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WMT - Wal-Mart Stores Inc at Raymond James Institutional Investors Conference

EVENT DATE/TIME: MARCH 08, 2017 / 1:40PM GMT



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Budd Bugatch *Raymond James - Analyst*

PRESENTATION

Budd Bugatch - *Raymond James - Analyst*

Good morning; I'm Budd Bugatch with Raymond James. It's my pleasure and privilege this morning to welcome you to the Wal-Mart Stores, Inc. presentation at our 39th annual institutional investors conference. With us today from the Company, we've got Brett Biggs, Executive Vice President and Chief Financial Officer of the Company. Also, Anthony Walker who is the Vice President in the Finance division. We've got Steve Schmitt, Vice President of Investor Relations, and Kary Brunner who is Director of Investor Relations.

Without any further ado, Brett, the floor is yours.

Brett Biggs - *Wal-Mart Stores, Inc. - EVP and CFO*

Good morning, everybody. Budd, thanks for having us; appreciate you and your team having us here. I had -- last night my daughter figured out -- I have a 10-year-old daughter and she figured out that I was coming to Orlando, and I had to promise her that I was not going to do anything fun while I was here. So I will let you decide whether I am keeping that promise by coming to an investor conference.

I told her, actually, I do enjoy this part of my job. The chance to come and talk about Walmart is something that I very much enjoy doing. And this morning there is a number of things I want to talk about. As we go through the presentation, I will touch on a number of things. One would be just talk a little bit about the FY17 results, and that will be weaved into the presentation. Certainly about our strategy and what we are thinking about going forward.

We will put that all in the context of the financial framework that we talked about in October, and we will put our strategy in that context. I have been with the company now 17 years; a lot of change, obviously, in that period of time. I was very excited when I came to the Company. We were a \$160 billion company when I came to the Company, and a lot of people thought we were through growing.

And about 3 times the size later, I can tell you we are not through growing. I am excited about our opportunities that we have today, as I have been in any part of the Company. I think you will sense that as we talk.

The thing I want you to come away with today is that we are a very unique company, and I think not just a unique company in the retail space but a unique company in the corporate space. I hope as we go through today, you will get a sense of why I think that is the case.

I will make sure our lawyers are happy and start out with this slide. As you think about making an investment in our company, certainly go to our website, take a look at all of the materials that are available to you as we may be making forward-looking statements today.

To say it is a transformative time in retail would probably be a bit of an understatement. The customer is as empowered as they have ever been. How they are able to shop, the choices that they are able to make how technology is changing; both not just how we serve the customer but how the customer shops is changing by the day. The transparency that the customer has to pricing and other things inside our stores is unlike anything we have ever seen.

So you have seen a lot of change in the last 12, 18, 24 months at Walmart. And as you would expect with the Company, you continue to see more change and I will talk about some of the change that you have seen. But there are a lot of things about our company that haven't changed and



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won't change. One of those things is our mission, is that we save people money so that they can live better. That is something that we are always going to continue to do as a company. It is important. It is a critical mission that we serve for our customers.

The way we conduct our business, and you see at the top, our four key things that we do as a company: we serve the customer, we take care of people, we act with integrity, and we strive for excellence. Those have been a part of our DNA forever as a company, and will continue to be a part of that DNA.

Who we serve, our customers, our associates, our communities and our shareholders. Again, none of that is going to change as a company. That is part of who we are. And what you see in the middle is the strategic objectives and how we are going to accomplish this. We want to make every day easier for busy families. That means saving money, which has always meant as a company, but it is also about saving time.

We want to change how we work. We are changing how we work. If you go into our stores today, how we are serving that customer is different than it was four or five years ago. Things that we are doing in the home office to serve our stores is different than it was four or five years ago, and we will talk more about that. It is part of becoming more of a digital company.

We have always been about delivering results. We need to operate with discipline. I will talk about some areas where I think we are doing a good job in that area, and there are some places we can do better and I will talk about that as well.

At the end of the day, we also have to be the most trusted retailer. If you look at the constituencies that we serve on the bottom of this slide, we have to have trust with each one of those to be the Company that we want to be, and that is incredibly important to what we do as a company.

I get asked sometimes, either it's by media or by analysts saying, what is it you think we are missing about Walmart? And usually I say this, and I talk about our great financial strength. It is not that it is missed, but I do think there's times it is not quite given maybe the credit that it should be and the resources that we have as a company.

If you think about our company, we have 260 million customers that we serve a week. We have 11,700 stores. We have a growing e-commerce business. We are a AA credit. Our dividend has increased for 44 straight years. And when you look at some of our numbers from FY17, we are a company now with nearly \$500 billion in revenue; \$14.5 billion returned to shareholders through dividends and buybacks; and this year a record operating cash flow of \$31.5 billion.

Now that cash flow was aided a lot by the work we did in working capital over the last couple of years, but the financial strength of this company is somewhat unparalleled. And I do think sometimes we have to step back, even for those of us that work in the Company, and just be appreciative of the resources that we have to go implement the strategy that we are going to implement.

Now we need to be conscientious with those resources. We need to invest them wisely, but it is a great asset for our Company that many companies just don't have.

So stick on cash flow for just a minute, and you see over the last three years on the left side of the slide a good uptake, both in cash returned to shareholders as well as free cash flow; again, this year aided a bit by what we have done with working capital.

But I want to take you to the right part of the slide, and it is not to the same scale that you see on the left. But this last year, and it goes to the power of that operating cash flow; this last year we spent just under \$11 billion in CapEx, had about \$6 billion in dividends, just over \$8 billion in share repurchase.

We purchased Jet, we invested in JD.com in China, and net debt still decreased as a company, and that is not a comment on our capital structure. So if you want to ask that later, but it is an amazing I think tribute to what we can do as a company and the amount of resources that we have to implement this strategy. And again, I think it is something that makes us unique as a company.



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The strategy is working. There is a lot of pieces coming together with this strategy and you saw from our Q4 results, you see US comp was up 1.8%. You see Walmart US GMV up 36%. So multiple engines of growth for this company, and you see it in those two places.

But what I am most excited about is what you are seeing in the middle. So now, online grocery in more than 600 locations. Sam's Club pickup doing incredibly well; US store pickup increased by 27% in the fourth quarter. What we are doing in China with JD and Dada, in pulling together what we do in stores with e-commerce with JD, a lot of pieces now you are starting to see come together for the Company.

And again, as I use the word unique and you may think I overuse it this morning, but it is unique. And what we are putting together to enable customers to shop how they want to is incredibly powerful, and this is something we will continue to talk about as you would imagine as we go forward, but a very exciting part of what we are doing.

Q4 traffic was strong. It was up 1.4% in the US, and I think one of the things that continues to say to us is that customers still like immediacy. Stores are going to continue to be an important part of what we do, and we think they will be a continuing important part of retail.

90% of the US roughly lives within 10 miles of one of our stores. So when you think about immediacy and you think about the assortment inside a neighborhood market or a supercenter, that customer can get a lot of what they need right now. And they live close to one of our stores, and that is an important part of what we are doing.

We are going to continue to invest more in stores and -- invest more in remodels, and you will see that in a minute. We have put a lot of investment recently into technology into the stores, in processes, in wages. And one of the things I think gets missed a little bit in the wage announcements that we made was a big part of that was training.

We have put a lot of money into training in academies, for instance, around the US, where we are bringing department managers and store managers in and training them. That is a big part of what we are doing, and we will continue to invest in training and processes inside the stores.

Customers are telling us good things about what we are doing in fresh. Our customer scores continue to go up in that area, and these are two areas in our store where we have invested pretty significantly in the past, and we will continue to invest, because we know these are important areas to drive traffic.

So in fresh, we have done a lot of work around training, how we are culling product. We have taken days out of the supply chain, which not only keeps it fresher and keeps produce fresher in stores; more importantly, it is fresher longer in your home and that is really important. So fresh is something that is an important part of what we do. It will continue to be an important part of what we do.

Health and wellness is another area where we continue to put a lot of emphasis. You saw mid-single digit comp in the fourth quarter in health and wellness. We are continuing to see pharmacy script counts go up. And we have also seen better traffic into our OTC, which also goes hand in hand with some of the things that we are doing in private label.

We are putting more resources into private label. You see that in our Great Value brand; you see that in our Equate brand, which is primarily OTC. But these categories are going to continue to be a very important part of what we do, as we want to continue to drive traffic into our stores as well as online.

I talked a minute ago about digital, and we are becoming a more digital company. And a lot of what you see up here are really changes for the most part that have taken place in the last 12 to 18 months. There has been a lot of change at Walmart, and I will just start in the upper left with 2-day free shipping and for orders over \$35.

This was really enabled by a lot of the work we did over the last couple of years with fulfillment centers, and the ability to make this promise happen. So the investment we made in the last couple of years now starts to bear fruit in this kind of way.



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I talked about Walmart grocery with now over 600 locations. You are very familiar with the Jet acquisition and the smart card technology and the talent that that brought to Walmart, and particularly with Marc Lore who now runs our e-commerce business for the US.

Our SKU count online has quadrupled, more than quadrupled, since the start of last year. We now have over 35 million items online. That is a big part of what we are doing in e-commerce and how we are continuing to accelerate the growth there. You have heard about Scan & Go which was rolled out to our entire Sam's chain. We talked about JD.com. Walmart Pay, which seems like almost a lifetime ago now, was actually not that long ago.

But I hope you get a sense for, as you see in the middle, that making every day easier for busy families what we are doing as a company, both in stores and online, to make that part of the strategy come true. But again, a lot of work has gone on and you will continue to see more work, and I would expect that you will continue to see new things on this slide as we go forward in the next few years.

In October, we outlined a financial framework. We wanted to give you a way to think about the Company and a way to put our strategy into a framework from a financial standpoint. We talked about three primary areas, and I will spend just a little bit of time on each one.

As we typically do, we started with growth. But not just strong growth -- we have talked about strong growth -- but strong, efficient growth; a growth that looks a little bit different than it did in the past. And it is driving growth through comp sales and through e-commerce growth, less through new store growth.

Operating discipline, and I will talk about three areas that I think about: working capital, cost of goods, SG&A, and give you my thoughts on how we are doing in each one of those areas.

Then certainly something that is on your mind and we usually get a lot of questions is how do we allocate capital. In the past, we have allocated a lot of capital to new stores. Less capital now is going to that and I will talk about that in just a minute. But the whole emphasis on this is continuing to deliver earnings growth and returns for our shareholders. That is what we want to do as we set the business up long-term.

So you can see here, if you go back to FY15, still quite a bit of our sales growth came from new stores, more than a majority. And you can see that changed in FY17 where more of a majority of our sales growth came from comp sales and it came from e-commerce growth.

And we talked about in last October, FY18 and FY19, the sales growth from e-commerce and comp sales would continue to be a bigger part of what we are doing. It doesn't mean we are not going to add stores to our portfolio. There will be places where we will want to continue to add stores, or countries where it continues to make sense to add stores. But we want to drive sales in a different way. We want to drive sales in a way that over time changes the ROI trajectory for the Company.

So as we think about growing comp sales, this could be done in a lot of different ways and some of which you have already seen put in place. It's going to be through how we give tools to our associates to better serve those customers. If you think about, I will talk about it in a minute, inventory; but inventory going down, why in-stocks go up.

Those processes make a difference for our customers, giving our customers tools to make it easier to shop our stores. We have a store not far from here in Lake Nona, we were all -- I think all of us spent -- several of us spent a lot of time in there yesterday where we now have Scan & Go. And you can use your mobile phone to go scan your items as you go through the store, and then don't really go through a checkout line. You have an associate that checks that you've got it and you go on.

These are the kind of things we are trying. These are the ways that we want to make it easier for customers to shop.

From an e-commerce perspective, you have heard us talk a lot about the investment we made in the past in fulfillment centers, the increase in SKU counts; those are the kind of things that are allowing the e-commerce business now to gain some traction and gain some momentum, is investments that we put in place over the last couple of years.



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From an operating discipline standpoint, again, I think about it in three ways and I've put a couple of examples up here. I will start with cost of goods, which isn't on the slide. We have done a better job from a cost of goods standpoint. Shrink has been better, our logistics costs have been better.

And we talked about, about a year ago, a little over a year ago, the better buying program that we put in that's allowed us to buy better, buy more efficiently as a company. And all of that has helped from a cost of goods standpoint. We are in a better place than we were 12 to 18 months ago.

On the left you see one piece of working capital, which is inventory. This is our US comp store inventory over the last year, which is pretty remarkable performance to have your comp sales be what they are, have traffic be what it is, have inventory come down, comp stores by 7%, and have in-stocks go up.

A lot of times, merchants think you need to add inventory to increase sales, and you don't, and this is perfect proof of that. But the momentum that we have around working capital, I think, is very good. I am pleased with that.

I'm not as pleased with where we are at in SG&A. This is a chart we have shown you, and it is not the level of SG&A that we want to be over time. We talked about this year that we expect to slightly lever this year. We've made a lot of investments over the last couple of years and expect to be able to lever that.

We've got work to do. Some of it is just getting back to some of our EDLC roots. We haven't lost it, but we need to rejuvenate that culture and be a little tougher on ourselves around expenses. But there's things we are changing with technology.

One example I would give you would be the cash recyclers that we have put in stores recently. It helps us manage cash, but also allows us to take labor out of that back room in stores. It allows us to be more efficient and take some of that labor and put it towards customer-facing initiatives where we want our associates being.

Just recently, you have seen changes in our technology organization. So a large part of our technology group is more customer facing, and they are more focused on e-commerce and our point-of-sale systems, but everything is more customer facing.

There is a piece of technology in the back office that now actually reports to me. And we have taken that along with shared services, which I also had a responsibility for, and we have combined those groups into a global business services group. So what we want to do is we want to be different where it makes a difference to the customer to be different, and where it makes a difference to be unique.

But we need to be more the same in places where it doesn't make a difference to the customer where we can be more efficient. And even by the way that we are working with our organizational structure we are making some of those changes and expect that that is going to help us over time.

So we talked about capital allocation and you can see -- a couple of differences you will see from three years ago would be, one, that capital has come down by about 10% over that period of time. But you can see new stores and clubs is almost about half of our capital, going back just three years ago.

And as we go forward to this year, it is much less a percentage of our capital, and you see much more now in the dark blue which are remodels and customer initiatives. So when you think about remodels, don't always just think about painting a store and fixing the parking lot. It is about doing things for customers, whether that is through technology or whether that is the fresh improvements that we have made or what we are doing on private brands. All of that goes into here.

So there's a lot of things that we are doing to ensure that that customer experience in store and online is better. You would expect you would see more in e-commerce and technology, so that doesn't surprise you.



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And continuing to put a good bit of spending into logistics. Logistics 5, 10 years from now, the supply chain is going to look very different than it does today. And I believe we are making good progress in staying ahead of where we need to be from a logistics standpoint.

You have seen where we have been opportunistic with acquisitions and alliances with Jet, Moosejaw, ShoeBuy and what we have done with JD. But you also hopefully feel that we have been thoughtful about businesses that we thought were not part of our core business. And what is interesting about whether it is Banco Wal-Mart, Vips, Suburbia, which hasn't closed at this time, and the shopping malls at Chile.

So Mexico and Chile are two of our best-performing international businesses. But even within those businesses taking the opportunity to stay focused on this core, stay focused on the customer, and get value out of assets that just probably don't make sense for us as a company and not part of our core going forward.

So we will continue to be very thoughtful about capital and understand that this is important to you as you think about how you invest in our Company.

I believe Walmart is very uniquely positioned for the long-term. We know that we have short-term obligations as well, and we feel that responsibility, but long-term we believe we are making the right decisions. We are spending a lot of money, time and resources on getting this right for our customer.

We have the financial strength unlike any other retailer, but almost any other company in the world, and that gives us resources to take what is a pretty bold strategy and a bold transformation and make it work.

But I feel really confident in what we are doing as a company, and I think again that just makes us unique as we serve our customers. And we believe it makes us unique as you think about us as a company.

So with those words, I would turn it over, Budd, back to you.

QUESTIONS AND ANSWERS

Budd Bugatch - *Raymond James - Analyst*

We have time for questions, and we will take some from the audience. I will start it off, though. Brett, one of the questions we often get from, and you get, from investors regards the investment in price, and the journey for that investment in price. Several years ago, you committed to several billions of dollars in price investment.

Can you kind of describe where we are on that journey, on the journey of price investment, and how you think about it? And I will follow that up with another.

Brett Biggs - *Wal-Mart Stores, Inc. - EVP and CFO*

Yes, price investment, it has been a part of our DNA, as you know, Budd. You have followed us for a long time. There is not an on/off switch with price. We always invest in price, but it felt like as you talked about last October, October 2015, that we wanted to invest, take the opportunity to invest more. We had made investments in e-commerce. We felt like it was time to let's make a little more of a specific investment into price.

So we talked about that year over a period of time, several billion dollars, and that more of that would be in 2018 and 2019 versus 2017. But we were able to accelerate some of that last year, even into FY17. So I would say we're where we thought we would be from a price investment standpoint, and it will continue to be a big part of what we do going forward.



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Budd Bugatch - *Raymond James - Analyst*

Okay. Obviously, there's a lot of publicity about several new competitors. One competitor has been in the market a long time, another competitor's beginning to enter the market. Can you kind of relay what your thoughts about that are?

You have had to compete with these competitors; and ASDA, which hasn't performed as well as you might like it. So maybe you can relate on how you are thinking about ASDA and how you are thinking about those two competitors.

Brett Biggs - *Wal-Mart Stores, Inc. - EVP and CFO*

Sure. I think I know which two you are talking about.

Budd Bugatch - *Raymond James - Analyst*

I suspect you do. I suspect everybody here does.

Brett Biggs - *Wal-Mart Stores, Inc. - EVP and CFO*

Very, very good competitors, I think a unique business model. And we would be naive not to take what we have learned in the UK and be thoughtful about that in the US. I do think there are things that are different about the US, but we are not going to count on that to be different necessarily from what is going on in the UK.

Price has always been a very important part of what we do, and that is going to continue to be an important part of what we do. There are things now, though, again going back to this concept of unique, the assortment we have in our stores. After some point -- price matters, but after some point so does convenience. And there is a part of one-stop shopping in that supercenter that is still convenient, because I can get almost all of what I need in one place.

The ability now to marry that with online and the growth we are seeing in the online business, and getting better at store pickup with the population that we have surrounding our stores, coming to our stores for most people is really convenient. Sometimes it is easier; it is more convenient than picking up something at home.

So bringing all of this together is where we think we will win long-term, but great competitors and we are aware of all of them, not just those two.

Budd Bugatch - *Raymond James - Analyst*

And there are another whole raft of competitors that you have had in the value chain that you have had to compete with over time. There was a strategy for a while to increase the Express stores, but now it is Neighborhood Market and the Supercenters. Can we talk a little bit about how you are thinking about that particular set of competitors and your strategy?

Brett Biggs - *Wal-Mart Stores, Inc. - EVP and CFO*

Talking about just from like a format strategy?

Budd Bugatch - *Raymond James - Analyst*

Yes, sir.



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Brett Biggs - *Wal-Mart Stores, Inc. - EVP and CFO*

Okay. So we talked about Express stores and we said they were a test, and they were a test, and we saw a lot of things we liked. We learned a lot from that test. What we eventually -- our conclusion was that with e-commerce, with the Neighborhood Markets, with the Supercenters, we had the ability to serve that customer without investing resources into another format.

Small stores are still going to be a big part of what we do around the world. If you go to Central America or you go to Brazil, Chile, small stores are still a big part of what we do and I would expect that for a long time to come.

Budd Bugatch - *Raymond James - Analyst*

Okay.

Brett Biggs - *Wal-Mart Stores, Inc. - EVP and CFO*

But in the US, I think we are where we want to be.

Budd Bugatch - *Raymond James - Analyst*

Okay. And you talked a little bit about logistics, and I think several years ago you were creating the [ECHIS], kind of fulfillment centers, which I think is. Where are you on that journey? Do you have enough fulfillment centers now? Is that still part of a logistics investment?

Brett Biggs - *Wal-Mart Stores, Inc. - EVP and CFO*

Yes, so we built five brand-new fulfillment centers over the last say 18 months, 2 years. Those now are really what has helped enable the 2-day shipping. I mean, we will continue to address the logistics network. It will be interesting over time. Today the ECHIS network is a bit different from sending pallets to a store. So having those dedicated fulfillment centers is what we need to have today.

I think over time it will be interesting to see how or if those start to merge. Whether that is backwards in the supply chain or whether that is how we get them to the stores, it is the things that our logistics group are thinking about all of the time, is how those -- eventually, will they come together, how will they come together? Will they stay separate? If so, how do you stay efficient? So that is the calculus that they are always going through.

Budd Bugatch - *Raymond James - Analyst*

One question we also -- and you're, I'm sure, getting a lot as we are. I would love any commentary you'd like to make on it is, with all of the news in Washington and talking about tax reform and the phrase border adjustment tax, which has come into the lingo over the last several months, can you give Walmart's view or how are you thinking about that? And what clues can you give to investors of what impact it might have for Walmart?

Brett Biggs - *Wal-Mart Stores, Inc. - EVP and CFO*

I didn't think anybody would ask that question today. I figured you would. We are pro-tax reform, and we have talked about that for years. We would like the tax system to be less complicated. We are for that. We are engaged in the process, as you would imagine. We're trying to be helpful in the process.



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We have challenges with the border adjustment part of that, and we want to do what is right for our shareholders. We want to do what is right for our customers. And within those bounds, we are trying to be helpful where we can be.

Budd Bugatch - *Raymond James - Analyst*

And any clues as to what impact that might have to Walmart?

Brett Biggs - *Wal-Mart Stores, Inc. - EVP and CFO*

No. You have seen as much details as I have. All we have seen is just really the blueprint that has come out of the House, but where this ends up I guess would be probably anybody's guess.

Budd Bugatch - *Raymond James - Analyst*

In Doug's commentary on the transcript and during the earnings call, you talked about the two stores that were two new tests, two Supercenters. And one is right here in Lake Nona, and you have spent some time there. I spent a fair amount of time over the last three days in that store. It's got some interesting things in there.

Can you talk about -- and there is one I think in Tomball, Texas, which is outside of Houston. Can you talk a little bit about some of the things -- what is the speed of rollout in that?

Brett Biggs - *Wal-Mart Stores, Inc. - EVP and CFO*

Yes, I mean it is exciting. We are always testing things. Again, the great thing, again going back to the resources we have, is the ability to test. And that is how I would classify those stores. But a lot of what you see in Lake Nona and there is one in the Woodlands as well, just north of Houston, is we are testing how to interact with the customer differently, understanding better how they want to shop.

So in the Lake Nona store we have devices, scanners in effect, that you can go around and you can scan items and go through kind of an express checkout lane at the end. Or you can use your phone, which I did yesterday and went around and did that.

You only see six full checkouts in Lake Nona. Everything else is self-checkout, which is very different than what we have done in some of our other stores. But in talking to customers yesterday, they like it. We have somebody when you come in that helps explain how to use the Scan & Go, encourages you to do that. And we are finding the customers like it, but we have the checkout lanes if you want that as well.

But as you go around the store, you just see some things in difference. For instance, in toys it's a big touch screen, big touch screen. And some of these touch screens I really haven't liked in the past. I think they are a little clunky. This one is really good. I hope it works when you go in; it's really good. But it is basically an endless aisle type concept.

So it allowed me -- it asked me some questions. It said, do you want a gift? Yes, I want a gift. Is it for a boy or girl, or it could be either. Choose either. Pick the age you want. It gives you the best sellers for that age.

And you can click, do I want what is in the store or am I willing to look at what is online. I said, I want online, and within seconds it pulls up a few toys. I can look at it and I could order it right there, and it is sitting in my box for walmart.com.

Those kind of concepts, again, if you try to marry what we are doing in e-commerce with the stores, very exciting. I'm not going to talk about a rollout, but we are trying, we are testing. We are really listening to the customer, and that is what I am excited about.



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Budd Bugatch - *Raymond James - Analyst*

Okay, thank you very much. We will continue this at the breakout. Thank you.

Brett Biggs - *Wal-Mart Stores, Inc. - EVP and CFO*

Thanks.

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