of money, you've got to count.

Heath Terry {BIO 3406856 <GO>}

You've got to update your model, Matt.

Matt Fassler

Neil joined Walmart in 2012 to lead the Company's global e-commerce division which developed strategies, platforms and applications across the Company, once again on a global basis. Prior to that he had been the President of CBS Interactive and prior to that he was CEO of CNET as well as other roles and functions in the past. And we are delighted to have you join us at a Goldman conference --

Neil Ashe {BIO 5665242 <GO>}

Thank you.

Matt Fassler

-- and particularly at this one, which we have been aiming for for many years and we have moved away from your annual meeting in part to try to make this happen. And we are very happy that, thanks to your help and Carol's, we were able to make that a reality.

So the first question I would ask you relates to your customer base as you, as an e-commerce enterprise, really spread your wings. To what degree do you expect that your e-commerce efforts will broaden your customer base beyond your existing Walmart retail customers?

Neil Ashe {BIO 5665242 <GO>}

So first of all, thank you all for spending some time with us. Thank you for the generous introduction and I am excited to be here with you. And I hope we are both a big, exciting and innovative Company to hit on all three of your points of introduction.

So maybe I would start by saying what is commerce and where do we think that is going and then how does it relate to the customer of Walmart. If we look through -- I bumped into -- you mentioned CNET, I bumped into some CNET investors on the way in here.

And we have all, many of us, lived through the progression of the Internet, Heath as well. And you have seen the -- as the different ways have changed the customer's

expectations have cumulatively changed. And seem to clarify over time around what they want.

And in commerce we think that is going to happen significantly, which is that commerce is going to clarify for the customer. And we think the customer is going to have less relationships, not more relationships. And they are going to look for people that can provide them the services, the goods and the manner in which they would like to receive them.

And so, if I paint a picture of commerce for you in the future where you can go to someone you trust, you can find everything you need at a low price and you can get that in any way that you want it. And not every person wants it the same way. And not every person wants it the same way every time.

So if one could create an experience that is pan device to acquire. So whether that is your mobile phone, your tablet, your desktop or your (eyes). And it is -- you can procure that, whatever it is that you want to buy, wherever it is that you want -- whether you want it at your home, whether you want it to be placed in your car in a pick-up setting or you want to walk in a store and get it, that to us is the future of commerce.

And so, to do that we have talked about building best-in-class e-commerce, marrying it with the assets of the retail to win this vision we are describing as the integration of digital and physical. So we think, Matt, that that applies to all customers.

So -- and then if you put a filter on kind of Walmart's customer, Walmart's customer is a value conscious individual. So I don't know the exact numbers. But round numbers 85% of the people that in the US are going to shop at Walmart at least once this year.

So we think about this e-commerce and this integration of digital and physical as a way to both expand that addressable market, because that means there's 15 that we're not, to develop a deeper relationship with those customers who are shopping with us, whether that is for general merchandise or for grocery. And it is to add an element of service to our brand that is not traditional in a mass-market discount retailer.

And so, we think that Walmart has brand permission to sell everything to everyone and our sweet spot is that value conscious customer. And now with the integration of digital physical we can offer them price assortment, experience and access in ways that no one else can.

Matt Fassler

And if I can just follow on that briefly. So I live in an apartment building in Brooklyn, New York and there is no Walmart in Brooklyn, New York. And I do see Walmart.com boxes in the lobby, which is really one of my first ways of assessing who is

progressing into organic scale outside their core customer base, if you will. What are you seeing in terms of actual penetration beyond customers you know to be or think to be core Walmart customer so far?

Neil Ashe {BIO 5665242 <GO>}

I had this conversation -- when I first got to Walmart a few years ago I was talking to Mike Duke who was the CEO at the time and we were talking about trying to get a store into New York and we've been working at it forever. And I said why are we working so hard to get a store in New York? And he said, well, because it can do hundreds of millions of dollars. And I said we already have a hundreds of millions of dollars store in New York.

And there is, Matt, there is -- it universally true that we can expand the platform. So obviously we are serving a significant user base in New York City, all five boroughs, we don't have a store here. We see that both on a delivery perspective as well as from a pickup perspective.

So on a pure general merchandise site the two largest stores for pickup surround New York City. So that is the pull of demand for Walmart, everything you want at a low price. And so, that is kind of where we started.

Now as we expand the offering and we have a significantly higher quality e-commerce experience that we've built over the last three years. So over the last three years we have built a talent dense environment in Silicon Valley.

We built an Internet technology company inside the world's largest retailer, which has allowed us to re-platform, both on a technology and a fulfillment perspective. So that we can do what I said earlier which is deliver a best-in-class e-commerce experience, we expand even further.

Then when we add tests like grocery home shopping in Denver we start to see it all come together for our customer -- we can provide them literally everything that -- everything that they want.

Heath Terry {BIO 3406856 <GO>}

Great. And so you touched on that a little bit when you talked about building a technology company inside the world's largest retailer. How do you find the competition for talent -- bringing talent in Silicon Valley into Walmart and especially as you start to expand your footprint outside of that area?

Neil Ashe {BIO 5665242 <GO>}

Yes. So, I think that was candidly the biggest question we had when we started on this journey was can we get the talent that we need, can we compete effectively in

Silicon Valley for that talent. And so, we set about a very purposeful strategy to do that.

I am obviously not a retailer by background; I grew up in the Internet technology world and all of my team is the same way. We have brought some people over from the retail organization. But we are largely consumer Internet folks that --. And so, we built this company as an Internet technology company that was relevant inside of Walmart.

So the first thing we did was define an associate value proposition. So everyone who has come to join our team has heard some flavor of the following which is come for the purpose, help people save money so they can live better. Come because you want to solve really hard problems because we've got them, strategic, technical, operating, financial. Come because you are intrigued by scale. We can solve those problems in ways that others can't. And come because we are putting together a group of people in an environment and a point of time that is special and that you would want to be a part of.

It has been incredibly successful. So over the last three years the job market in Silicon Valley ebbs and flows. But we are always over an 80% close rate on offers that we make. The people that we are competing for to get from and/or competing to for talent are the people that you would expect -- Google, Facebook, LinkedIn, Yahoo, etc. So we are really, really pleased about that. And that has allowed us to do this re-platforming exercise and it has allowed us to scale.

Heath Terry {BIO 3406856 <GO>}

Can you talk about the platform so you have (inaudible) and we hear about it on the Street and your customers experience it? But if you could talk about what it has done and go from the theory of to what the application has been and how you feel it has upgraded your capabilities and customers' experiences.

Neil Ashe {BIO 5665242 <GO>}

Yes. So those of you who know when Internet companies go through a re-platforming it can be a daunting experience. So we literally changed the plane in air. We didn't change the engines on the plane, we didn't change the seats on the plane, we can change the fuselage, we changed the whole plane.

We built a cloud, we built a backend logic system, we built sites, apps and mobile web experiences. And we built all the tools necessary to run a commerce business. So we built a commerce operating system. And we have done that inside of three years.

And so the benefit of that, Matt, is first of all from obviously the customer's perspective. So they have a significantly better experience at Walmart.com that has allowed us to significantly scale their assortment. So we have gone from selling 700,000 items to selling over 7 million items.

We -- you now have a personalized shopping experience that you didn't have on Walmart before. We have built obviously a very effective and highly scalable personalization capability. We built a search engine so you can find what it is that you are looking for on Walmart.

And also we can serve that. So the we platforming goes all the way to how you find an item. So we serve a promise up in every item page where and when you are going to get something. Then we have complicated algorithms that determine exactly how to serve that so we can meet the customer service -- and customer service requirement as well as deliver efficient cause.

We have built new fulfillment centers, these are physical assets but powered by the technology that allow us to serve that more efficiently. I am on my way to see one of them after I leave you guys here today.

So those come online so that we can now have a holistic experience that says, okay, I can come, I can have the highest quality Internet experience, global app experience, I can find everything that I am looking for and I can get it served in a manner in which I expect.

Heath Terry {BIO 3406856 <GO>}

Great. You touched on this when you mentioned personalization. But what kind of effects have you seen from personalization, particularly as your search engine has gotten better and you have taken this from being sort of a product catalog online to more of a shopping experience?

Neil Ashe {BIO 5665242 <GO>}

Yes. That is a great question and where does it go even from there. So we think about how we interact with a customer on a pull basis. So we want -- we have increased frequency 30% over that period on a per customer basis. We have increased depth of relationship with customers on a per customer basis through that.

So we want you, Heath, to be able to come and feel like you belong at Walmart, not at Walmart.com or in the mobile app but at Walmart. And so, that we are also taking that experience with you on your mobile device when you walk into a store. So now you can take -- e-commerce brought the store to the web and now mobile is bringing the web back into the store. So that holistic relationship improves as you go through the store also.

You see things like Savings Catcher and other ways that we are doing that. So that we are starting to tie together the entire experience for a customer which is driving -- which is driving our frequency and will ultimately drive the economics of the business.

Matt Fassler

Can you talk about how purchasing behavior differs online from in-store? Is it a stock up purchase? Is it a fill in purchase? What does the composition of the basket look like both quantitatively and also category wise, if you would?

Neil Ashe {BIO 5665242 <GO>}

Yes. So, I think we are statistically relevant or equivalent to e-commerce in general which is that your general merchandise shop online is generally a handful of items. And it spans the category which you all know the penetration of as well as I do online.

So started in the transaction categories like electronics and it is moving to home. I'm sure you saw Niraj, I am guessing he is here, at Wayfair, home category and to apparel and two other categories and then kind of grocery is that big one at the end which is very different.

Our shop online mirrors the difference between an e-commerce shop and a store shop. Obviously the supercenter was the first place that brought all those things together. So you could go shop for bananas and TVs in the same place. Well Walmart.com now is starting to do the same thing as we start to expand the grocery offering and provide that.

So the online shop is not defined by that kind of shop in my opinion, Matt. Now grocery is entirely different. What we are saying there in ASDA and Seiyu in Japan and in our -- where we are doing it also in Yihaodian in China, now what we are launching in the markets here is that you're very much trading the customer to the, okay, I understand this is my weekly or biweekly shop and we would expect that kind of path to continue.

Heath Terry {BIO 3406856 <GO>}

Great. And so, how do you end up leveraging and how important does the store network end up being for you? Right now you are fulfilling primarily out of the three distribution centers. Does that store network ultimately end up being an asset for you in terms of getting closer to customers?

Neil Ashe {BIO 5665242 <GO>}

So we think of the -- I will start from the customer and work our way back in. So back to that vision I described of the integrated experience. We want to be where you want us to be. So do want us to get this to your door or to you -- whether it is at home or at work. So that obviously requires some last mile delivery.

But we have 4,500 points of presence and 600 -- 500 or 600 clubs around the country where someone can interact with us. And so, we are -- and people want that.

So there is a customer interaction point.

Obviously not everything we sell online is in each one of those stores. And the fundamental economics of commerce, as you know, are throughput economics. We - you need to have throughput to drive down cost and order to make low prices. And so, we don't use every one of our stores as a fulfillment node. But we use many of them.

Then as you alluded to, three is not the exact number. But we have built these backbone e-commerce dedicated fulfillment facilities which carry significantly more items and are high throughput and have the ability to pick that out of one at a time.

So all of that. And this is very important, is tied together by one of the most efficient transportation networks in the world. And part of the reason it is one of the most efficient is it has the highest amount of throughput.

So I think the way to think about this going forward is the stores are one piece of this, the transportation is one piece of that. But we are leveraging the throughput of the retail network to lower our cost to serve on the e-commerce network.

Heath Terry {BIO 3406856 <GO>}

And just to follow up on that, what kind of popularity have you seen in terms of pickup in-store?

Neil Ashe {BIO 5665242 <GO>}

So right now we think about general merchandise and grocery separately. So over time we think the customer will kind of merge those. But they don't now. And so, they are different so it varies. The pickup portion of our general merchandise e-commerce business has trended down. It was as high as about half and it has trended down.

Part of that is the offer that we are giving you to get items at home. And part of it, candidly, is we needed to improve the pickup experience in the stores which we are doing. So that will trend down, I think it is 25%-ish now.

Grocery has behaved differently. So at ASDA in the UK where delivery was the first option, obviously delivery was 100%. As we have added pickup, click and collect and that in the UK it has shot up as a percentage.

And it makes sense, right, because who here likes the cable guy and who wants to be there when -- so you have to be there when your groceries are -- generally you have to be there when your groceries are delivered. That is pretty -- that can be a hit or miss proposition no matter how good you are.

So -- and so that is a -- I am already driving past Walmart, I can pull in, have my groceries in my car in 5 minutes and be on my way. That is the customer experience that people would want.

So in trying to project where we are going to be. And back to this what I think sets us apart, is we can get both of those right. We can get delivery to your door right and we can get the pickup experience in our store right. Then you can choose which one you want when.

And we think that is what the customer wants going forward. We want you to have a relationship with Walmart and we want to serve that relationship more effectively than anyone else can.

Matt Fassler

I would like to follow up on one of your answers to Heath's question on what it takes to get pickup optimized for you. What are the enhancements that you are making in your stores and in your network to get that where you want it to be?

Neil Ashe {BIO 5665242 <GO>}

A couple things. One is we have improved the technology that powers kind of the online equivalent of where is my order (whizmo), we are improving that. The second is we are improving the physical experience in our stores. So it is easier for you to find the -- it is more obvious where it is and how to do it. And the third is we are improving how we staff that experience. Then finally we are improving how we know you are there. So how you can check in.

We haven't spoken about Sam's Club at all. So I'll use them as an example here. So if you were -- if any of you were at shareholder's event and went to the Club there, we have dramatically improved the pickup experience at Sam's Club. You can check in at the front door via a kiosk or a drive-through kiosk, you can have -- we have positioned the pickup experience in the front of the Club. We will load your car or truck and you are on your way.

As a result of that, Matt, the -- both business members as well as advantage members, consumer members have increased their shop. So we are trying to -- we have always given customers that price and value and now we are trying to give them back time as well.

Matt Fassler

So I am going to move on to the question of the economics of e-commerce which could be I think an entire session in and of itself had we the time.

Starting off by -- you have probably more so than most a full on e-commerce direct delivery business and you have an omni-channel business. And they are of course

one and the same. But they probably have different economic profiles. Can you talk about the difference in economics for Walmart based on a fulfillment mode and what the customer chooses here?

Neil Ashe {BIO 5665242 <GO>}

Yes, sure. So let me talk about kind of the macro kind of Walmart and then dive in and I'll use Walmart as the specifics for a second. So first on the macro, obviously we are investing pretty aggressively in e-commerce for really three reasons.

One is because we know that is what we need to do for our customer to meet this vision that we described. The second is because we are demonstrating we are getting pretty good at it. And so we are increasing the confidence of the enterprise as we go through that. And third, because we can afford it, it is the right amount of investment for us to do the scale.

And so then -- but the last piece of that also is we are doing it in multiple places. So we are doing it in the US and we are doing it at Walmart, we are doing it at Sam's Club and we are doing it in international markets. So we are growing these businesses all at the same time. So were we an independent entity we would be scaling these more sequentially than we are right now.

So then if you break down the unit economics, I will tell you a bunch of things that you already know. Commerce is a throughput business. So -- and that is throughput on the fulfillment side and that is throughput on the customer relationship side.

So first on the fulfillment side, it is a law of physics problem. You need inventory close to where someone is and you need to get it there as efficiently as possible. And so, that is why we have turned on stores as the outer ring of that network and that drives that cost down.

So we think about it as fulfillment (inbound) transportation, what does the transportation cost get you the item, the inbound and fulfillment. The effectiveness of our stores depends on what you buy. So if you are buying what is in that store they are highly effective and we get you those. And that's the things that you would expect -- consumables, higher DIM and lower margin items that are already in a supercenter.

Then the fulfillment network is highly efficient if you buy more stuff at the same time. So again throughput. Then finally on the customer, we want to drive frequency and we want to drive share of wallet so that that traffic umbrella is effective for us.

We have been very successful in the last three years scaling the traffic piece of the e-commerce business. So at Walmart I think in comScore we were -- we passed Apple last month so we are now the third largest traffic site. And that is candidly without fully activating the stores yet. So those are largely new customers on top of stores.

So we think that closing the loop with those customers and then delivering a branded experience that is Walmart or Sam's Club provides another step function of growth for us. That -- so taken together a deeper penetration of relationship with -- more customers, deeper penetration with those customers. Then a throughput, a higher share of their purchases and then effective throughput through the fulfillment network ultimately drives the economics.

Heath Terry {BIO 3406856 <GO>}

We do have some microphones around the room, if you have a question raise your hand, we will get them to them in the time that we have. So let's start with the one in the back.

Questions And Answers

Q - Unidentified Participant

What is the best way -- you have been talking about for a couple years now I think increasing investment into e-commerce. What is the best way for us as shareholders and investors to think about that or look at that as being proactive positive growth versus defensive competitive issues?

A - Neil Ashe {BIO 5665242 <GO>}

Well I think about this -- I am not sure that they matter, to be perfectly honest with you. So I am used to have living in a smaller environment. So a smaller company at which point you are trying to get big, right. So that was one of the -- I told you about the associated value proposition. We were like, okay, what is the mission as we bring people into the organization.

If you were recruiting at silicon valley and said we are going to build the biggest commerce company in the world, people -- okay, we are already that. So what is the -- how do we think about that? I think about that the same way from this customer perspective is we want more customers and we want a deeper relationship with the customers that we already have. Is that offensive or is that defensive?

I think the answer is yes because we are already always so big obviously there is share shift. I don't think it is a secret that we were, as an organization, probably slow to this because we couldn't get our heads around cannibalization, which is ironic because, as you know, every physical retailer, when they add new square footage, contemplates the concept of cannibalization. So I am not sure why it is any different in this environment.

So I think ultimately we will be measured on did we grow the enterprise or not. And that is how we feel -- that is how we think about it and are we growing Walmart, are we growing Sam's Club, are we growing over penetration in Brazil and China and the UK. And are we investing the appropriate amount to do that? And we feel really good about kind of where we are going on all three of those.

Q - Heath Terry {BIO 3406856 <GO>}

So we have got one here and then if we can get a mic up here, please.

Q - Unidentified Participant

I had two questions, one on economics and then one on the difference in fulfilling grocery versus general merchandise. So on investments this year for you guys, you have talked to a \$0.06 to \$0.09 hit from incremental investments in e-commerce.

If I add up all the increments over the last several years that would suggest that you are over \$1.5 billion in losses for e-commerce. Is that software engineers or what is that number? Because it is a big one. Then what is the duration and path to profitability?

A - Neil Ashe {BIO 5665242 <GO>}

So I think you might have overstated a little bit. But let's call it a big number for round number purposes and where is that. Really three key areas, one is people, two is the technology platform, three -- well four -- three is the fulfillment networks and then four are scaling markets. And let me kind of reverse those.

I mentioned this earlier; we are doing all these markets at the same time. So that is a -- that is going to cost us in an investment level.

Two is on the fulfillment networks, as you build these; they are a little different than a store economics in that you have a higher upfront capital and the growth rolls into them and is ultimately larger over time. And you would expect the economics of that facility to be a lower margin but higher return in general on the fulfillment capabilities.

Then on technology on a percentage of revenue basis you would say we are probably a little over invested versus what the ideal would be as a standalone entity. But we have had significant performance through that platform. And that platform then has applicability to -- think of it as a commerce operating system. So it is everything from what the customer sees to what the merchant sees to what the operator sees.

And a lot of the analytics and capabilities that then can apply to -- so for my colleagues, if Dave Cheesewright were sitting here he would tell you -- who runs international, he would say what you guys are doing is really, really impressive and really cool. But if we can figure out how to apply that the rest of the business it is a total game changer.

So how will that investment level go over time? And I report to the Board on a quarterly basis. I report to Doug and Charles on a weekly/monthly basis. So there is a lot of scrutiny to that number and it is pretty smart folks that say, hey, this is the right

level and maybe some think we should go faster and we want to prove out the economics.

So you will see us continue growing faster than the market, which is obviously where we are. And you will see us improve profitability over time. And I think candidly the lines will blur also as you start to see the benefits of what we are doing from this commerce operating system, customer relationship, e-commerce impact the broader enterprise and the Walmart brand and the Sam's brand.

Q - Unidentified Participant

Neil, you briefly mentioned your reporting relationships. Could you speak to the success metrics that you and your senior colleagues have measured against, particularly the portion of those success metrics that that show up in variable compensation and then how that might vary between your shop and all the different stores in terms of stuff that the stores fulfill on?

A - Neil Ashe {BIO 5665242 <GO>}

Yes. So I think you guys all know how we are compensated. But what I would do -- it is highly performance driven; it's a combination of annual incentive compensation, which is largely driven by operating income. In our case operating income and sales. Then longer-term performance shares which are driven by -- largely by sales and return on investment.

The e-commerce businesses are compensated based on total company performance. So I am paid on total company performance. Then my team is paid, which is the same as my colleagues, my peers, Greg and Dave and Roz and such. Then our team is focused on that and they are paid on that and then they are also paid on the individual performance of both Global eCommerce and then the folks that work out of Walmart are the folks that work on Sam's Club.

So -- and that is also performance driven across the enterprise. And so, back to the talent question. We are part of the broader enterprise and we want to be part of the broader enterprise and we are incented to drive the performance of the broader enterprise.

That means we lose out on some talent because we don't offer a lottery ticket. But we do tie to the success of the enterprise. And I feel that that is very important, because ultimately -- back to basically these two questions which are, okay, show us how this investment performs for the customers.

We should have a deeper relationship with customers at Walmart and that should drive a better financial return for the enterprise. So we need the organ to be grown inside the organism effectively and we don't want either to reject the other, candidly. And we feel like we have found a balance that has proven successful for us.

Q - Matt Fassler

While we get a mic over to the corner I want to make sure there is a question that I get in for our team and for Heath and that relates to groceries. So we have had so far today Ocado, we have had Instacart, there is a lot of different business models that are growing and making their way across the market. It might be that all of them will work.

A - Neil Ashe {BIO 5665242 <GO>}

Might be.

Q - Matt Fassler

You are the biggest grocery retailer certainly in the US if not the world -- I don't know the latter for a fact. But the former I do know. And you know an awful lot about logistics. And you have moved pretty slowly I think relative to perhaps some others in grocery. But you seem to have picked up the pace with certainly with testing and experimentation.

How do you expect this to shake out for you based on what you have seen? And particularly what you have seen with pickup, which you have been talking more about as an organization?

A - Neil Ashe {BIO 5665242 <GO>}

So retail is a hard business, Internet is a hard business. So Internet retail is a really hard business. Grocery is a hard business. So grocery Internet retail is a really, really hard business. And we like that.

So you know we have been at this grocery home shopping thing for a while, we have been 15 years at ASDA I think, or 10 or 15 years -- way beyond my tenure. And Seiyu in Japan. So we have -- and Superama in Mexico and we are doing it. So we kind of have some experience about it.

And you have seen now the spectrum. If you have seen Ocado you have seen a dedicated field of dreams model, build it they will come. And built demand to it. And push profitability out and you see a crowd source model effectively with Instacart go pick up from some people's stores. Each is a hard business.

So the reason you haven't seen us go faster in the US is that the customer hasn't really adopted it yet. And obviously the difference between the UK and the US is obvious. What is it, five times the number of people and 25 times the amount of space? So the question is, how and when?

So do we believe that there will be e-commerce for groceries and that customers will -- yes. Are we building the ability to serve those customers effectively? Yes. We are testing in multiple markets that look different, Denver, Phoenix, Huntsville, Northwest Arkansas. And we are taking everything that we have learned at ASDA and we are applying it to how we are doing it here.

The customer reaction so far has been very positive. So we feel -- and yet it is a really, really hard business to execute. And so we feel like we are -- you hit on the key themes, one is we are around the country. Two is we serve a lot of customers. Three is we are really good at logistics. And four is we have a lot of throughput. Then five, we have got great technology and consumer Internet experience.

And so, now you put all those things together and we feel like we have got a right to play successfully with groceries over time. We have got to move at the pace of the customer. So will we continue to do what we are doing? Absolutely. Will we look to do more? Sure. And we are pacing it with the customers.

Q - Unidentified Participant

It's a lot of about this being a very customer centric set. So you want to be indifferent to what the customer wants to do, whether it is purchasing online or purchasing in store. At what point do you guys become financially indifferent to what the customer does? And even if it is not, hey, it's Third Quarter of 2017, what are the things that are going to be required in order to get to that point?

A - Neil Ashe {BIO 5665242 <GO>}

Yes, I think that is a great question. We need throughput at each of those different pieces and then it all works. So -- and we need to combine our fulfillment capabilities in ways that others can't to realize that advantage, largely around inventory placement and transportation.

So we are indifferent when we get enough customers doing any one of those things, which we are confident that we can do because we have a lot of customers and we already have a lot of -- we already have a lot of those nodes in place. So it's -- they vary. That is true of grocery home shopping, that is true of pick up, that is true of the (Aegis) fulfillment.

And we are on that path and we feel good about the direction. When exactly? It varies based on place. But we feel really -- those are the keys and we feel like we are down range on them.

Q - Heath Terry {BIO 3406856 <GO>}

You know, Neil, one question I wanted to ask, because you guys recently made an investment there, is China. It has been tough for just about everybody that has tried to do it, whether traditional retail or online. What do you think Walmart brings to that and what do you see as being the opportunity there?

A - Neil Ashe {BIO 5665242 <GO>}

Yes. So for those of you that don't know, we own 51% of a business called Yihaodian, which is basically like our businesses, it is focused on value conscious female, maybe a little higher-end Tier 1 cities, largely around what in China they call home goods which is really groceries, consumables, essentials. And we feel really good about that business. We also operate China retail.

We -- that market is obviously highly competitive and has changed. But we feel really good about that collection of positioning. So female head of household, value conscious, home goods, a combination in the future of our Internet and our retail assets is a differentiated market position there. So -- and we are -- it is a big market and a long haul. So we will be there.

Q - Matt Fassler

Another recent -- a recent announcement -- I don't know if you call it an announcement. But certainly a revelation is that you are launching ShippingPass, which is essentially, for lack of a better way to describe it, a parallel program to Amazon Prime. You are going to charge a fee, an annual fee and provide free delivery. I am sure you will clarify the definition as you would --.

A - Neil Ashe {BIO 5665242 <GO>}

I would present it differently.

Q - Matt Fassler

No doubt, all due respect. In any event, if you would talk about what your game plan is there, what your thought process is in launching that, how you expect it to evolve. And in particular the differences from Amazon that are in the terms that have emerged for that program?

A - Neil Ashe {BIO 5665242 <GO>}

So we would present it as unlimited shipping at a low price. So for \$50 a year you can buy over 1 million items as many times as you want and have them delivered to your door in three days or less. And I think the positioning is obvious, it's for those who want reliable shipping at a predictable cost and that's -- this is for them.

We spent a lot of time talking to customers about what they cared most about and we hit that sweet spot. They cared about -- they cared about predictability and they cared about low cost. And so that is what we have delivered.

As you know, we have launched it as an invitation only and we have done that for a combination of reasons. One, we want to make sure we can do it. Two, we want to make sure that we understand what the customer behavior is.

And we ultimately think, Matt, that it will drive frequency, that it will drive a deeper relationship with Walmart. And we think it provides an interesting contrast, which is highly brand relevant, it is what you exactly -- I think what you would expect us to do, be reliable and deliver a low cost.

Q - Matt Fassler

You have a Marketplace. I think the investment community probably doesn't understand that as well as anybody. You have a Marketplace, I believe you have millions of SKUs -- 7 million to 10 million SKUs, something along those lines. Can you

talk about the role of the Marketplace in your broader e-commerce effort and talk about its results and the success that you have had, challenges, etc.?

A - Neil Ashe {BIO 5665242 <GO>}

Yes. So first and foremost we think about the Marketplace as the opportunity for assortment expansion. Assortment expansion allows us to have a more consistent relationship with the customer whether or not they buy that stuff from us. And we do think that there is a -- you don't sell everything you offer obviously.

And so, we are focused on providing access to everything that you would want so that you would shop with us more. And that has been highly successful for us. As you can see from our results, GMV is outpacing sales growth as we have grown that in the US and in other markets, China, Brazil, etc., around the world.

And we will continue to do that because we think, number one, first and foremost it drives that deeper customer relationship that I was describing earlier. Over time also it is a financial driver. So it is -- it is a commission business. And so, we don't take inventory risk or execution risk. Then finally, put that altogether and we want to be the footprint that you, the customer, trust to come shop with us.

Q - Matt Fassler

Great. We have time for one or two more questions from the audience or up here on the podium.

A - Neil Ashe {BIO 5665242 <GO>}

I think we have worn them out.

Q - Matt Fassler

Not at all. I guess last question, Savings Catcher. And this is kind of a broader question, Walmart has no traditional discount oriented loyalty program. And I know you have been talking more and more about the different ways you have to capture data, obviously your business being probably one of the key ones. But I want to talk for a moment about Savings Catcher. What is that teaching you, if you will, for the online business about the way customers are thinking about pricing?

A - Neil Ashe {BIO 5665242 <GO>}

So as many of you know, I am sure everybody knows, Walmart is founded on a principal of Everyday Low Price. And that Everyday Low Price means that you provide the same access to all of your customers and you smooth -- you don't do high-low and those sorts of things. And so, we never had a pay for you loyalty card.

I think we think we are entering a new environment on the relationship status which is that we don't need to pay you to be our friend. And if you look at the breakage on loyalty programs I think that is borne out whether it is airline miles or other things.

But what we do need to do is provide you services that are of value so that you want to be a part of them. So Savings Catcher is an outstanding example of that. So it is a service, it is an element of trust that says, hey, I have a relationship with Walmart, I am trusting you to save. And obviously it is a win when you don't get any -- and the vast majority of the transactions don't. But we have initiated a relationship.

And so, when I describe that full loop of now taking the e-commerce platform experiences in mobile device and taking it back into the store with you, that is where we're headed with that. Which is that we want you to want to tell us your (inaudible) when you show up at Walmart so that we can provide you a better service and we can do it more efficiently via technology than any retailer ever could have done it before.

Whether that is Savings Catcher, whether it's pickup in the store, whether that is extended aisle when you are in the store, those sorts of things. We are now closing that loop so we know who all our customers are and we can scale that relationship with them. We know a lot about them, of course. And we want them to want to get benefit from telling us who they are and allowing us to cater an experience to them.

Q - Matt Fessler

Thank you for that. Next up in this room -- don't go anywhere, we have our private equity panel. But before that starts, please join Heath and I in thanking Neil for his time (inaudible).

A - Neil Ashe {BIO 5665242 <GO>}

Thank you.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2024, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.