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WMT - Wal Mart Stores Inc 23rd Annual Meeting for the Investment Community

EVENT DATE/TIME: OCTOBER 06, 2016 / 01:00PM GMT

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PRESENTATION

Steve Schmitt - ***Wal-Mart Stores, Inc. - VP of IR***

Today's meeting is available on our website at stock.walmart.com. The presentation will be posted to our website as they are concluded today.

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

Now hopefully, you've had a chance to review the press release we issued this morning. In case you haven't seen it, I thought I'd highlight a couple of areas.

First, we reconfirm our fiscal year 2017 adjusted EPS outlook of $4.15 to $4.35 per share. We expect fiscal year 2018 GAAP EPS to be relatively flat to 2017 EPS -- adjusted EPS. We expect 2019 EPS growth to be approximately 5%. And we also laid out our capital expenditures estimate for the year to be approximately $11 billion, and Brett's going to get into a lot of this today in his presentation.

So let me tell you what's going to happen today from an agenda standpoint. We're going to kick things off here in a minute with Doug McMillon, President and CEO of Walmart. Following Doug will be Brett Biggs, our CFO. He's going to talk you through our financial framework. Then we have an exciting e-commerce discussion for you with Doug as well as the Marc Lore, the newest member of the executive team here at Walmart and former Jet CEO, the company we just acquired. So we're looking forward to that.

We're going to have a short break, and then you're going to hear from each of the division CEOs in the second part of our meeting, leading with Rosalind Brewer, from Sam's Club. David Cheesewright is going to talk about Walmart International; and Greg Foran will give you an update on Walmart U.S.

We'll have a break, and then we'll bring the whole executive team up to the front of room and take your questions. There will be one question-and-answer session for about 45 minutes at the end. So our webcast will formally end about noon-ish. But then after that meeting, we'll have a chance to feed you and let you interact with management a bit after that.

So again, I want to thank you all for traveling to Northwest Arkansas. We're really excited for you to be here. We're excited about our day, and we really appreciate you being here.

(video playing)

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Good morning. We're excited to have you guys here in the home office. I hope you enjoyed yesterday and are going to enjoy today as well. It's nice to do it here in the home office.

Today is that day where we get to update you on our strategy and our plans, attempt to preserve some flexibility for ourselves as we make decisions in a fluid environment and also not share every single thing we're going to do with competition. So we're really excited about pulling that off this morning. It should be a fun day.

The headlines are, we're seeing traction and the company's moving faster. We have a plan to win with customers and drive growth. We will be disciplined with our cost and capital as we do it, and we will deliver shareholder value.

As it relates to traction and moving faster, the first thing that I want to do is to thank our team, our store managers around the world, our buyers, our technologists and engineers and mathematicians, and our leadership team, just a few of which are represented in this room. They're working really hard. They're smart. They're competent. They're moving faster, and I'm having a blast working with them. It's an exciting time to be in retail, and it's really important to have a strong team, and I'm really pleased that they're here with us.

Traction. Walmart U.S., up eight quarters in a row in comp. Up seven quarters in a row in transactions. Inventories down. Payables are being managed. Cash is flowing through. We really feel like we're on solid footing in Walmart U.S. and are starting to play some offense and operate from a position of strength, which is great to see, and it's due to the hard work of many of those that are in this room.

In Sam's Club, we've got membership income growing, and we've got some innovation going on. Roz, with digital, it's really great to see Scan & Go, the way you're thinking about your business differently, and leveraging it to grow membership is vital. And it's a really good indicator of what Sam's Club future looks like as we think about membership income growing the way that it is.

In International, it's important to have the big businesses performing well. Canada is strong. Walmex is strong. When you have a portfolio, there are always going to be markets that you're concerned about, and our eye's on the U.K. at the moment. But to have 10 of the 11 markets growing in positive comps the first half of the year really shows strength across the portfolio, Dave, and that's awesome to see.

And then in e-commerce, you saw the second quarter performance was better than the first quarter performance. That's largely driven to what's happening with the Marketplace in the U.S. And when we started the year in January, we had 8 million items on our Marketplace. Here in October, we have 20 million items on the Marketplace. So the trajectory of growth related to U.S. e-commerce in the Marketplace is strong, and we need it to be.

I've got the word transformation up here, and I don't think that it's an exaggeration to say that we are going through a transformative period. The Internet and technology are changing the world. They're changing industries and they're changing retail. They're changing Walmart. When I started with the company, it was 32 years ago, and the discount stores were humming. Our general merchandise, Division 1 store business was outstanding. We were just starting the supercenter business, and it grew and took off. We all know what supercenters have meant to retail. Over these last few years, traveling around International, I've seen different formats take off and see how they perform in different situations. But none of that changed, although it felt dramatic at the time, feels anything like what it feels like today to be in business.

It is truly transformative, and it's going to require us to change from the inside to deliver different results on the outside. We have to change the way we work. We have to change the speed at which we move to deliver for customers across all the dimensions of price, assortment access and experience. All of those are being redefined, and they're being redefined right before our eyes. And we get that. And we have a legacy in this company of driving change. Sam Walton changed things just all the time. Sometimes you couldn't even discern why. We were moving offices. We were moving people from one job to the other. We were experimenting.

Sometimes people asked me, what would Sam think about what Walmart is doing today? And I don't know. But the one thing I know for sure is we would be changing and we'd be changing quickly, and that's what we're trying to do here, with the ultimate destination being really happy customers.

In retail, if you don't have happy customers, you don't have a future. So that's what we're bent on doing and are willing to change ourselves as leaders and as a company to make that happen. And we have our plan to win. Today, I'm going to outline it in these 4 areas: make every day easier for busy families, operate with discipline, be the most trusted retailer, and deliver results and position the company to win.

And I'll start with making every day easier for busy families. Now one of the strengths that we can rely on is that we have this merchant DNA. Science and technology are changing retail. But I would argue that over time, people and the art of this business and the creativity of this business will still matter. And one of the items that's really caught my attention this year is this Disney Princess Carriage. It's $398, and we just shipped it a few weeks ago. The buyer is named Reid Thornton. And Reid worked on this item for 18 months. He worked on the specs. He worked on the cost. He worked on the delivery time. There's a crown on top. I mean, this thing is selling.

I was in a store in Cincinnati with Steve Bratspies on Tuesday, and they just got nine in. They'd already sold four. It's a $400 price point. I went out and checked on our app this morning, we are in-stock. If any of you have daughters or granddaughters or if your wife wants one, you better get it now because this thing is going to go. And the department managers are getting behind it.

Here is Petra. Petra is from San Benito, Texas. She got excited about the item, put it on the Facebook page for their local store, not our corporate Facebook page, but just for the store and it went viral because people are looking for items like this. Customers want inspiration.

We're going to be in-stock on bananas, and they count on us to do that at a value, but they're also looking for things that haven't been created before, and we've got to unleash our merchants, and I think the team is doing this, to create new things like Reid has done here. And we need to do it across all the categories. I mean, we're going to talk a lot about food and fresh food today, but we sell a lot of general merchandise. We sell a lot of apparel. We want to sell it all. We want to be merchants as we do it, and busy families will appreciate that.

But it's not just about items and prices. Today, more than ever, it's about time. Any of you not busy? I mean, it just feels crazy, doesn't it? The world's moving so fast. Everybody I know, whether they're retired or they're working or they're kids, everybody is under this incredible time pressure. So we got to use technology and inspire our people to save customers time, so the check-outs have got to be fast. The stores have got to be in-stock. Carts have got to be off the lot, and we have to invent completely new ways, using technology with mobile and with whatever comes next, to delight them and save them time, make it simple, make it enjoyable.

That's why customers are responding so strongly to online grocery, where we have really high customer satisfaction scores. They're responding to Scan & Go. They're responding to Walmart Pay. We've lined some of these things up, and we've got to keep them going, all aimed at saving them time and creating a great experience, which is really important for busy families that spend a lot. A busy family, whether it's a family with kids that are still in elementary school or kids that are in high school, they're time pressured, they know what they need, and they need us to be there for them.

We have to be there for them as it relates to e-commerce. We want to do that across the world, but it's especially important that we do it in the United States. And since we had the same meeting a year ago, there are some things that are different for us and things that have changed. One is that we have a lot more confidence that we know what's going to happen in our stores business. I just mentioned to you the strength in the U.S. We have strength across the International portfolio. We're operating from a different position than we were a year ago.

Secondly, a lot of the foundational elements that we've been telling you for years that we needed to grow the e-commerce business are now in place. Neil Ashe and the team re-platformed walmart.com, which was hard to do, especially when you consider the seamless nature of what we're trying to create. We've become the number two traffic site. The Marketplace is scaling. The fulfillment centers are open.

If you go back and read our earnings releases over time, you've heard us say, well, now we need this and now we need this. A lot of those things are now in place. Our customer deliverables are in better shape, and it's time to invest more money. It's time to really get this [J-hook] going and start growing our e-commerce business in a different way with walmart.com, the brand specifically. And we can do that.

So if you look at our financial forecasts and the numbers we're covering with you today, we're largely in line, maybe in some cases, even better than what we told you we would do a year ago. We're doing what we said, but we're now making a choice, given that we're operating from more of a position of strength, to put more of an investment into walmart.com, and then here comes Jet. Jet really didn't exist a year ago. And what Marc and the team have done in such a short period of time is really inspiring and amazing. And as we started looking at Jet, we saw ways for us to implement some of the ideas and philosophies that they have across the walmart.com brand in addition to what he's doing for Jet, have a complementary situation from a brand point of view and grow the business to be bigger and faster -- grow it to be bigger and do it faster.

So Brett will come up in a few minutes, and he'll talk to you about what the numbers look like. And I'm going to talk to you more before I sit down this morning about the strategy related to Walmart and Jet and how we believe we're going to win. But before I leave this particular slide, I want to talk a little bit more about JD.

You heard this week that we've increased our investment. Basically, this philosophy that we have about creating a seamless customer experience is the same for China as it is for the United States. We believe there will be times when customers want it delivered to their house. There'll be times when they want it delivered quickly. There'll be times when they're okay with it coming in two days. There will be times that they want to pick it up. There will be times when they want to shop in the store.

And we have a long-standing history in some markets like the U.K. where we've been doing delivery. We know what the numbers look like, and we believe if we build the capabilities to serve the customer in that flexible way, we'll be there for them in the future, and they'll choose how they want to shop, and we will figure out how to make money through the blend of those options as long as we have the customer relationships that we need to establish.

So in China, people talk about an O2O relationship, online to offline. That's seamless. That's what we're trying to create in partnership with JD. And they bring, obviously, an understanding of the Chinese market, an e-commerce business that's big and scaling, an ability to manage first-party inventory, which we think is important. We bring a supply chain, stores and Sam's Clubs, which are performing really well that we can pour more volume over. We can help with last-mile delivery because of the presence of our stores and where fresh food is.

And very importantly, we're interested in food safety. We're investing in food safety. The distribution centers, the inspections and the other things we do are delivering safer food for Chinese customers in an environment that's very challenging. That's important to JD. That's important to customers and those are pieces of the puzzle that we contribute to this relationship. And China is an unprecedented growth opportunity. And we need to be very thoughtful about how we approach it. We need to, obviously, win and we're thinking about how we're deploying our investments, capital and otherwise.

And by doing this relationship with JD, we give ourselves some relief on what it would have taken to grow, to scale Yihaodian. That earnings pressure that might have been there for years is now relieved to an extent, and we can make those investments in the U.S. or other markets where we choose that we should. So there's a strategic nature of this that's aimed at winning the Chinese market, but doing it together with Richard and the team from JD, and we're excited about that.

In a few minutes, I'm going to talk to you about our productivity loop, but really try to connect a few dots. So I want to pause here for a second and describe the dots that I'm trying to connect. Walmart supercenters have always served the stock-up trip. The Neighborhood Markets are providing a fill-in occasion for customers.

Walmart.com was pursuing kind of a traditional approach in e-commerce with eaches. And if you look at e-commerce penetration over time, let's take the U.S. as the example, it starts with electronics and digital entertainment and toys. It's an item business, an each business. And as the world changes and competitors evolve, it moves towards being more of a basket business, an entire offering. It's just morphing and changing.

But we have a history of serving big baskets with Walmart, and we want to do that with Walmart and Jet and leverage basket economics in our favor and empower the customers to be able to engage in this process in a way that helps them save money. So we want to serve busy families. We want to win baskets on food and consumables. We'll sell general merchandise in eaches, but we've got to win food and consumables. We've got to win on baskets, and the economics are not only in our favor, but in the customers' favor if they shop a basket at a time. So there's a connection here between stores and e-commerce and the way we'll make money in e-commerce in the future.

If you want to scale e-commerce and make money, you need to make it a basket business to the extent you can, and it connects to the customer segment we want to serve and the product categories that matter most to us.

As we do it, we've got to leverage costs, make money. If you look at our earnings forecast in the future, you would ask, when are earnings going to grow? What it's going to look like two, three, four years out? Click down a level, will we ever make money in e-commerce and win because we know we can make money in the stores, and we've got lots of levers we can pull to determine how much earnings we want to generate from our core and existing business.

The question is, how fast can you get to profitability in the new business as you scale it. And do you need growth first? How big and how important is scale? What's the pace at which you go about doing that? But when you step back further and start really thinking about how it's all going to work, the picture that's emerging in my mind starts with the historic productivity loop that we've shown you over and over again.

Now when I started with Walmart in the stores and then moved into the home office, like the first week or month, this is the productivity loop that people were teaching me. And it's different than some traditional retailers that are trying to figure out how much they can charge for an item. Walmart always tried to figure out how low can we sell this item and still blend the margins. So it started with let's lower prices. By lowering prices, we'll grow sales. As we grow sales, we'll leverage costs, especially fixed costs, and we'll make a lot of money, but with a low margin on high volumes over time. That was the philosophy that Sam had.

And as technology's changing the world, it's also evolving our productivity loop. And one of the things that I got most excited about that Marc engineered into Jet was this ability to let the customers play a role in the process. I've always felt like if you could show them where our costs come from and help them make different choices, they could save us money and we could pass it on to them. That partnership that we have with customers, that relationship.

And now with technology, it's starting to become even more possible. So if you go on to Jet today, you can opt out of a return privilege. Do you really need a return privilege on Special K Cereal? Probably not.

If you pay with a debit card, you can be charged less. If you buy this item that ships with that item, the second item pretty much rides for free to an extent anyway. So there's this savings of the basket economics that the customer starts to play a role in. As we're growing those sales, you can add more items, brands and sellers to the e-commerce offering, both first-party and third-party inventory in the Marketplace. And as you do that, you get a new mix opportunity.

One of the beautiful things about a supercenter was that when you opened it next to a grocery store or a category killer, you had an assortment to work with, a mix opportunity that was different than the one that they had. You could blend margins to make a profit and still have the lowest prices.

Well, the Internet's changed how that blending works. The margin mix situation is different. So we need more SKUs, first party and third party, in our mix so that we have all of those levers to be able to pull. And as the customer chooses what they buy with the right set of incentives, it enables smarter baskets. So items ship from the same place more often. Ship costs go down. The cost of picking in a fulfillment center is lower if you're picking a basket than it is if you're picking in each. So everything needs to be designed in a way that causes this productivity loop to spin. And remember, we're connecting busy families, basket economics, food and consumables. All those dots are connecting in this productivity loop that gives us an opportunity to scale and scale faster in e-commerce and make money sooner than we would have by having a philosophy like this.

So obviously, people have been asking us, why did you make the investment in Jet? Well, there are a lot of reasons why, and Marc and I will talk about them in a few moments. But don't miss the point about basket economics and don't miss the point about an empowered customer. It's a bit like what Marc and I have been saying to each other, EDLP 2.0. EDLP still has a place in life. It lowers cost and it's very powerful. And on top of that, if you can let customers play a role in this process, a legitimate, authentic, transparent opportunity for customers to participate in a way that helps lower systems cost and you give that money back to them, you can win. We did that before and we want to go do it again.

The third pillar is being the most trusted retailer. Trust is our most important asset. That's what we're trying to build. We're trying to build trust for low prices, build trust for the way we engage in the world, in the communities in which we serve. The September cover of Fortune had some important phrasing on it, and they kind of the hid the lead of the story a little bit, in my view. It says, how we're -- how these 50 companies are changing the world, and then in a smaller font: and making money doing it.

You can put social and environmental sustainability into your system and make money doing it. And about 10 years ago, we started on this journey, really had a mindset change. And you may remember, we were switching then from compact fluorescent light bulbs to CFL bulbs. And we got ahead of that and we grew a huge business. And today, it's LED. And with a sustainable mindset, a buyer's going to be faster at spotting something that's ahead of the curve. This four-pack is $5.74. It was $6.44. It's on rollback. And if you buy these four as a customer, you can save about $25 a year replacing an incandescent bulb.

The technology keeps moving. But the mindset of how do we get in front of the curves with products, with packaging, so that customers know if they come to shop at Walmart, they're making a good decision for the planet as well as saving money, that's what we're trying to do. And frankly, we've done it across a lot of items and don't really get credit for it because in some cases, we move the whole industry, which is a good thing and we want to keep doing that. And ultimately, we hope that everyone sees the Walmart that we see because if they did, they would shop with us even more often.

We started 10 years ago with three big goals, create zero waste, we're 75% of the way there; be supplied by renewable energy, we're 25% of the way there; change the products that we sell and the packages that we sell them in, and we've made lots of different decisions, including this decision on chemicals to change what people buy.

As time goes on and as it relates to the environment, we broadened the work that we do. We are involved in preserving natural resources. We're working on healthy food. We're working on the safety and dignity of workers, whether it's a Thai fishing boat or it's another part of the supply chain in a factory. And we can do those things without adding costs because we're systems thinkers and we're trying to shape the entire system in collaboration with our suppliers and do good work and have people know that this is a company that you want to do business with as a customer.

And we broadened beyond some of the environmental things into social areas. And again, these things are good for business. I run into lots of veterans that are running stores for us today, and they do an outstanding job. They're prepared. They have strong leadership skills. And Walmart's platform can be used to help people like that and just deliver some amazing numbers. We're really proud of this incremental investment in American jobs. We're on track to deliver that. 4 billion meals between 2015 and 2020.

This is a good company with good intentions, and we're capable. We are making the company a stronger company, including in areas like compliance and ethics. These last few years, we've made significant investments in compliance and ethics, and we're proud of those. We believe our systems, our talent, our processes are working more effectively. We now see that as an advantage, and we're not backing away from any of those things that we've invested in the past as it relates to that, and we're only going to get stronger. Because as the world becomes even more transparent and people can see inside the company, we want them to like what they see. So we're in the process of making it a better company and trying to make sure that everybody knows from a reputational point of view who we are. Those things are really important to us.

Finally, as it relates to delivering results and positioning the company to win. You will remember for many years, we talked about growth, leverage and returns. Well, Brett and the team and I would like to introduce a new financial framework today: strong efficient growth, operating discipline and strategic capital allocation. We must win with customers. We must grow this company for Walmart to have a future, but we need to do it in an efficient way. It's not a growth-at-all-cost mindset. We need to manage expenses even better, which includes changing how we do work inside the company. We've got to manage capital strategically. We have a lot of conversations these days about priorities. This before that, because in this situation, you can imagine there are lots of good ideas that we could go execute, but they're not all equal.

So we're focused on capital. We're focused on expenses, but we will grow the company. As we grow it, the composition of growth is going to change. We're bringing the new store number down. We're putting more pressure on the comp store sales number. We're going to grow e-commerce faster. This company, over time, is going to look like more of an e-commerce company. We'll still run great stores, and we know how to do that. Customers want a seamless relationship. That's in our favor. But we've got to build this e-commerce business in this country and in others to be there in the future.

So as it relates to the portfolio and positioning the company to win, we use this framework called How to Win and Where to Play, and How to Win is about how we run businesses and what our strategy is to win. Where to Play is what businesses are you going to be in, what countries are you going to be in. And we've done some pruning, as you've seen in recent times, and we may do more.

What we think about it, as it relates to businesses or countries, is does the long-term viability of this business still look like we thought it did when we entered? And are the things we're doing in these other places harming our ability to win in our most strategic areas? And we'll keep pressuring ourselves to make choices, and Brett will cover a few of them, to enable us to transform the company from a where-to-play point of view or positioning point of view in addition to how we're going to go about winning.

So the team is going to take you through the businesses, as Steve talked earlier. But I hope what you can see is we've got a strategy overall. We work together to build it, where we've got traction as it relates to delivering it, and we're really excited about doing it. It's an incredible opportunity to take what we've always done and what we've always known and grow and develop as leaders and as people to make sure this company is here 50 years from now and thrives between here and there. It's a terrific challenge and one that we all really relish in.

And with that, I want to ask Brett to come up. Brett's off to a great start as the CFO of the company, and please welcome him this morning.

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

All right. Thanks. Good morning. One thing you'll notice this morning is I'm the only one that doesn't get a video before I come up. I'm not sure how I should take that. I'll let you interpret that. I'm still not exactly sure what that means.

I think it's an understatement to say that this is an exciting time at Walmart. When I came to the company in 2000, we were a $160 billion revenue company, and there were a lot of people who thought we were done growing. Obviously, that wasn't the case as we now approach nearly $500 billion in revenue.

The growth opportunities were really exciting back then, but they're just as exciting today. And Doug talked about some of those, and you'll hear that today. Growth looks very different than it did 16 years ago, but there's still so much opportunity for Walmart.

Throughout our history, we've shown, as a company, we can change, time and time again, and we've changed, and we have evolved with our customer and we're continuing to do that. We're moving with speed. We're moving with purpose. And you've seen that with actions we've taken even in the past few months.

I'm going to spend some time this morning talking about the financial implications of the transformation that we're leading. I'll start with an update on guidance for the current year as well as an update on guidance that we gave last October, and you would have seen most of that in the press release this morning. I'll also highlight the incredible financial strength of this company that helps fuel the transformation that Doug referenced. Then I'm going to spend a few minutes describing the financial framework we'll use that will guide us. Doug talked a little bit about that. I'll elaborate on it. But hopefully, this -- starting with this, this morning, we'll give you some context to the presentations that you'll hear later in the morning from the segments.

So it's been a really good start, a really good first half of the year, and I'm proud of the progress we've made on a number of fronts, and you see some of that right here.

Net sales growth ex currency is up 3.1%. Now sometimes percentages get lost a bit with this company. But that represents over $7 billion of top line growth in the first half of the year. And this growth would have been even higher if it weren't for the store closures we announced last year.

We've had strong comps in Walmart U.S. as well as a number of our key markets today like Mexico and Canada. E-commerce growth is accelerating, particularly in the U.S., and you saw some evidence of that in our Q2 release. We continue to have very strong operating cash flow, nearly $15 billion in the first half of the year. And that thanks in part to great working capital management. In particular, Greg, inventory management at Walmart U.S. has been fantastic. At the same time, we're improving in-stocks, so really good performance of Walmart U.S. And we've returned $8 billion to shareholders, dividends and share repurchase. So overall, I think a good scorecard for the first half of the year.

So let's talk about guidance. We expect it to be a good year overall. And as you know, we recently raised our guidance just a few weeks ago for the year for adjusted EPS to be $4.15 to $4.35. We expect full year total sales growth of about 3% on a constant currency basis, which is similar to what you would have seen in the first half of the year. Now including currency impacts, we expect net sales to be up around 1% for FY '17, and that's versus a guidance of relatively flat at the beginning of the year. And we expect CapEx, excluding acquisitions, to finish the year just at or below our original guidance of $11 billion.

So I want to take you back about a year now and some of the guidance that we gave on some key metrics a year ago. And you'll see these metrics here in the guidance we gave. And this was for the period of -- for FY '17, which is this year, through FY '19. Now recall again that this guidance was given last year prior to the store closures as well as the transition of Yihaodian this year. So we've accounted for that as we've tried to make this as comparable as possible to what we said last year.

And as you know, we typically wouldn't update out as far as we have, but we did last year. And we wanted to give you an update on that, given that we did that last year. There's a number of moving pieces. I'm sure you appreciate that, particularly with the actions we've taken around accelerating our e-commerce work, and I'll talk a little bit about that in a minute. So I'm sure you'll appreciate that we're giving you forward transparency somewhat on a real-time basis this morning.

The key takeaway I want you to have, though, is that excluding the accelerated e-commerce investment again, which I'll talk about in a minute, our performance and expectations would have been in line with the guidance we gave last year. We're performing against these metrics, and we have really good momentum. Let me highlight one metric at the bottom.

So the yellow-green we show for e-commerce sales growth is reflecting that we haven't hit that mark in the first part of the year, and you know that with our releases. However, we did show acceleration in the second quarter, and the momentum continues to be good, particularly in the U.S. Now excluding the sales impacts that we anticipate as we transition Yihaodian, we expect our e-commerce sales for the back half of the year to be in or near that 20% to 30% range.

I want to look at the same metrics now, including accelerated e-commerce investment. Now when we refer to the accelerated e-commerce investment, it includes of course the Jet acquisition, and we gave you some guidance of the dilution for that in FY '17, as well as accelerated investments to continue growing Marketplace as well as initiatives to increase traffic to the walmart.com site.

So as you see in regards to sales growth, again on this three-year basis and a constant currency basis, we still feel good about being in that range of $45 billion to $60 billion. We would have been further in that range if it weren't again for the store closures and the transition to Yihaodian that we're having this year. We also expect very strong operating cash flow to continue and you'll see that we would -- we believe we'll be in that range that we put out every three years.

I want to hit next on a couple of metrics that I know get a lot of interest. So let's start with e-commerce sales growth. So as already discussed, we expect to be in or near that 20% to 30% range in the back half of the year, excluding Yihaodian. But over the next couple of years, given the investments that we're making, we'd expect e-commerce sales growth to be at the top of that range or even above that 20% to 30% range, given the investments that we're making.

From an EPS perspective, over the next couple of years, we expect EPS to be in or near the ranges that we discussed last year. So for FY '18, we currently expect EPS to be relatively flat versus adjusted EPS for FY '17. Again, you've seen all this in the press release this morning. This includes an expected currency headwind still next year, based on current rates, but not to the extent we've seen over the past couple of years and obviously, we'll see how that goes. It's been a pretty wild ride with currencies. The underlying stores business, in most parts of the world, is healthy with really good performance, which helps offset some of the dilution of the accelerated e-commerce investment.

And we anticipate operating income in total will be down slightly next year and hence, our operating margin rate will be down a bit. So let me take a minute to talk about operating margin because we get a lot of questions about this.

We're mindful of our margin rates, but we're also very mindful of our margin dollars. And the dollars are really the output of the productivity loop. We grow sales. We lower expenses. We invest in price. We grow sales, so we focus on both dollars and rate. So as you know, our operating margin decreased over the past few years as we've made investments in technology and in people. And the operating margin rates we expect this year, as well as next year, are indicative of the types of ranges we anticipate over the near to midterm. The rate may be higher in some years. It may be lower in some years. But we believe this range is an indicative range going forward.

As is always the case, earnings expectations include a number of things, a number of assumptions. You would expect me to say these, that our major currencies will stay basically where they're at today, that our underlying tax rate will stay where it is currently, and we continue on our expected timing of the $20 billion share repurchase plan to that we set out last year.

Now as I said earlier, we typically wouldn't discuss FY '19, given it's a year and a half away, but we want to update what we said last year. So for FY '19, we expect EPS to increase by approximately 5%. You saw that this morning. This assumes that our store business continues with good momentum and that our e-commerce losses decrease after FY '18. So the key takeaway is even though a lot has changed with the company over the past year, with our key metrics, we're still pretty much in line with what we said, which is really a tribute to the momentum that we're seeing in the lot of the parts -- a lot of parts of the businesses.

We're a really strong company, and sometimes I think we don't take enough time to talk about it. It gets overlooked at times. Most companies going through a transformation just don't have the resources and flexibility that we have. And you know all these metrics about Walmart. But it's important, I think, every once in a while that we call them out, so I'm going to do that this morning.

We're approaching $500 billion in revenue. We have $27 billion of operating cash flow last year, 260 million customers a week, 11,500 retail locations. The number two most visited retail website in the U.S., a AA credit rating, 43 consecutive years of dividend increases, $20 billion share repurchase program. And we know we have to be thoughtful about how we invest, but this financial strength gives us not only the resources to win long term, but the flexibility in how we win and how we generate strong returns for our shareholders.

I want to shift gears for a minute and go back to the financial framework that Doug introduced just a minute ago and spend a couple more minutes on it. There's really three key elements to the framework, and you heard this, strong efficient growth, operating discipline and strategic capital allocation. As you would expect, we're going to start with growth, and this starts with growth. We'll continue to have strong growth, but we want to do it efficiently. New stores have been a big part of our historical growth. You've been in this meeting a lot. You know that over a period of time. They'll continue to be that, but we're going to prioritize comp sales, as Doug said.

We'll open fewer stores overall, particularly in the U.S. and we believe over time this will improve our returns on capital. Not surprisingly, we'll also focus on accelerating e-commerce growth. Now this includes Marketplace, which can benefit the profitability mix of the e-commerce business. We'll also operate the company in a disciplined manner. We're a disciplined company. But we need to get back to being the lowest cost-to-serve operator. We've made pretty good progress on cost-of-goods standpoint, but we have room to go on the SG&A front.

We've made great strides in working capital management, and you've seen that in our results this year. We also need increased productivity in our business, and that will come in part from investing in systems and processes that allow us to achieve productivity in a sustainable way, and I'll talk about that a little bit more in a minute.

We'll also take a strategic approach to capital. It's not that we haven't done this in the past, but we're getting more disciplined in how we approach this. We'll lean into markets and businesses that drive long-term value. You've seen examples of this recently with Jet.com and the alliance with JD.com in China. You've also seen us take decisions to exit businesses in certain markets and even close stores. But we're committed to being rational and thoughtful about our portfolio of assets.

I want to go back to the first element of the financial framework: strong efficient growth. So over the next couple of years, growth is going to look different than it did in the past. And let me orient you to the slide first, which shows the percentage of growth that's come from new stores and clubs, e-commerce initiated growth as well as store club and comps -- store and club comps, sorry. Now as a reminder, new store growth represents sales in the first year that the store or club is open, and then sales are considered comp after that point. It's following how we disclose publicly.

Over the past four years, the majority of growth has come from new stores. But with an increasing level of comp sales and e-commerce growth over the past year, and you've seen that trend. And going forward, we expect that trend to continue, with store comps and e-commerce starting to make up a much larger part of our revenue growth going forward. New stores will continue to play a part, certainly, in what we do, but just not to the extent as they have in the past.

Let's turn now to expense -- operating discipline, and managing SG&A, obviously, is a huge part of that. Over the past few years, our SG&A has increased quite a bit. We've made investments, primarily in technology and people, that are important to the long-term health of the business.

Having said that, we're not where we want to be from an overall expense standpoint. We anticipate levering expenses slightly next year, but improving that going forward. We think about cost discipline in three phases. And there's work underway in each one of these. They're not necessarily sequential. So in the short to midterm, we're going to bend the curve on expenses.

The first element of that is really just rejuvenating our EDLC culture. And I hope you sense that even in some of how we're conducting our meeting this week here in our home offices. And while there's efficiency and productivity initiatives that are going to take more time, there are things underway that will help us in the short term such as just being tougher on third-party expenses, travel and things like that. We're already starting, Greg, to see some of the early benefits of store productivity initiatives as well as the benefits of reduced inventory in the stores. Now there'll continue to be some headwinds and some expense areas, but there's a lot of work ongoing to bend this curve next year.

In the midterm, we can optimize how we work. We'll continue to invest in technology and process. Now we've done quite a bit of this in the stores and clubs over the past year, and you saw some of that even yesterday. This work will continue, and it will broaden across the organization.

In shared services, we have a solid foundation inside the company, and I put shared services in quotes because the way in which we utilize shared services in the future will be different than the fairly narrow definition that we would have today. And you've already seen some evidence of this in areas where we can be more efficient like the store back-office function changes that we announced even a few weeks ago. But there are some areas where evolution is needed. Ways of working is one of those. As we create the seamless shopping experience for customers, the organization has to work differently. And we're making progress here, and you've seen some of that, but it's early.

In the future, we'll also be a more digitally oriented organization, not only in how we work, but more importantly, how we serve customers. The technology investments that we're making and will continue to make will enable us to work differently in the future. You won't be surprised to see supply chain on there. How we move and how we deliver goods in the future is going to continue to evolve. But we'll move more quickly in this area to ensure that we serve the customer with the quality and the speed that they expect.

And we'll lead here. Now over time, we'll continue to come back to you and talk about some of these ongoing expense initiatives and productivity initiatives, but I wanted to give you a preview of it today.

Let's turn now to capital allocation. The first thing you're going to notice is that over time, CapEx has reduced in a meaningful way. The second thing to notice is that capital allocated to new stores is reduced significantly. So if you go back just a few years ago, about half of CapEx was new stores or new clubs. Now we anticipate that being about 20%, less than 20% of our spend next year. And more dollars will be spent on strategic initiatives that will drive long-term value. Remodels and customer initiatives, improving our customer proposition in store will continue to be really important. We're going to ensure our fleet stays exciting for customers with thoughtful remodels as well as initiatives in important areas like in-store pickup and fresh. And you saw again some of those on your store visits yesterday.

Logistics will continue to lean into the future, as I said, about how goods are moved and delivered. There's a lot of change in this area ongoing, as you know. We're going to lead in this area in the future. We've talked a lot about e-commerce and technology. Our commitment to e-commerce is evident, I believe. But we'll also continue leaning into the technology of the future, and we'll also continue to invest in key compliance initiatives around the world. That's a very important part of what we do in the past as well as going forward.

We are really excited about how our capital allocation is changing. It's being geared more toward the future, and we hope you see that. So as you look at the projections by segment, FY '18, they're pretty similar to what we'd expect for '17. The primary difference is in Walmart U.S. and it's from movement of capital from new stores to increased remodels and other strategic customer initiatives like fresh and online grocery. Now on the right, you would have seen this morning, you'll note the anticipated reduction with new store count. You'll notice the change, particularly in Neighborhood Market growth. Now Greg will discuss later that we're reducing the new growth to focus more on the customer proposition in our existing stores, but Neighborhood Markets are still a really important format for us going forward.

We have made a number of changes in the portfolio on the last year and even the last weeks and months, as you've seen. We divested businesses. We closed stores, and we have invested in new businesses. Yesterday, you would have seen the filing related to our increased investment in JD.com, and we're looking there to enhance our relationships and our overall business in that really important market in China, an important growth market for us.

Now all of these moves help us focus the business on what's important. That's serving the customer. And even in very successful markets like Chile and Mexico, we're taking actions to sharpen our focus. I think a little bit lost in this, though, is that these divestitures have actually helped fund more strategic investments like Jet, and you can see that on the right side of the page. So as I said before, we're committed to managing our portfolio in a very thoughtful, strategic manner.

I want to go back to our financial framework, and we showed the inputs a minute ago, but I want to recap that and talk about the output. The output of everything we talked about is the expectations that we have of ourselves. That's to deliver earnings growth through strong top line growth as well as delivering strong returns for our shareholders.

Now on the left side, you'll just see a wrap-up of some of the points I made earlier: more efficient sales growth; discipline in how we run our business, particularly around expenses and working capital; and thoughtful strategic capital allocation. The output is sustainable earnings growth and strong returns to our shareholders. So let me just recap the output for a second. We expect EPS to be relatively flat next year, but increase approximately 5% in the year following. Cash flow is very strong, and we expect that to continue. While we can't guide on dividends, we do have a great history of dividend increases. And we remain committed to our share repurchase program.

So to wrap up. We're expecting a pretty solid year this year, and I'm proud of that. We're generally in line with the guidance that we gave last year, and we have a very strong company with the resources and the will to win long term. And this financial framework that we've set up is going to help guide us as we make financial and strategic trade-offs.

I hope you can tell, I'm extremely excited about where we're going as a company. It is a lot of fun what we're doing. We're doing the right things for our customers. We have incredible financial strength that enables choices. You'll hear from our team, but we have a team that's aligned and we're taking action. I've been with Walmart, as I said, for 16 years. I've been a part of a lot of change in this company. And if you know me, I'm a very, very competitive person, as are my colleagues. We like to win. We expect to win. I'm very optimistic about what we're going to do long term and our ability to win, and I am confident in our ability to drive long-term value for our investors. Thank you.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

In case you missed it, that's what an excited CFO looks like. Calm down, Brett. You're too animated. This is Marc Lore. Good morning, Marc.

Marc Lore - ***Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce***

Good morning.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

A few months ago, in the spring, Marc and I had a mutual friend and colleague that reached out to me and to Marc and said, "You really need to meet each other. The way you view the future of retail is similar. You'd just like each other. You would enjoy getting to know each other."

And so we had a chance to sit down in the Quail Room, and not far from here. And before our first discussion was over, we were both at the whiteboard drawing pictures of what e-commerce strategy could look like. And ever since then, have just continued this dialogue on how can we change to serve the customer in more impactful ways, and I could not be more excited about Marc being part of the team and really excited about how customers are going to benefit and the company's going to benefit in the future.

Now Marc, you've met a lot of people. You probably knew some of these folks before you even came down to Bentonville this week. But would you take just a minute and introduce yourself to everyone?

Marc Lore - ***Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce***

Sure, sure. I grew up in New Jersey. Started my first company in high school. Then went, after college, to work in banking for about seven years. There wasn't the same opportunity to work in a startup as there is today. And then in about 2000, at sort of the peak of the Internet bubble, I couldn't take it anymore and quit banking, started my first e-commerce company. I sold that. And then in 2005, started diapers.com from a garage. Diapers.com is really a site about mom, about making life easier. I mean, we really, I think, built a deep emotional connection with moms, and the site took off over the next five years. And then ultimately, sold that as well and that brings us to Jet.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

So tell us about Jet.

Marc Lore - ***Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce***

Yes, so Jet really is meant to be a next-generation e-commerce marketplace. I think I learned a lot of lessons over the 10 years in e-commerce. And the key to winning in e-commerce is to be able to win in logistics and supply chain.

Now one of the things that I saw with marketplaces, existing marketplaces, is that they were incredibly inefficient. If you imagine, you have a product and you have multiple retailers bidding for the Buy Box on a particular product. Whoever has the lowest price typically wins the sale, regardless of location. So if you have a retailer on the West Coast and a customer on the East Coast, customer sees low price, they buy it, and it might take a week to get it to them. The retailer is not happy about the high shipping costs, where there could have been a retailer that maybe wasn't low price, but it was down the street from the consumer.

If they knew that the consumer was down the street, they could raise their hands and say, "I can win this. I can cut a little bit off my price because my supply chain cost is so much lower." It's easy to see how it works with just a single product. But when it comes to building baskets, it gets a lot more complicated. And so what we decided to do was rather than have the consumer pick the retailers, whether it be first party or third party, we would pick the optimal way to ship the basket of product to the consumers at checkout, knowing where the customer lives in relation to all known inventory pools both in 1P and 3P. That was sort of the original idea. And then we kind of took it a step further, which I think is where the real magic is.

We said, "What if we actually make this transparent to the consumer as they're shopping so that we can actually change their behavior, make them smarter? " And that's what we do at Jet. We, in real time, will show the consumer what the savings are of buying one product over another.

So for example, if you have two things in your shopping cart, let's say, a bag of dog food and a dog bowl, and now you search for a dog leash, we'll, in less than a second, calculate the marginal cost to ship each one of those leashes in relation to what's in your shopping cart, knowing where you live in relation to all known inventory pools. So some leashes, obviously, we'll bill to ship together. And in that case, the marginal cost to ship will be almost nothing, or it may ship completely separately and it might be $5. And so the idea is to try and encourage consumers to buy things that will ship together from a location in close proximity to where they live.

And on Jet, it's working. We are changing consumer behavior. The average basket size, the number of units of a repeat customer is almost 7. It's about 6.9 units. So we're seeing that consumers are building these bigger baskets. And as a result, they're saving money. We're pulling costs out of the overall ecosystem. So it's not just about the big baskets, but again, it's about getting them from the same location. And it's working.

Jet, over the first 14 months, has grown from nothing to a $1.2 billion run rate. We're getting over 500,000 new customers a month now. We've got over 5 million people to shop on the website, 6 million downloads, over 200 million unique visitors. So it's definitely working, and I think -- I'm really excited about what we can do together.

Doug McMillon *- Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.*

Yes, me too. Now Walmart has done better with millennials than some people might have thought. But one of the things that's cool about the Jet brand is that it indexes even more strongly with millennials, more urban, more affluent than the Walmart brand. And so there are opportunities for us to have a complementary relationship as it relates to the brand.

Last night, this morning and in previous discussions, I've had people ask me about culture and values and about you and me. And Marc is an entrepreneur and he builds businesses and he sells them. Why would he want to be part of this thing that's called Walmart? And is this going to last and all those questions that you would expect.

When you founded Jet, one of the things that really excited me, Marc, in our first few conversations and to this day, is how you've thought about trust and transparency, and the way that you wanted to found the company for your people reminded me of how Sam wanted to do it when we started here. We're really more alike than people would guess, even though Jet's younger and cooler, some might say.

So talk a little bit about that. What did you try to establish as the fundamental pillars as it relates to values or culture?

Marc Lore *- Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce*

Yes, we had three core values that we hold dear. That is trust, transparency and fairness. And I think we tried -- I think we did live those values in a way that no other company ever has, and it's really about empowering people. That's what it's about. And if you are open with information and you trust people, they --

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Doug McMillon *- Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.*

Think Sam Walton and department managers and a store within a store. Sam pioneered sharing data all the way down to store level back in the day. That's almost exactly what Marc just said. There are parallels there. So when you make an acquisition, or you join up, relationships matter, culture matters, values matter. And one of the things that we've learned over time is if you've got alignment on those things and we know that we both have the best of intentions, you can overcome the frustrating things that happen as a small company joins a big company.

And one of my responsibilities in this relationship is to try and protect Marc and Jet from the Walmart bureaucracy that exists so that they can continue to move with speed, continue to innovate and run unencumbered, and take some of that energy in the way they work and put it over with the Walmart brand in a way that causes us to move even faster. So I've kind of considered myself to be his agent and bodyguard within the company.

We were walking across the street the other day, and a car was coming down the street, and I found myself stepping between him and the vehicle without thinking about it, and I will continue to do so, if necessary. Because if Marc can be Marc within this company, great things are going to happen. And it's not just you, it's your team. It's (multiple speakers) --

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Marc Lore *- Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce*

Yes, we have a great team.

Doug McMillon *- Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.*

It's Mike. It's [Scott]. It's [Liza]. It's everybody else that's part of Jet as well. We're committed to figuring out how to make this work.

So I think we talked a little bit about the customer. Maybe just a little bit longer on that. I hope -- I tried to make a point about basket economics. You just heard Marc say it. Walmart is going to win on price, but Jet's going to win on convenience. They're going to be complementary. Customers are going to get the basics executed. And our teams made progress even before, Marc, you joined to try and get the basics right. And then we need to innovate on top of those basics.

Is there anything else related to the customer that you want to share or did we cover it?

Marc Lore - ***Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce***

No, I think that's right. Jet is really going to focus on sort of the urban millennial customer and really go after more of the premium-type brands that don't typically want to sell on Marketplaces. So I think it's a nice complementary set of brands that we have.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Yes. So this is Marc's 17th day in the company. So we decided putting him up here without an -- by himself without somebody standing next to him or sitting next to him might be challenging and a little bit unfair. But I'll put you on the spot. You're 17 days in. You've had a little bit of time to look at Walmart as a company and to look at walmart.com specifically. What are your early impressions?

Marc Lore - ***Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce***

Yes, no, I'm incredibly excited. I couldn't be more excited when I look around and see the vast assets that are at our disposal here. The foundation has been laid in terms of the warehouse network. I think the decision to build five mega centers was the right one. There's incredible automation there and they're just starting to come up online, and so it's sort of like the perfect time to really accelerate the business.

The sourcing capabilities relative to what we experience is not even close. The amazing products that you see up here, both Sam's Club and Walmart, and the ability to access that is super exciting. Bringing together both marketplaces -- there's 20 million products on walmart.com. There's 15 million on Jet. We have two separate teams, bringing those catalogs together so both companies benefit. Leveraging the store capabilities with in-store pickup, I think, is a huge advantage because it avoids last-mile delivery costs, which is about 70% to 80% of total delivery cost. So if you're able to fulfill stuff in an e-commerce warehouse and you have enough volume to linehaul stuff directly to the store, your cost to ship is $1 a package. It's an incredibly powerful asset.

I think the information you have at Walmart, 100 million-plus people shopping in the stores. They're paying with Walmart Pay. We have access to everything that they've shopped in store. To be able to bring that online so that you have your entire shopping list right there available without having to search for everything, I think, is really powerful.

I think the ability to return stuff to the store makes it super easy. There's all these interesting ways in which on and offline work and are stronger together as a result. So I'm really excited.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Marc mentioned merchandise. We were at our holiday meeting with our store managers a few weeks ago. We were walking from area to area. We were with Andy Barron back looking at ladies wear, and we came across these ladies flannel shirts. They're a private brand. They were under $10. They were good-looking.

Marc Lore - ***Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce***

$8.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

And Marc just picked it up and said, "Do you know how many of these we can sell online? " And Greg and I were trying to get around to the food area and these other places that people wanted us to be during the meeting, and Marc kept trailing behind because he was getting excited about merchandise. It just reminds me of one of the things that I really like about Marc is that, while he understands technology, which obviously, is very important today and to winning in the future, he's a merchant. He's an e-commerce merchant that applies technology to serve customers.

So this overlap of how we think as companies and as people about customers and being merchants and winning, it just feels right. So we can create the right environment. We're both really confident that we're going to be able to do some great things together and look forward to getting on with it. Now that the deal is closed and we can get running, we got to get Marc out of meetings and get him back to work. Anything else you want to share before we go to a break?

Marc Lore - ***Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce***

No, I think that's great.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Thanks. Steve, you're going to come back up?

Steve Schmitt - ***Wal-Mart Stores, Inc. - VP of IR***

Yes.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

We'll be back up in a little bit to answer questions.

Steve Schmitt - ***Wal-Mart Stores, Inc. - VP of IR***

So thanks, Doug. Thanks, Marc.

Marc Lore - ***Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce***

Thanks.

Steve Schmitt - ***Wal-Mart Stores, Inc. - VP of IR***

So we're running a little bit ahead of schedule, which is a good thing, I think. So why don't we take a 20-minute break. And when we get back, Rosalind Brewer, the Sam's Club CEO, is going to kick-off with a strategy update for Sam's Club, okay? 20 minutes.

(Break)

Steve Schmitt - ***Wal-Mart Stores, Inc. - VP of IR***

Okay, guys. We're getting ready to get started. If people could please take your seats. Thank you.

Rosalind Brewer - ***Wal-Mart Stores Inc. - President and CEO, Sam's Club***

Good morning. Everybody had a good break? So I'm Roz Brewer. I run the Sam's Club business, and I'm pleased to be in front of you all this morning. We don't get enough time to chat, and I realized that yesterday as we were touring the club, is that many of you all hadn't been reintroduced to Sam's as we've been making so many changes. But it's great to have you here and get a chance to go over a few things.

So let me start by getting us grounded a bit in a few of the numbers around Sam's Club. And most of you know, for fiscal year 2016, Sam's had about $56.8 billion in sales, $1.8 billion in operating income, and that includes 655 clubs across the U.S. and Puerto Rico. And we have more than 100,000 associates in our business. So we're proud of where we are right now. We're even more excited about what the future holds for us. And I'll try and share a little bit of that with you as we go forward.

So as you've been hearing just through these last couple of days, the entire company has been going through a transformation. And Sam's actually hasn't been immune to any of that. We've been moving right along with the company and have been in the throes of some of those changes ourselves.

So about a year ago, we embarked upon a new path forward, and we really believe that it'll bring us the long-term sustainable growth that we really need for this business. But for some of you, this might be the first time you've heard some of this. So I'll start with an overview of the plan, and then as I'm going through the plan, I'll sort of filter in how we've been performing against that plan over the last year.

So just like the broader company, we made the decision to significantly invest in people and technology, and we've been really pleased with those investments. We've been very, very focused about making sure that we're focusing on the high-impact initiatives. You heard Doug talk about keeping some of our businesses out of the bureaucracy and making sure that we're moving fast and doing the things that really count.

So our strategy is based on one very simple idea and it's all around the member, and the member must win. And this plan has three pillars, just three simple pillars for us, and we've been sticking to them over the last year. The first one is around transforming our merchandise. Compelling merchandise at a value is what brings our members back to us time and time again, helps them to renew with us and stay engaged.

And second, that second pillar is about growing membership. And we built our long-range plan on two very important factors, acquiring new members and retaining them. And that's about expanding the spend per member.

The final pillar is about leading in digital. This is where you'll see the step change and the step-out for Sam's. We think this is the key differentiator for us. You've heard us talk about our innovation and our technology in that space. But underlying all of this is a commitment to elevating the base experience of Sam's Club, and that's important for us. When you've got a member that has to pay to shop with us, they need something more than your everyday shopping experience.

So I'm going to walk you through each pillar in detail, and as I go through this, I'll share how we're progressing.

So first of all, transforming merchandise. So it's comprised of four elements, and it starts with our talent. And growing our talent in merchandise is pivotal to the changes that we need to make. We need to do that by elevating our assortment, delivering value, that means our price investment and doing that in multiple ways, and then leaning in really strong, hard and keenly into our private-brand strategy.

So with the new CMO in place, we've upgraded the talent within our merchandising organization and aligned it with our key focus areas, so very important. Where we want to see the growth, where we want to see elevated merchandise, we began to transform the talent in those areas. We've also overhauled the incentive process in our merchandising teams. And it's been helping us increase the average tenure of our buyers, and that tenure has gone from an 18-month process to over three years in terms of in place for our buyers.

We also know our members expect to be excited when they shop with us. And we will win with them every time if we elevate the core of the merchandise. And that means offering "wow" items like our curved 4K TV that you see over here with the Sam's Club brand showing here, so great television at a great price. But also items that are very new to the market that are known brands like this Nikon 360 camera. So this is a video camera, takes 360-degree pictures, $499 with an assorted package with it, new to the market, it's not available to the market until October 26. It'll be in our clubs the first week in November. So we're going first to market with new brands and new technology in addition to an elevated position on our private-brand business.

You'll see items like our Segway at $798, a nice fun item that is really getting a lot of attention, helps our member, just signals to them that we're doing something different in our clubs. And then by doubling down on food with elevated fresh offerings and new organic items in our clubs is making a difference as we look at who is our member of the future. It helps us also play an important role in the Wal-Mart, Inc. overall goal to win in food in the U.S., and we're absolutely doing our part there.

So even as we offer higher-end items and we're committed to investing as much as we can in those areas, it's important for us to think about price. Price value is the most important reason why our members renew and shop with us every day. So our systematic work that we're doing around the Better Buying program is helping us to offset the investments in price. And our price index work so far tells us that we're making advancements here. We're more competitive than we were this time a year ago on price.

We're also committed to delivering value through programs like our Plus membership program, our Cash Rewards program and our Sam's Club 5-3-1 Credit program. All of those deliver price on -- deliver value on top of price to our members, and they know that. They think about that every day.

So one of our most exciting ways that we're building loyalty is by expanding and improving the quality of our private brand. And I know as many of you all were in the club yesterday, you can see the advancements that we're making there. And when I talked about upgrading the talent, we started first with our private-brand team and brought in top talent at the top of that pyramid, but then also added product teams and quality teams. Because we're not just changing the packaging and the marketing around our private brand, we're delivering quality at a value. It starts with sourcing. So we're sourcing quality goods at a value and delivering it at the price point that is important to our members.

So at one time it's important to note that we had 20 different private brands aligned to the Sam's business. We're down to one brand, and it's Member's Mark. And we plan to stand behind it. You can see how we're creating visuals in our club of the future, and you'll see that play out as we increase the number of merchandising items that we have in our building.

This year alone, we've added a 100 new items. So it's not just shifting over from one category to another. It's about newness in this category as well. So we're elevating the quality of our offerings with items like our olive oil, the sourcing of our olive oil, the quality of it, making it organic where it matters. And of course, things like in our adult beverage area. Our Member's Mark vodka, which we've done a nice job on, and we get a lot of feedback from our members on that brand. So these changes have really helped us to really quickly increase the penetration of private brand by slightly more than 100 basis points in a very short period of time. And in the last year, 94% of our members purchased at least one private-brand item in their cart. That's significant for us.

And we're signaling these changes with exciting new packaging on items like our chicken broth. Again, chicken broth, 6-pack item of chicken broth still at the same price. It's organic. Packaging looks great. Our mangoes look wonderful, and then our coffee that we source on our own and have also added some new packaging too. But I think it's best to look at it in this video because it shows what we're doing in a very systematic way. Let's talk to the video, please.

(video playing)

Rosalind Brewer - ***Wal-Mart Stores Inc. - President and CEO, Sam's Club***

So that's just a snippet of our new team that's helping us source our goods in a much better way, and our Member's Mark Cabernet Sauvignon will be available in our clubs under the Member's Mark brand, available in fall 2017, so we're looking forward to it. And this will be at a retail price of about $15 to $20, so we're in the right price range with the right kind of quality.

Let's move on to the second pillar because the second pillar is about what we're doing with growing our membership. And membership for our business is really critical. As you know, our membership fees are a very significant portion of our profit. And if we run our business well, this is the equation we want to have, right? So that we're delivering the right price value to our members and then delivering the right experience for our members.

So we've restructured -- reconstructed our marketing and membership team and we flipped that and it's a member-facing team. And that team looks totally different. We now have a new sales team out in the field supporting us, and that team is supported by a new relationship we have with salesforce.com. We created a new tool called SalesPro, and that SalesPro tool helps us do two things. One, it helps us prospect well to the member we want in our buildings for the long haul. And secondly, it helps us manage accounts. And so, we keep notes and records, and then the whole team can rally behind what we're doing from a regional basis out in the field. It's been very effective for us. It helps us use the technology that we have also backing our business.

And we're also using technologies in other ways to drive membership in our business. We've added auto renew. It's available online. And what we've seen with auto renew is that 21% increase in the first year renewal rates for members who join online, and that's significant for us. And we're leveraging this with our massive repositories of data to help deliver personalization at a scale.

The final area to highlight on membership is the diversity of our payment options. And so what we really believe is, we have finally met the member in terms of how they want to transact with us. You all are probably aware that earlier this year, we began accepting American Express in our buildings. And we very quickly started to see our relationship with our small business owners really change. This is the way they manage their business. It's through their American Express account. And we like the trajectory that we're seeing on membership at the time. We have no plans in this -- in our plan going forward to really look at a fee increase because what we're seeing in terms of our upgrades and the intimacy that we're actually developing with our members on a long range.

So as part of our work, we have narrowed our focus. And I've been talking about focusing on the member we want in our business in the future, so we had to get really focused about that. So part of this work is looking at the member of the future. And we really depended upon now, going forward, four savings members and four business members. And I can tell you, this list was very long in private years -- in years prior, in terms of who we were going after, but we're very clear now who's going to transact with us in the future.

So our savings members, they are large families, new moms, social couples and neighborhood families who live nearby and treat our buildings like a grocery store. They're social couples. For example, these are young couples who don't have kids, and then empty nesters whose families are downsizing. And when we look at this group, in spite of having small households, these social couples spend 30% more than other savings members because they love food, they love entertaining, and they love high-quality products, and that's where we're going.

So our business segments includes restaurants and food service industries, and our care organizations, and most importantly, our resellers. That's how this company started. So one example here is the restaurant and food service area, which also includes bakeries and pizza shops and the mom-and-pop small cupcake factories, and then most importantly, what's growing with us is food trucks.

So these members purchase on average more than four times a typical household member. And Sam's Club is their destination for essentials like supplies, fresh meat and dry grocery items. So within these groups, we're targeting affluent households and these are affluent households who want quality items.

The current median household that we usually are in business with are about $80,000 a year. With these steps that we're taking, we're elevating our member base to the $100,000-a-year household. And all together, these eight segments represent about 80% of our growth opportunity. So it's important for us to focus in those eight areas.

So the third pillar is leading in digital. We believe digital is a key differentiator for us, and we're strengthening in areas where we know we already have a competitive edge. We're building a shopping experience for our members that is really seamless no matter how they choose to shop.

So let's think about our Club Pickup business. We've had Club Pickup aligned to our business for more than 10 years. But with the additions that we've added through all the things we're doing with our mobile app, the kiosk in the club, our Club Pickup business is up 31% year-to-date through August. We've added mobile check-in and a prepayment option. So we don't have stranded orders in our building.

So many of our members can pick up their orders without even having to set foot in the club. And that's an enormous opportunity and convenience for those numbers that I described, especially for our small business members who are typically very short for time, and saving even the new mom time in her day so that she can pick up -- order online, pick up in club.

And our direct-to-home business is growing as well. We started leveraging Walmart's extensive network, the total Walmart, Inc., of e-commerce fulfillment centers to enhance our shipping abilities, and this is new to Sam's just within the last 90 days. And these units are strategically located across the U.S. and these centers really offer over 1 million square feet of opportunity and allow us to ship online orders even faster at a lower cost. And so as far as the share has gone, our growth in e-commerce in GMV sales is up over 20%, and this is above the market industry right now.

But what I'm also excited about is the potential for our Scan & Go app. So we've talked a lot about that over the past couple of days. And you've seen it operate, maybe a few of you all in our clubs, but it gives you an opportunity to scan the items by your phone when you shop and then pay from your phone. And then skip the checkout line. The feedback has been tremendous. Let's take a look at how it works.

(video playing)

Rosalind Brewer - ***Wal-Mart Stores Inc. - President and CEO, Sam's Club***

So this is a real game changer for Sam's Club in the warehouse channel, in the space that we participate in. So after going nationwide just last month, our app is now rated 4.5 out of 5 at the Apple App Store and 4.1 out of 5 in Google Play. So Scan & Go gives us the flexibility to redeploy labor at the front end of our building, which is really becoming a real active part of our building. It's where we have Club Pickup. Its where we have an automated membership desk. And it's being -- becoming an important little area in our building. But most importantly, it's helping us deepen our relationship with our members. They love it. And nearly 80% who try it, use it again within 90 days. We really like those numbers. They're visiting the club more often because they can get in and get out so quickly. And early indications are the Scan & Go users' incremental spend goes up by about 10%.

So when I talked about increasing the spend per member, it's tools like this that gives us confidence that we're heading in the right direction, and that's a lot to get excited about. And it's also an example of rapid prototyping. This is a combination of work that came out of our GeC team, our @WalmartLabs team and our team here in Bentonville, Arkansas. This came into fruition within a six-month process and it's commercial in all of our buildings effective two weeks ago.

So bottom line. We're building for the long haul in digital and it's working. We're really, really pleased with the investments that we embarked upon more than a year ago to invest in both our associates and our technology.

So now what we really want to have happen is we want our members to have a great experience every single time that they shop our buildings, whether it's online or in our building. But it really starts with running great clubs.

We haven't forgotten about how important that is because if that shopping experience isn't up to par, we don't get that second opportunity to impress them online. So our club managers have had -- have set high standards. And under the leadership of Don Frieson and his organization, they've taken us to the next level. And our shopping experience in our buildings just continue to improve time and time again.

But if I step back for a minute and see how all this adds up to a transformed Sam's Club experience, and we're now about a year into this plan, I thought maybe I'd share with you a few of the numbers to show how we're making a difference.

So as we finished the first two quarters of the year, in particular, we're encouraged by the investments in people and technology that I talked about, but I'm pleased with our sequential comp growth quarter-over-quarter even versus fourth quarter of last year.

So what you'll see in our second quarter comps without fuel, what you did see is that we're slightly ahead of guidance. We were slightly ahead by 60 basis points. Our net sales for the first half were up 1.6%. Deflation, by the way, is having a huge impact on our business, particularly in a few key areas, and I know you all have been seeing this out in the industry. But like dairy and milk, it's having a heavy impact. Milk alone is experiencing its second year of double-digit deflation. Eggs, meanwhile, had hyperinflation last year due to the avian flu, and then the deflation that we're seeing on that is more than 50%.

Our membership income, however, last quarter increased nearly 3%. And we saw continued growth in our Plus memberships, which are at near all-time highs for us right now. So we're very proud of the work that our e-commerce GMV growth is seeing and it is absolutely outpacing the market.

So overall, we've seen solid progress. But we recognize, first and foremost, that there's still work to do. We'd love to see some growth on the top line. In particular, I'll call out what will help us in this area is continued focus around our merchandising work. And the more we invest in our assortment and the talent that we have in this area, we feel confident that we'll continue to move forward. Simply put, we could be better merchants, and we will be. We also need more energy and commitment around the work that we do with the way we started our company with small business owners. And with the addition of American Express, we like the trajectory that we're on.

So what can you expect from us next? Most of you all had a chance to experience the Bentonville Club. And I want to remind you, that's a look into the future of what we could do with our business. But this club really serves as a lab for our learning and what we want to do next. But we feel pretty confident about 70% of that building can be replicated across the nation. The total box sales lift for that building is about 4%, driven by higher shopping frequency and slightly smaller baskets. But the sales lift has been more pronounced in the higher-income markets, and that's where we're going. And while we've elevated the assortment, we didn't really see a negative impact to our core customer, and that's important for us. We want to make sure that our basics remain strong and that we provide them an opportunity to really be an aspirational buyer with us, and we're seeing that play forward.

So the lift in fresh is particularly compelling. The fresh island that you saw on the back with a red meat counter, the whole meal solutions, is actually adding 50% of that growth to the box. And after adding drive-up and the canopy for Club Pickup, it's improving the pick-up order process in the building as well. Sales have increased by double digits in that area.

So now you might be asking yourself, how quickly can we roll this out? And we'll show in just a second here what our capital plans are. But it is going to take a balanced approach moving forward, as we look at our growth. We have to be balanced. So it comes down to a very few important things that we need to deliver on. We'll grow our membership and increase the spend per member. In particular, we'll continue to work at advancing our Plus penetration, that's important to us. We'll also hold our operating income as a percent of sales steady while investing in both price and technology. And as you know, our business is strong, and at Sam's, we generate significant cash for the company.

So in terms of the disciplined approach, you heard Brett talk about this. I want to drill in just for a quick second here around Sam's. We'll hold our CapEx relatively flat at approximately $700 million next year. We'll strategically shift building new clubs to investing in enhanced remodels, components of what you saw in Bentonville; smart relocations, so we align our members with our merchandise; and then, continue to invest in our e-commerce and our technology. But by focusing on current clubs, we'll improve that member retention that we talked about and lean into attracting more members in our current markets.

So I'll leave you with these few key takeaways. Our strategy has definitely positioned us to win. We're seeing it. We're leading the digital experience in the club channel. We're pretty proud of the work we've done there. We're accelerating our price value relationship with our members. And we're also doing our part to really grow the food business in the U.S. Our members expect this elevated experience with us, and we're consistently providing strong profitable business to the company. We feel confident about our path forward.

So I appreciate the interest you all have shown with us over the last couple of days as we've toured the club and had dinner last night, and you've been able to experience what we're trying to do next with the business. So thank you.

(video playing)

David Cheesewright *- Wal-Mart Stores Inc. - President and CEO, Walmart International*

Well, good morning, everybody. It's a real pleasure to be here to talk to you about Walmart's businesses outside the U.S., our International division. You know what, Doug? It's interesting, watching that, it's the international expansion that actually brought me into retail. My first boss -- I spent 12 years working at Mars, the candy company, and my first boss went on to be the CEO of Asda, when Walmart acquired the business. And he called me the day the acquisition was announced and said, "Have you heard the news? " And I said "Yes, sounds really exciting." And said, "What you think? We need people. Why don't you come on board? " And I had heard lots about Walmart from over the years, and I knew about packaged goods. I thought it would be a great chance to understand retail. That was 17 years ago, Doug, so here we are.

Now in terms of today's session, I really want to start with where we are going to end, which is takeaways. What would I want you to remember from this session? And there's a couple of things. First of all, I want you to remember that International has some really strong momentum. And you are going to hear us talk about comp sales in particular. We've seen our comp sales improve sequentially over the last two and a half years, and we're doing that profitably. First half year profit was growing ahead of sales. It's done that for the last two years on an underlying basis. So we've got really good momentum in the business.

Second thing I'd want you to remember is we have a very clear strategy. And those of you that were here two years ago, last time we talked formally about International, you'll recognize the strategy. It'll be pretty familiar to you. It's a strategy we believe in. It's a strategy we continue to develop, to get more focused. But it's the framework that's really important to make sure our countries are very aligned on what matters for customers and what matters in the future.

Thirdly, you'll see we continue to work very hard on our portfolio. We have a pretty broad business, and making sure we make the right choices to make our portfolio simpler and more focused on what's going to be winners in the future is really, really important.

And then finally, I'd want you to remember that we're getting better and better at executing our plan with pace. And you'll hear about good talent in International, some really good collaboration that's going on between the International division and the other segments across the business and a heightened level of rigor in the way we go about our planning process.

So before we start, I just thought I'd spend a couple of minutes giving some brief background on International. Some of you will know it well; for others, it will be a new business, and it's very different to the U.S. business. If you had to sum it up, you generally pick two words. It's big and it's diverse. Big, we'll do about a $125 billion of sales this year through 6,300 stores and serving about 120 million customers a week. And that would make us the second-largest retailer in the world in our own right, and we have to forget that because we're a little brother to a very big business in the U.S.

Secondly, though, it's very diverse. And you saw some of the stats at the beginning there, and we operate in 27 different countries. We run about 11 core formats, but we actually have over 60 different banners around the world because we've grown primarily through acquisition. And we have a whole load of accompanying businesses.

We have over 50 food processing plants around the world as we vertically integrated to take cost out, sourcing offices in a number of countries. And that diversity for me is what makes International such an interesting business. And one of the things I always say to my team is one of the best things about International is, it's very rare that you'll find a problem that you face that someone in that ecosystem hasn't solved. The trick is how do you connect the problem solver with someone who's facing the problem. So a big and diverse business.

Okay, well, let's move on and then talk a bit about the strategy, and so you may well remember this framework from a couple of years ago. Our ambition is to be the world's leading digitally-enabled food retailer, innovating to help customers around the world save money so they can live better. And we do that around four key pillars. We want to actively manage our portfolio. We want to deliver disciplined growth, that's the basic blocking and tackling of retail. To afford to do that, we have to have the lowest cost to operate, and we build strong foundations, and for us that's three things. That's about tech, it's about talent and it's about trust. And we'll spend the next 20 minutes or so just going through each of those and giving you an update on some of the work that we're doing, but that's a very consistent framework over the last two and a half years, and that is really, really important in such a diverse portfolio. Because we -- what we need is to make consistent choices and give our leaders around the world clarity about what we're doing across the International enterprise so that they can start to align behind those objectives.

So before we go on to strategy, let's just talk a little bit about performance. So let's start with half year this year. And we had a really good start to the year. So sales growth 3.2%, and that's on a constant currency basis. And what's most encouraging in there is that more than two-thirds of that growth is now coming from comp sales. That's very different from where we've been in the past, and that's something that we want to continue. Comp sales is good growth, and it's very profitable growth. Within that, we're seeing consistent performances across our markets. So in the first half, 10 of our 11 markets had positive comp. And in fact, if you look down in the second quarter results, we had six markets over 4% comps. So there's some really good momentum across our markets.

As I said at the start, we're doing it profitably. So once again, we saw our operating come growing ahead of sales.

One highlight to pick out is, we've been very focused on which markets matter the most. And those of you that know the International portfolio, the two markets that are really, really important, and that's Walmex and Canada. They're important because they're big markets. They're important because they're profitable markets. And they're important because they're adjacent to the U.S., and therefore, we can leverage both from and to the U.S. business. And International is relatively straightforward. If you get those two markets working well, life gets a lot easier. If they're not working well, my job gets pretty painful. So I'm really encouraged over the last 18 months that we've seen strong turnarounds in both those markets, and particularly Walmex. It's great to see that business in mid- to high single-digit growth and, again, profitably.

And then finally, Doug touched on this at the start, and we'll talk a bit more about it later, we're very excited about the partnership that we've agreed with JD in China. I think that gives us a really good platform to drive some incremental growth in what's a very important market for us.

That's not -- that's the first half. But let's just look one more slide on performance, which gives you a view over the last two and a half to three years. So this is our 12-month rolling comp numbers. We use 12-month rolling because it takes out all the variations as timing split between quarters. It's a much more consistent measure. And you can see that this momentum has been building for quite some time. So for two and a half years, we've seen our comp numbers increase gradually over that time, and we're now at a level at Q2 of this year where our comps are the best comps that we've seen since way back at the end of 2012. So we're seeing continued momentum on comps and I'd say, we're doing it profitably.

Okay. Well, let's switch to the strategy. And let's start with the first pillar, which is about actively managing the portfolio, and I'll look at this in two ways. So we'll start with the markets. And as we go through our long-term planning processes, each year, we take a forward look at where's growth going to come from, which markets are we in, how we're positioned and do we think we've got the right bricks of markets.

So the first thing to say is when you look at the markets, the markets that we already operate in give us access to about 40% of the growth that's going to occur on the planet over the next 10 years. Clearly, that doesn't include the U.S. Greg's business would add about another 10%. So as a corporation, we have access to 50% growth. That's pretty good coverage. And if you start to look at what's next, you run into countries like Iran, Venezuela, Russia, Turkey, Doug, which, they're not on my to-do list just at the moment and probably not on yours either.

So I think you can say from that, that we're happy with the markets we're in and we're not in any rush to go into new markets, and we're going to be very focused on getting better at the markets we're in rather than looking for any new ventures at this stage in time.

The second thing around the markets that we've done a lot of work on over the last couple of years is to try and very -- be very, very clear about what the role of our markets are. And we've done this in a couple of ways. There's some obvious ways of looking at our markets. But what we're trying to define is for each market, what are the characteristics that we believe would guarantee that, that market can be successful for a long period of time?

And you can see a few listed down the side there. And they're not earth shattering, but they are pretty important. So we like large markets that are relevant to our corporation. We obviously like markets that are growing fast. We like businesses that have scale so they're protected in those markets.

We like markets where the format positioning is good. So ideally, they're multiformat, so they're protected against the ups and downs of economic development, and each of those formats has a unique positioning that customers value. We like markets that have a cost advantage, so that they can sustain that model. We really like markets that have informal markets, so there's this engine room of shoppers moving from informal to formal. And we like markets where we can get leverage off the core, particularly Greg's business and the e-commerce business.

Now the reason I go through that, what that's allowing us to do is look at our markets both in the short-term, but delineate between performance and strategic advantage and where we have a -- clearly, there are markets that do better or worse over a period of time, but what we focus very hard on is being clear, what are the underlying strategic advantages that we've got in the market. And where we find there are gaps, we are now starting to work with the markets to say, "Well, what might you do to fill some of those gaps?"

So JD would be a great example of this. In China, it's a market we want to win. To win in China, we believe you've got to be relevant in e-commerce. When we looked at our business there with Yihaodian, we've made good progress, but we didn't think that was a business that was either worth the investment or would scale against some pretty big competitors. So we fixed that strategic deficit by developing a partnership. And you'll see us start to move through market by market, addressing some of our strategic deficits where we have them.

The final bit on the markets is we categorize our markets now into 3 groups. Focus markets, which would be really two types in there. There are some of our core businesses, so Canada, Mexico, would be core businesses; and then big growth opportunities like China. So Canada, China, Mexico are core markets. We have some mature markets like the U.K. and Japan, and then some emerging markets. And the reason that's important is it does two things. One is it gives our leaders in the markets real clarity about what their role is in the portfolio, and it's much easier to run a market when you understand what role it is you're trying to play in the market. So for a mature market, we ideally want consistency, but we really want those people to be developing talent for the business and developing ideas for the business as well.

So I think we've got greater clarity than ever about what the role of individual markets are. The second thing it does is it allows us to be much more focused in how we use our resources. So if you followed International over the last two or three years, we tended to treat our markets much more equally in the past; we don't anymore. If we have choices to make, we'd rather do the second, third, fourth initiative in a focused market than we would get down to support one of the smaller markets because that's where it'll make a difference for our corporation.

The second cut of the portfolio is if you kind of click down a level and look at our markets. And the three things that -- or two things that we work on and one output, simplification and repositioning. As I stated, we have a very diverse portfolio, and you can't be great at everything. So we've been very clear in terms of what formats we believe we can win, how they're positioned, and you've seen -- and Doug touched on it at the start. You've seen us start to go through a regular process of looking at businesses that are noncore, they're not areas that we want to be successful in the long term. And when it's appropriate, when the timing is right, when the opportunity works, we'll make disposals.

I want to stress, some of these are good businesses. The Suburbia business is a good business. It was a profitable business. It was growing nicely, but it's not a core business to us. And where we have those opportunities, you can expect to see a regular cadence of us looking to dispose of businesses that we view noncore.

Simplification is also about stores. And as you know, we closed a number of stores last year. That's not something that was a one-off. We've done that for the last four or five years, and you can expect that we will continue each year. And we essentially do an exercise where we start with the 6,300 stores, and we work our way all the way down to them in terms of performance. And then we evaluate the stuff at the end, which will be our underperforming stores.

We tend to be very optimistic at what we can do with those stores to turn them around, but there'll always be a stub each year where we look at and say, look, for whatever reason, we've got better things to worry about than trying to make these stores work. And therefore, we will close stores on an ongoing basis, and that allows us to reallocate our resources to where we think we can win with customers.

Repositioning is something that's very, very high up our agenda at the moment in terms of ensuring that our business is positioned for growth, and I'll just pick out two examples. We're still a big-store business. About 60% of our stores across International are what we call big stores. They're not big in your terms, Greg, typically, some 60,000 to 80,000 square feet, but big in the markets. And whereas those stores in the past have had, I think, a lot of natural advantages in the way people have shopped, we believe they're still very relevant in the future, but they're going to be facing headwinds. So working out what those stores need to look like in the future to make sure they're as relevant for customers is very high up our agenda. And you'll have seen, if you look around the world, the outputs of some of those developments.

So in Latin America, our largest prototype for supercenters now, we can fit a supercenter range into around a 60,000-square-foot floor space. And we think, in that market, that's the right format. That's a lot smaller. It has a lot bigger mix of food and consumables to general merchandise than you'd have seen in the past.

In China, again, you're seeing smaller stores. Typically, we'd be on two floors, maybe 120,000 square feet. We're down to about 85,000 now, and again, significant mix changes towards food and consumables from our general merchandise and apparel heartland from before.

And then finally, in Canada, if you visit some of the stores over there, we're taking our presidents up there in a week or so, that's the market that we've really chosen to push the boat out and look for some innovation.

So the stores in Guelph and Meadowvale, you'll see quite a different view around which categories are going to be relevant to customers in the future and some quite dramatic choices about where we want to play and where we're not. Now I won't get it all right, but what we're developing is a kind of test lab so that we can see what works and what resonates with customers, so we can share that learning across the rest of the business.

JD would be the other area on positioning. I think I've covered that, so we'll skip on.

Finally, on capital allocation, we've got much, much more disciplined around the way we allocate capital. And you'll have seen from Brett's slide, our capital number goes up slightly next year, that -- you might find that a little surprising. Our new store CapEx within that stays pretty steady. We've reduced that now for six consecutive years around a low double-digit negative CAGR.

But what you're seeing is that we grew very dramatically seven or eight years ago. We had two or three years where we opened a lot of stores. And clearly, those are now moving into the remodel cycle. And we know from experience that you have to keep touching stores to make sure that -- both physically, that they're fit for customers to shop in, but most importantly, that those offers are tailored towards what's on current customers' minds at the moment. So that investment is really about driving the comp sales in our core business.

Okay, so second pillar then is about disciplined growth. And this is really the blocking and tackling of retail. The value proposition is very simply what you do for customers that they value and is differentiated, and I touched on that already. We're going through format-by-format, market-by-market, making sure that our formats are relevant for customers, not just now but in the future. And we spend a lot of time on this because, as we look around the globe, typically, where you're seeing businesses in trouble, it's broadly around the customer value proposition, and it's mostly where people get stuck in the middle.

So if you look at the U.K. supermarket sector as a whole, there's a sector that wasn't simple enough to compete with the emerging discounters. It wasn't really different enough across the floor for people to drive past one another to get there. So you have to make some conscious decisions about what are you going to do that is different. So that's been a real preoccupation for us over the last few years. We're seeing good progress, and you'll see that in some of our formats like, for example, Maxxi in Brazil where, when you get it right, you can see some quite dramatic changes in sales.

Across the bottom, you see some of the key areas that we're working on. There won't be any surprises in there. I'll just pick out a couple of highlights. We continue to put pressure on price separation across all our markets. We're really excited about what technology can do in this area. And we've been working hard with our business in San Bruno, our GeC and our labs business to start to explore how the use of analytics and algorithmic pricing can give us much better insights into what's going in the market, but also scale the amount of work you have to do to effectively price for customers. There's 100,000 items in a superstore. It's pretty hard for a buyer to do that all by himself, but you can code the way the buyer thinks and be much more effective across our business, so we're excited about that.

Fresh is really important to us. It's what drives the traffic in our business. And a couple of things I'd call out there. We've got some really good examples around International of looking upstream to make sure we're effectively sourcing. So our IPL business, which has sourcing offices across Europe, Middle East, Africa, is a really good way of looking at strategically having genuine agri experts on the ground to make sure we find the right product, but most importantly then, managing the supply chain right from field into store to make sure that we take costs out and get that product to customers as fresh as possible and at the lowest cost as possible. We think there's a lot of applications to move that both to other markets but also across our corporation. So some really good progress on fresh.

Private brand, you'll hear it's a consistent theme across the corporation. We're seeing really good growth in private brand. Outside of -- obviously, the U.K. is a huge private-label player, and we range with penetrations there of just over 40, and there are some markets we're in low single digits, so big opportunity for us in private label. Outside the U.K., we're seeing growth of around 15% across our private brands, and we really think we're just getting started.

Probably the most exciting thing on private brand is collaboration. And about a year ago, Greg, we agreed that we would use 1 single system for spec-ing and private-label development across every market around the globe. Now as that rolls out, you can imagine the opportunities that presents us. We'll be at a -- see a seamless view of specifications, innovation, sales rates. And the opportunity, particularly across North America, to start looking at consolidating sourcing, developing strategic sourcing partners and also harmonizing a lot of the products is a really big opportunity for us in private brand.

And then finally, in online grocery, we're lucky enough to have Asda who've have been doing this for a while, still got a lot to learn there. But I pick that one out as an example of how we spread best practice. And there, we set up in the U.K. what we call an acceleration team. It's a small team. It's about six people work there. They sit between the U.S. business and the Asda business, and their job is to help accelerate international markets. So they know everything that Asda's learned. They keep very close to Greg's team, so all the latest innovations that are coming out in the U.S. And they are a go-to place for our markets. That means that they don't have to reinvent the wheel, but they can tap in, in a very efficient way to all of our experience that we've gleaned over the years. So really confident that we're going to see continued momentum on sales growth.

Now clearly, to do that, you got to be able to pay for it, and so being the lowest cost operator, our third pillar is really, really important. All the things that you'd expect around buy, move and sell, and again, I'll just pick out a couple of examples on this in terms of those areas. So on buying, we're about a year and a half now into a really, really strong program of cost analytics, where we've essentially put a lot more science behind the way we negotiate.

And the reason that's important is twofold. One is it's been delivering some significant benefits, which we're able to reinvest in price and drive some good price separation. But two is it's a really good example of how we're now thinking about deploying things quickly across International. So Canada was our pilot market. We already identified the next markets that we go to, which, not surprisingly, are our focus markets of Mexico and China. So we have their teams sit alongside the Canada team as they roll that out. So they're pretrained to go and roll it out to their markets and then obviously, the other markets do the same as the second phase rolls out.

So that, we're seeing some really, really positive results. And as we start to overlay what technology can do to make that process more efficient and more granular, we're very excited about that.

Also very excited on the buy side around some of the sourcing work that we're starting to do with Greg's team. And particularly, what we're going to look at in terms of the sourcing of global commodities across our business with one way to take costs out and how we reengineer some our sourcing supply chains, we see lots of opportunity to do better there and then really reinvest in price.

On moving and logistics, important for Walmart around the globe, and again, I'll pick this out as an example of how we work. So in logistics, we have what we call a Center of Excellence. So again, a pretty small group. There's about 15 people in that team. And where we have a Center of Excellence, we harmonize metrics across countries, not to benchmark because obviously, there's a lot of differences between countries, but more so that they talk in a common language.

And then the excellence team are focused on that work assessment. So we have a team that can go into any market. It can go from what a network should look like strategically all the way down to individual activities within a distribution center and can benchmark against any which way you want across that market. And we're seeing huge improvements as we go in and give the markets clarity about where their opportunities are.

So this year, our cost per case in DCs is up high single digits. Our cases per trailer, which is a key driver of transport cost, is also significantly up. So we're seeing good progress there by creating a way of working that allows us to share best practices very, very quickly.

And then finally, on sale, you'll hear a lot of consistency with what Greg will talk about in the U.S. Here, we're looking to simplifying our store operations in most markets where we're taking assortments down. It makes it easier for customers to find what they want. It makes it more efficient for our store operators to keep those stores full and keep product in stock, and it makes it more efficient for our supply chains. And we're very focused on managing inventory the same way that Greg is. And certainly, we're seeing a lot of synergy as we develop activities along the same things but in slightly different ways to learn from each other as we go.

Okay, so the final pillar then is about our foundations or our enablers. I'll pick out 3, so first is technology, and you're going to hear a lot about that today. But really, what we're trying to get our businesses to understand is that this is not just about e-commerce. And I think we've started -- Asda would be a very good example. It started thinking that technology is about e-commerce. It's almost the wrong way to look at it. But when you think of technology in its broadest context, so everything from driverless cars to robotics, to automation, to data, to algorithms, to analytics, technology is going to transform everybody's job fundamentally.

So we're now much more thinking about how we digitally enable, digitally transform the entire company, and a subset of that is to have a much more meaningful relationship with customers across all the various ways they want to shop, and a subset of that is some transactional opportunities. So we're really excited about when you think much more broadly about technology, what it can do to improve a business because, in many cases, what technology does is scale existing processes. And when you're in retail, one of the things you learn very early on is there's an infinite amount work to do. The good buyers and the good operators of the past are the ones who understand the 80-20 rule well. Well, the great thing about technology is it allows you to work the 80-20 rule the wrong way around because you can scale it by using algorithms to do that. So we see opportunities in every single aspect of our business, not just the transactional side of what's going to come out of technology. We're very excited about that.

So the final two pillars are about talent and trust. And talent is so important in a business that's as broad as ours. It is -- as Doug will know and Mike before him, it's pretty much impossible to manage the International business. It's really too broad to physically manage. And therefore, a big part of my job is making sure that we have the right talent in our businesses. And we think of talent in three dimensions. It's about getting the right people. It's about being very thoughtful about what roles they're going to be best equipped to do. And then it's creating an environment that allows them to be the best they can be.

And the second -- we often focus on people, but the second two are really just as important. And I'll maybe pick out a couple of things here to bring this to life. So first is we view our role as being really important to export talent to the rest of the business. And a good thing about International is we can give people experience of breadth and complexity early on. We run smaller businesses, therefore, we tend to have roles with broader remits.

So we think for the U.S. big segments, we can give people breadth experience, obviously not the scale that the U.S. can do, which is going to be very valuable in some of the cultural changes that Doug's talked about. And so we're very proud that in the last two years alone, I think, we've exported over 20 VPs and above back into our U.S. segments.

What we're most proud of, though, is that despite having done that, we're still in a position to have good strength ourselves, and you'll have seen early on this year, we made a number of changes to our CEO population. So change in our three biggest markets. And I think that says a lot for the bench strength and pipeline that we have.

And just to give you an idea of the caliber of those people, I was just joining up as I was waiting to come on. In our top three markets, so that's Lee Tappenden in Canada; it's Dirk Van den Berghe in the U.K.; it's Gui Loureiro in Brazil; and then Sean Clarke in the U.K. So that's 4 leaders. Between them, they have lived and worked in 23 different countries, 23 different countries, that's more than five each. So when you think of the breadth of experience that, that group have, they worked across multiple segments, they're very good strategists, they've got a record of driving transformational change, they're the leaders that we're going to need to manage this complex business in a time of amazing change.

And then finally, the final pillar is about building trust. And Doug covered this nicely at the start. We're very passionate about investing in the local community wherever we are. We're very focused in terms of sustainability across our business. But most importantly, we think our compliance programs are a genuine competitive edge. With the support of Jeff's team, Jeff Gearhart's team, we've made phenomenal progress over the last couple of years, putting a world-class compliance program across 14 subject-matter areas in all of our businesses around the world. It's been hard work. We're already starting to see the benefits. We see accidents down in most of our markets. We're seeing food safety stores -- scores go up. And as Doug touched on, in a world of ever-increasing transparency, this is not just hard work. This is going to be a real sustainable competitive edge for our markets, not just in the U.S. but around the world in the future, and we get great support from Jeff and his team.

Okay, so let's just quickly touch on the markets, and then we'll wrap up. And if you want more of these, I'm sure we can pick these up under the Q&A. But Mexico, we're very optimistic for the future. I mean, it's a strong business. When you go through some of the things I talked about, it is a very well-positioned business. It will be down to us if we don't do well in that market. We've got all the strategic advantages you want.

What I'm most optimistic about Mexico is that everywhere we look, there are opportunities to be better. It's a business that's relied very heavily on growth. But as we start to look at how we can drive private label, very low penetration, what we can do with wage planning, what we can do with the logistics network, that is a business that is just starting in terms of its journey of growth and profitability. We're very excited about that.

In China, obviously, it's our big focus for growth. We spent a lot of effort over the last couple of years of building foundation. The national network is out there. Our buying organization has been centralized from 26 offices to 1. We're very excited about Sam's. We collapsed our entire regional real estate team into China to only focus on creating the Sam's pipeline, and we think we can accelerate that significantly over the coming years. And we're really excited about what we can do with Sam's and JD. As I think you know, we'll have a flagship store on the Tmall site. That should open before too long, and that will allow us to take a brand that is really well liked in China across to a lot more people.

In Canada, we've talked about, it's a strong business. They're delivering good market share gains. It's becoming a Center of Excellence and innovation for us as well as a business that delivers good profitable growth.

And then finally, we'll just finish with a couple of words on the U.K. U.K. is, without a doubt, our toughest market at the moment. Two things I'd say for background and then maybe talk briefly about what we're doing. One is it is a tough market. In that sector, before supermarkets, I'm not sure I've seen anything like that in my working life, where four businesses have seen their profitability more than halve in the space of a couple of years. We got four new CEOs in those businesses now. Certainly, the three, excluding Asda, have been very inclined to sacrifice a lot of margin to try and get back to growth, and even then, it's a whole sector that's at best flat.

Second thing I'd tell you is we've got some strong fundamentals in our business there. We don't have any of the issues that our competitors have in terms of balance sheet issues, and we've got a good level of profitability in the businesses that we can reinvest to get the sales line moving, so we have strong foundations.

In terms of what we focus on, talent, number one. You've seen us made -- make a number of moves over the last six months. Very excited about Sean Clarke moving from China to the U.K. He started in Asda. Very excited about Roger Burnley, who's the COO, very experienced in the U.K., again, started at Asda 15 years ago, and he's coming back. He starts in two weeks' time. Got new leaders in e-commerce, corporate affairs, marketing, so we really are starting to rebuild a good degree of talent.

Secondly, we're really working on foundations. We're about halfway through a program of looking category by category at what we need to change to start to build for the future for [where] customers want. And a lot of that is about rationalizing assortment, making it easier for customers to see what they want, simplifying the operations. That's about halfway through. We're also about halfway through a relaunch of our private-label program. And with that, that's 40% of sales, that's a big deal for us.

And then finally, we're moving to the final stage, which is starting now to really focus on sharpening our price position. We'll make some investments in there, and also sharpening our in-store experience. So I don't expect this to get fixed quickly. We'll do it in a rigorous way. We're in a good position. The teams are doing a nice job of generating some of the funding themselves to do this. I've got a portfolio, so I can help them with that, and we'll do it in a considered, controlled way, but we will get our business back on track.

Okay. So we'll wrap up where we started. We've got great momentum in the business. We've seen three years of consistent improvements in our comp sales, and we've done it profitably. We have a very clear strategy that we believe in. We think it positions us in terms of the portfolio for growth in the future. But as with all things, strategies and plans are great. Delivery is what really matters. And then probably the thing I'd finish with and the thing I'm most excited about is our capability to deliver. I think International has about the most talented leadership team that I've seen in my 17 years. I think the level of collaboration with Greg, Roz, the e-commerce business is higher than I've ever seen in my 17 years. And I think the rigor that we've got in planning and making choices is as good as I've seen in the 17 years. So good plan with a high degree of confidence and execution, and I believe we'll keep the momentum going in International.

Okay, thanks very much.

(video playing)

Greg Foran - ***Wal-Mart Stores Inc. - President and CEO, Walmart U.S.***

Good morning. Thank you, and welcome. I'm Greg, and I'm going to share with you some of what we're seeing out there in our stores today.

The video that you just saw gives you an indication of some of the momentum that we're starting to see in stores. Judith shared a version of that at the Holiday Meeting that we just had in Denver. It's a meeting that we have every year, and we get store managers and merchants from all across the U.S. in one room.

It actually coincided this year with the release of our Q2 earnings. And I can tell you, it was a powerful moment to be part of the audience as Judith shared that video with us. And I see that. As I get around our stores and I get around our distribution centers and our offices, I see an increasing sense of pride of what we're starting to achieve.

The numbers that we're going to share with you today are the results of lots of hard work. And I just want to take just a second and thank our associates all across the U.S. and our leadership team that are in the room with us today for that hard work that makes a difference.

So the first half of the year. Net sales, comp sales and traffic, as you know, are up. Strategic investment, as we communicated previously, continued to pressure profits. We've expanded online grocery, and we've nearly doubled the assortment on Walmart.com. We're seeing our customer experience scores continue to improve. And with that, our Net Promoter Scores are up as well. Now we all know that when customers are satisfied, they encourage their family and friends and family to come and shop with us. And because of that momentum, the productivity loop, or as what we refer to it, the Walmart wheel, starts to turn. That was the long-term plan that we shared with you back in October in New York last year. We grow the sales. We leverage the costs. It allows us to lower prices, and in turn, we continue to grow the top line.

We are now a year in. And as you would expect, when you're only one year into a long-term plan, I don't have much breaking news for you today. This is, in fact, an update. And I'll stick to the same construct that we spoke about last year. We're going to run great stores. We're going to deliver value, being great merchants and providing convenience.

So the part one of the plan, run great stores. Better stores are the key to us running a better business. And it starts with improving the associate experience. We know our associates are the greatest asset we have in connecting with customers. When we provide them with a great start, a path to grow and succeed, they'll provide a better experience for our customers. Over the last two years, we've been making a pretty major investment in our associates.

As you know, it's included changes to wages. But it's also included hours, hiring and training. At the same time, we have raised wages for assistant managers and store managers and improved the training in that area as well. And as all of that converges, we're pleased that we're heading down this path. At the same time, we're starting to roll out something that we call training academies. And trust me, these are pretty important. It's like putting a classroom next to a store of excellence.

We put the first one out there in Dallas earlier on this year, in February. We've currently got 20 today. Our plan is to have 200 across the country by the middle of next year. This is a massive undertaking, and Judith and some of her team, they are off looking at them, actually on Monday this week, and she was sharing with me just how much effort has got to go in to get this right. Once we do, though, we're going to have a facility that's going to allow us to take the 140,000 department managers we've got, and not only will they get good training in-store, but they get the opportunity to go to these stores of excellence.

At the same time, we're investing in technology. Associates, management, all our leadership, we're all saving time with things like new tablets, new handhelds, new mobile devices. If you want to see the sales data, I was checking it just before when I was down there, I'll look at it on the app. If I want to see what the Clean, Fast, Friendly score is for any store, I can see it on the app. If I want information about markdowns and I want to know how many price ups or price downs have occurred in any store, I see it on the app. If I want to check availability, I've got it on the app. As I tour our stores, if I want to know whether they're doing their comp price checking, I can do it on the app.

We're also, at the same time, addressing retail fundamentals. We're simplifying the process, exactly as Dave said, for our associates because we know simplicity drives consistency. Last year, we shared with you what we were doing with CAP and topstock inventory. Through the hard work of Marc and his team, they've been able to now put that out chain-wide. You would have seen it when you toured yesterday. We also have a pretty good tool out there called OSCA, On Shelf Customer Availability. It uses predictive analytics to tell us what's happening in terms of the on-shelf availability for a customer. And I can tell you, it's contributing to improved in-stocks because it gets us focused.

And in line with Doug's priority for discipline, we're being disciplined in how we order and flow the inventory. Andy and his team completely changed their process as we started rolling out our autumn apparel. Our goal is pretty simple: We only want to touch an item once, from when it hits the back room to getting into a customer's basket. I can tell you, it isn't easy to do, but it makes a heck of a difference when you're working in a store.

So overall, you're starting to see comp inventory come down consistently and sensibly. And at the same time, the in-stock performance for the customer is improving. As well as that, we're starting to get improvements in shrink. And when you combine a whole bunch of those things, what happens is that you get much better balance with inventory and sales.

Here's what it looks like when it goes well. I called into the store, did a store tour. It was in Oklahoma, probably about 10 or 12 Saturdays ago now, it was in the afternoon. And our department manager here grabbed me and took me straight out the back because she was so pleased with the progress that she's been able to make. Now Judith, Julie and Mike will be the first ones to say we haven't gotten this rolled out in every store because we haven't. But I just wanted to share with you, that's sort of our ambition here because it actually lets us run a much more efficient business. A long way to go still on this.

Part two of the plan is delivering value. We know we need to save customers time, and I'll talk more about that in a minute. But I can tell you we never underestimate Walmart U.S., how important it is that we're going to save them money. And it goes to the heart of being the most trusted retailer that Doug spoke about. It starts with lowering the cost of goods. That is our highest cost. And that allows us to exceed customer expectations and be the EDLC retailer which is true to our heritage. We continue to instill discipline in the business and partner with our suppliers to ensure that we get the very best cost. We're pleased now with Steve with the progress that we've made today. We've got off to a good start with terms and allowances, but we know there's still more that we can do here. And I can tell you that our suppliers in the main are very supportive of what we're doing here because they see the benefit of running a more consistent and simplified business because of it.

We also emphasize productivity improvements and ensure that wherever we can, we can reduce expenses in a way that doesn't hurt the customer experience. As we often say, make sure that you attack the fat, not the muscle. Last year, we told you that we would invest several billion dollars in price over the next three years. And we've kept you updated on how that's going. I can tell you that in this very competitive environment, I'm not going to provide you, and nor will my team, with details about the geographies or the merchandise categories where we invest. But suffice to say, we started the incremental investments a little bit ahead of time, and we're encouraged.

Part three of the plan is being great merchants. You've heard us say assortment is the lifeblood of the business. Let's face it. It is the thing that really distinguishes you from your competitors, whether it's in general merchandise or it's in grocery. And it never ceases to amaze me just how important items are, the right items, at driving traffic and sales and new business. Doug spoke before about the Disney Princess Carriage. A little bit more about that story. Reid, the buyer; Andy, was able to use the leverage of Walmart and actually take the entire quantity of stock that was available. I was just checking before I got up, it's currently offered on eBay at about $589, but you can see we're $398 in store.

I spoke last year about how merchants were using data and analytics to balance decision trees. And you can see in the bottom right-hand corner of this slide a real life shop of our buyers standing around a decision tree as they start to consider the way that customers are purchasing. We got about 80 million baskets of data that we use. We apply substitutability and loyalty scores against each SKU. And this helps us determine the assortment that customers want, not just what they came for.

Let's never forget that a key part of our business is a customer seeing something that isn't on their list and adding that item to their basket, and we don't mind whether that basket is in the store or it's on an app or on Walmart.com or Jet.com. It comes down to assortment and merchandising.

I'm also excited about how we're telling our customers -- our story to customers and reaching out to them. You're probably already seeing, I certainly am, that we're doing more in our stores at the moment with signage and events, and it's going to ramp up even more this holiday. And as well as that, I think that we've been able to pull together some of the most exciting advertising that I've seen us do recently. And my hat goes off to Tony and Michael and Kristin and their teams for pulling this together. Let's have a look at just three of the adverts.

(video playing)

Greg Foran - ***Wal-Mart Stores Inc. - President and CEO, Walmart U.S.***

That last one took me back a bit, Doug. You'll be seeing these ads and many more throughout the fall.

I'm also pleased with the momentum in our private-brand business, and Dave, you and your team have been really instrumental in helping us get up to speed quickly here. I think private brands are so important. We should really pride ourselves on it. At the end of the day, we've got our name on it. We get a lot of questions about how we're going to compete with our discounters.

Well, I can tell you that private brands are a really key part of addressing price gaps. I can also tell you that private-brand customers are some of our most loyal and engaged shoppers. Of course, in the U.S. here, we remain committed to being a house of brands. As an EDLP retailer, national brands are the thing that allow you to highlight price gaps to competitors. And our data shows that of the increased spend we see from private-brand adopters, half of it actually is on main brands.

We've done a lot of work, Andy has and his team, on the general merchandise assortment. It's such a critical component to our mix. We're focused on merchandising items of quality and value that resonate, and you can see a lot of them here, directly with our customers.

And for Charles and his team in food, I hope that you've had a chance to see the new culinary and innovation center, which we've got just on the outside of this building. We're leveraging the Century test, partnering with suppliers to ensure that we refine and continuously improve products and deliver only the best quality.

Let me also give you an update on fresh. I'm pleased with our growth. We're seeing it with some better traffic, comps, bigger basket sizes. And it's happening quite simply because customers are seeing better quality. Overall fresh impression is a measure based on customer surveys, similar to what we do with CFS, and we've got customers that rate our fresh department and use -- and we use that to see how we stack up to our competitors. So as a data point, we've seen about a 700 base improvement. This is where we were a year ago. It's a pretty big shift.

A bit of anecdotal evidence. Chris, you and I were out on Saturday, visiting a couple of your DCs. One of the DCs, I think is number 6, 6,006, so that means it's the sixth one that we opened. But trust me, when I go into some of our DCs, we meet some reasonably long service associates, and they don't stand on too much ceremony. Chris and I were meeting with them towards the end of us touring the DC, and we were giving them just a brief update, and then we asked for any questions. And the feedback that we got, Chris, was that for a number of these associates, they're actually back shopping with us, Doug, in our stores, and the key driver for them was we started to get the fresh right.

So between what we're seeing on research and, Chris, what we saw in some anecdotal feedback; Judith, what you're seeing as you're touring, we're getting a bit better at doing the whole fruit and veg and meat and bakery and deli piece. We've got more to do, though, and our fresh team are focused on getting more of the items customers want and laying them out really well. And we've simplified places like bakery. So we've reduced the amount of complexity and SKU count, Charles, that we've got in that particular area, and we're also looking at how we lay it out.

The big move has been in fruit and veg where we've, actually, in the last few months, re-laid 3,100 of the stores. Project dangle is what we've called it. I'm pleased with how that's actually rolled itself out. And we're working on flow so that we got less waste. And at the end of the day, that's giving better shelf life to customers when they get home. We're seeing that because we're seeing that the inventory in fruit and veg has come down a day and a half versus a year ago. That's good. And we've expanded our footprint with more sourcing hubs, both locally and in the U.S., and now working with Dave internationally on how we can create even better leverage there.

You're aware that we're looking at putting a new milk plant into Indiana. It's going to ensure freshness. And as Steve says to me, it's going to deliver much better value. It's not ready yet, but it's underway. We've also invested in fresh operations managers. A lot of these folks have joined us from outside the business. And I can tell you, they come from very impressive backgrounds in the industry. We got 150 of them now on the ground. We're being sensible about how we roll them out. But their job is to work in the store, right alongside the associates, teaching and training.

So to part four of the plan, providing convenience. Just as we're committed to saving customers money, we're also committed to saving them time. And our business model is unique in that it allows us to deliver a seamless shopping experience by combining the power of the stores with digital. We're investing to change our approach to e-commerce. And it's been great getting to know Marc and some of his team and to hear his philosophies about merchandising, price, technology. And trust me, there's been lots of e-mails and lots of meetings in the last few weeks, and there will be a lot more to come.

Basket economics makes so much sense, doesn't it? It's really the digital version of what a supercenter does. And that's a pretty powerful model. Big baskets are efficient. So working with Marc and his team, you'll see us increasingly get the store assortment and the online assortment to match, not just viewable, but transactable. For a business our size, alignment isn't easy, but when we do it, we drive true competitive advantage.

A customer who's shopping online expects to see if their local store has something. At the same time, they expect to be able to buy something online they saw in our store, and more. The customer demands, wants seamlessness. At the same time, we're focused on improving the performance of our app. We know our app is a most important powerful useful tool because what it allows the customer to do is to save time in-store, and it bridges the store capabilities with what we're doing in e-commerce.

So we've taken Walmart Pay and we've rolled it out right across every U.S. store. And at the same time, we're looking at putting in new services that customers are going to be able to use that will allow them to save time in different parts of the store, like pharmacy or money services.

We're seeing good results with online grocery. It's terrific, isn't it? Customer orders the groceries on the phone, swings by at a scheduled time, gets the order without leaving the car. Dave, I think your point is so relevant that we've been able to leverage so well off the learnings in Asda in other countries. It's allowed us to move quickly, so we now got it in 80 U.S. markets or 500 locations. We'll be in 100 markets or approximately 600 stores by the end of this year. We're asked quite often, do we see a halo effect? Well, trust me, we do. When we add online grocery, it improves the rest of the store, not just food, but GM as well. We lift our game.

In line with convenience is our remodel strategy. We need to continue to evolve our format to meet changing customer needs. So over the last 18 months, we've taken a handful of supercenters right across the U.S. and we continue to test different components, layouts, signage, front ends.

We've also reworked the remodel process so that initiatives can start to get rolled out chain-wide over time. So take, for example, women's intimates or the cosmetic beauty wall. I know that you went to 5260 yesterday in Rogers, and I hope you saw the designated pickup; better sight lines; bold department signage; new layouts in fresh, electronics, baby, and the front end.

And back in June in shareholders' week, a number of you would have had the opportunity to get into the Neighborhood Market in Fayetteville. If you haven't and you do get a chance, what you're going to see is slightly lower profile, better space for fresh, higher visibility, easier to navigate, just generally a better focus on merchandise rather than fixture.

Product in the store is the hero. Julie, our customers are starting to respond pretty well to what we're seeing here. I called in there last Sunday, and I'm in there quite regularly. And we're getting good feedback.

Some of you have asked why we don't open more Neighborhood Markets. Well, we think we're onto something here. We've got, I think, Julie, 685 Neighborhood Markets at the moment. We'll have probably 699, Doug, by the end of the year. So we need to get more of the existing stores starting to look like this. And I can tell you, that takes quite a bit of capital. There's a lot of work that we can do in the U.S. to drive, as Brett shared with you, comp sales in stores that we already have.

So that brings me to the upcoming year and what we can expect. As I said, our focus is on driving growth and on driving the top line. We like what we're seeing in our core business. We continue to see growing sales, basket sizes. The supercenter is a great format. It's profitable, extremely. And we're starting to see increasing sales. Neighborhood Markets have a very solid comp result. And through the hard work of Julie and her team, we're getting these stores to profitability more quickly.

Next year, you will see us put more capital allocation towards remodels versus new stores. Our focus is on getting higher-quality new stores and then getting them to profitability as we would expect them to perform quickly.

So in FY '18, we'll open around 35 new supercenters and 20 new Neighborhood Markets. At the same time, approximately 500 of the current fleet will get a remodel, and 500 will add online grocery.

Last year, I said that over the next three years we anticipate a 3% to 4% total sales CAGR. We're on track to deliver that. At the same time, we continue to invest in core areas like e-commerce to improve customer experience and position us for the future. We expect our core store operating profit to improve next year. But the e-commerce investment, including Jet.com, will result in overall U.S. segment operating profit to be below FY 2017. These investments are the right ones for the long term, and they're going to make us stronger. Beyond investment, we're keenly focused on leveraging cost. As we get healthier and stronger and that wheel starts to turn even faster, we will become more productive. Ultimately, everything I can talk about up here or show on a slide is subject to a daily test. Whatever we do behind the scenes results in a certain customer experience. That moment of truth.

I sometimes compare our business to a Swiss watch. You usually just look down and see what the time is, but if you took the back off, you'd see a bunch of tiny cogs and wheels, all working together in a very precise manner.

Similarly, a customer doesn't see all the parts to our business or how they all work together, but they do see a clean store, friendly, engaged associates, with the tools they need to do their jobs. The items that they came for laid out in the right way. Items they didn't come for, but they add them to their basket.

Low prices every day, a fast in-and-out experience, seamlessness between store and online. They will only get a good experience if we do the work behind the scenes. And when they have that experience, they'll be back.

So to close, we're executing against our plan and we're seeing momentum. We're investing wisely across the business to improve key customer experiences and we're confident in our strategy. Thank you.

Steve Schmitt - ***Wal-Mart Stores, Inc. - VP of IR***

All right. Thanks, Greg. Well, I hope that session was really productive for you. I know it's a lot of information. So we're going to take 15 minutes now. We're going to take a break. And then we're going to come back with 45 minutes of Q&A. So 15 minutes.

(Break)

QUESTION AND ANSWER

Steve Schmitt - ***Wal-Mart Stores, Inc. - VP of IR***

So if we could -- everyone, have their seats. We're going to have a couple of mics roaming around and the executive team have been assembling upfront. We're missing one maybe. We'll go ahead and get started. I think we have some mics around. If you could just raise your hand, we'll get the mics to you as fast as possible. So where are my mic guys? All right. So why don't we start back here.

Paul Trussell - ***Deutsche Bank - Analyst***

Hey, good morning. Paul Trussell, Deutsche Bank. A question for Greg. Greg, if you can just walk us through the decision earlier this year to move forward or pull forward the initial price investments? And then are you continuing to accelerate the rollout of those investments across various regions and categories? And if you can just speak to the returns that you're seeing on that as well as the competitive response?

Greg Foran - ***Wal-Mart Stores Inc. - President and CEO, Walmart U.S.***

Sure. So we shared with you exactly a year ago that we would start to invest several billions of dollars in price over a three-year period. We obviously built into our plan, and you saw that in some of the guidance that we provided, how we would spend that. We didn't provide you with the specifics, and we're not going to now provide you with the specifics. We got off to a reasonable start for the first quarter. As you can see, that's sort of been okay, as well in the second quarter. So that allowed us to just bring things forward a little bit more than what we expected. And as we deal with whatever's happening in the marketplace in terms of top line sales and how we balance that with any deflationary pressure or competitive reaction, then we will make decisions.

As I said in my presentation, we're not going to share with you the geographies, the departments, the results of that. I think it's very sensible that Walmart continues to drive price. We have a cadence that we're going to apply and we're getting on with it. And that's about the extent of it. Do you want to add anything?

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Just that we'll be rational about this. We've got investments that we need to make in e-commerce. We made investments in people and structure, and we have to generate returns. So I don't want an overreaction to the price component. The productivity loop is important, but this is done in a thoughtful and balanced way. And so I just hope the response that we see is -- from you all in particular is matched up with that.

Peter Benedict - ***Robert W. Baird - Analyst***

Peter Benedict at Baird. Just so -- a question on the implied gross margin pressure for next year. Can you give us a sense of how much that is related to Jet versus just the core business? And then Marc, on Jet, curious your view of fresh and grocery within kind of the Jet.com business. Is there an opportunity there longer term? Do you think fresh would work in your model?

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Yes, I'll jump in on the first one. Brett, you and Marc can too, if you want. But I don't think, Peter, we want to break out the level of investment in Walmart and Jet for one reason, it's going to be fluid. And the Walmart brand is going to be bigger. And certainly, you can count on that, but we're going to reserve some flexibility. And as we said earlier, Marc needs a bit of time to figure out all the components. And we'll make those investment decisions after he's had the appropriate time to make them.

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

And I might -- Peter, I'll take a different take on that question because I think it will come up in different ways this morning. We wanted to give you a little bit of guidance toward operating margins and what we have in mind around that. We want to give you some view of SG&A as well. And while leveraging next year isn't a slam dunk, there's pressures in some places, we want to get there and think we can get there from a leverage perspective.

But once you look at that operating margin within SG&A and gross margin, there are things that could cause us to go one way or the other in both of those as we see different opportunities that could come along. SG&A, if we can start getting SG&A going in the right direction, that creates a lot of oxygen for us to have decisions and have options that we can take. But within those two, we want to have the flexibility to manage with that.

Marc Lore - ***Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce***

And regarding what we're doing with fresh at Jet. So I think fresh for Walmart and Jet together is going to be a critical part of the strategy going forward, a really big focus on consumables and food. And we're experimenting with different ways to get food to the consumer. So right now, on Jet, we are shipping direct to the home from a centralized DC, about 15 million people we're serving right now and we'll continue to expand that. At the same time, you have the acceleration happening in online grocery pickup at a Walmart store. And so one thing is for sure, we're going to be really focused on winning in fresh and consumables over the next couple of years. And we're just not quite sure what the final best way to do it is, but we're experimenting.

Robbie Ohmes - ***Bank of America Merrill Lynch - Analyst***

Robbie Ohmes, Bank of America Merrill Lynch. I guess a question for Marc and maybe Doug as well or maybe sort of two questions. On sort of Jet and the basket economics, if you think about it longer term, is there a -- what is the Walmart/Jet combination sort of moat around that or benefit from a cost standpoint that would make it hard for competition like an Amazon to replicate? How should we think about that longer term? And related to that, and again, you might answer these in breakouts, but what's the role of digital content, selling digital content through Jet down the road given that, that could help the basket economics and already does for your key competitor?

Marc Lore - ***Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce***

Sure. So on the first question, yes, it's a completely different business model, and the technology support building these efficient baskets and sort of being -- transparently showing consumers what they can save in real-time is -- the architecture to build a system like that looks more like a real-time trading system than it does an e-commerce site. And so it's not something you would just sort of build or layer in. It's fundamentally a different way to approach the problem. And we're going to continue to invest aggressively in building that technology to be even more nuanced and to give consumers other ways of pulling costs out of the system.

Like, for example, if you've ever bought a basket of product and been a little shy of the ship minimum and you've bought something maybe you didn't want to get over the free ship minimum. Well, we would basically be able to tell you, hey, we think this is what you're trying to do. If you don't want to buy that item, we'll give you free shipping on the basket as is. Customer is happier and then we will pull some cost out of the system.

That's just one example, but think about hundreds of little things like that in addition to just skewing them to the smarter baskets. And we'll continue to invest in that real-time automation. So yes, it's a different way to approach the problem.

The other one with respect to digital media, so I'm really learning -- just beginning to learn about VUDU at Walmart, and I'm really excited and encouraged by what I see so far. And so I look forward to sort of diving in deeper and figuring out what our digital strategy is, but it's definitely a critical component of the future.

Robbie Ohmes - ***Bank of America Merrill Lynch - Analyst***

Just a quick follow-up, you mentioned the millennials responding really well. What's that -- sorry, just a quick follow-up, you mentioned the millennials responding really well. What's the baby boomer issue? What's -- why are they not responding as well?

Marc Lore - ***Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce***

Well, it's just a focus. It's just a focus area. We're purposely focusing in terms of the messaging and the branding on millennials, on upper income sort of urban folks. And now that we're together with Walmart, I think the brands will be able to be even more focused than they were in the past.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

And Robbie, as it relates to the moat, don't forget the stores. We've got that inventory right there. There's a basket tendency in that direction anyway. Online grocery is scoring really well. We've got these tests going on with Uber and Lyft. We'll see what comes from that. So those thousands of distribution points factor into the moat as well.

Steve Schmitt - ***Wal-Mart Stores, Inc. - VP of IR***

Go over there. We'll get to everybody.

Greg Melich - ***Evercore ISI - Analyst***

Greg Melich with Evercore ISI. I have, I guess, a two-part question. I'm not sure who will really want to answer it. But if you look at the growth algorithm for the U.S. business, to keep that going at that sort of 3% number with less new capacity, traditional stores, it implies, I guess, that we're going to have some improvement in comp store sales or online or the two together. So I just want to make sure that, that is what you guys are trying to say.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

The two together.

Greg Melich - ***Evercore ISI - Analyst***

Yes. And then the second is, though, in the opportunity and the uncertainties into next year. If that comp or particularly the traffic side of it, which has been so important and positive over the last 12 or 7 quarters, if that slowed, would you be more likely to lean back into SG&A to make sure it picks up again or do you think the gross margin investments are the ways to really get that, to make sure we keep growing the traffic?

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Both. Yes, I think, Greg, to try and give you a more specific answer. I think there's work that needs to be done on SG&A, period. And that's underway at store level and above store level.

And as it relates to the margin investment, we've got a balancing act going on between the variables and the choices we make in e-commerce and the investments that we make in price. And part of what is happening is that we're trying to share an appropriate amount of information with you and also preserve some flexibility to make different choices, depending on how the customer is responding.

So as Marc starts to engage in the business, we want to have the freedom to put more into Walmart.com if that's where customers are responding really well. We've got the flexibility as it relates to Jet. Greg and I are talking about the price investments and the things that are going on in the Walmart U.S. on a weekly, sometimes more than one time a week basis.

So the reality is we live in a world that is cycling faster than it used to. And we've got all these choices to make, and we make them faster and we make them in real-time. And we just don't want to put ourselves in a position where you expect A, B and C to happen and we did B, A and C because of a different reason. So we've tried to share with you how we think it's going to all add up, but what we do between here and there is going to be somewhat flexible.

David Cheesewright - ***Wal-Mart Stores Inc. - President and CEO, Walmart International***

I think one of the things we always forget is cost of goods is three times as big as SG&A. And so you heard referenced a couple times today some of the work we're doing on dead net costing, cost analytics, some of the sourcing initiatives around private label and general merchandise. I think there's a big opportunity to improve our costs on the cost of goods side, which we can reinvest into pricing, as well as on SG&A.

Dan Binder - ***Jefferies - Analyst***

Just on -- Dan Binder, Jefferies. Just on that topic, I think earlier in the year, there were some doubts about what Walmart's price investments would result in and whether they would be sustainable. You've obviously had some traction. And now the question is, well, if everybody follows you, will you just give up ground that you gained maybe earlier in the year? And a lot of the questions we get is around the cost-out opportunities to sustain this over a two-, three-year period.

Today, we did hear very high level that you think there is opportunity, but we didn't really hear a lot of detail in terms of the how. We saw an announcement a couple of weeks ago about the back-office employees maybe being downsized. But can you give us a little bit more color on the work streams, the different things that you're looking at to fund that price investment over time without hurting the investments you've made in your employee base thus far?

Greg Foran - ***Wal-Mart Stores Inc. - President and CEO, Walmart U.S.***

Sure. So we are being a little bit thoughtful about how much we say about that. One of the things I've learned over the years is that if you've got 27 trailers of merchandise at the back of your store and your stockrooms are full of merchandise and associates in the store are having to adjust PI probably knowing that the product is somewhere in the back of the store or out the back in a shipping container in order to fill what's on the shelf just because they can't find it, it creates enormous cost.

THOMSON REUTERS

There's been studies done. It used to be about $0.35 every time you touch a carton. It's probably more than that now. I can tell you that one of the big unlocks for us in the U.S. stores is simply to get inventory out. And I'm guessing one of the things you're saying is, is that sustainable and is there more to go? And the answer is, I think it is sustainable, and I do think there's more to go.

What that allows us to do is it allows for Judith, working with Marc and Julie and Mike, to have a look at what sort of structure we need in the store, what is the role of the department manager. And you then associate that with the tools that we give them that keep them on the shop floor. At the same time, I can tell you that Linda, who's recently joined us and drives our HR function, is working with Judith in terms of what are we doing with recruitment, what are we doing in terms of retaining people. If we can go make some big steps to reducing the amount of turnover that we have in our stores with our associates, I tell you, that makes a big difference.

So what you've got is a convergence of a number of things. You get your inventories starting to come down. You improve your recruitment. You roll out academies. You put in new processes like CAP, topstock. You start looking at the role of self-checkouts, which is something that Judith and her team are looking at the moment. What can we do there? We've got circa 30-or-so percent of people using that. What happens if we got that to 50% or something?

And we can see a pathway to becoming more productive in the stores. And the key to this is actually to keep the top line going because actually in our business a 1% improvement in comp sales makes an enormous difference to leverage a new business. At the same time, we're going to look at what we do in other parts of the business. So Chris is not left out of the process. And he's sitting at the back here because one of the reasons I was out with him on Saturday visiting DCs is he's got a [goal to] get next year to improve productivity in DCs.

And as well as that is [this office]. But you know and I know that the bulk of it does sit in the stores. And what we've got to do is to get to the situation where we effectively touch something once. We have a long way to go to do that.

The way we look at it, I can tell you if you put all the numbers individually down on a piece of paper, it probably doesn't quite add up. But what tends to happen is that when you do these initiatives, Doug, people won't actually often put the full potential in there. Two reasons. One, you don't want to overpromise and underdeliver, and the second thing that happens is that you're not aware of all the bits that go into it.

So take, for example, what happens when you reduce inventory. Your accidents go down in the store for associates and customers. So you get all these other pieces that start to create more momentum for the wheel, but this won't be easy. It's going to be really hard. And we're well aware that we'll get one point for talking about it and nine points for doing it.

Bob Drbul - ***Guggenheim Securities - Analyst***

Bob Drbul from Guggenheim Securities. Two questions, the first one is on the e-commerce fulfillment and delivery. I think Jet has, I think, 5 mega centers and I think Walmart is supposed to end with 8 this year. Can you just talk about the economics on the delivery and the speed and your ability and the cost to being timely in terms of the delivery? And the second question that I have is, can you comment on the India investment, the size of it and sort of where you're focused on that and the commitment there and what you're seeing?

Marc Lore - ***Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce***

Want to take the India investment first?

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

No, you go ahead.

Marc Lore - ***Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce***

Okay.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

You got it figured out.

Marc Lore - ***Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce***

In terms of the warehouse network. So it's really in order to determine the optimal warehouse network, you have to figure out what you're solving for. So if you're solving for speed at the lowest possible cost then five -- from five mega centers positioned in the optimal locations with proper zone skipping and proper execution in the warehouse, you can deliver 90% of the country in one day.

So the key is, how do you sort of automate the warehouse to get maximum volume through that single center so that you're buying better, inbound freight is lower and you're able to get those basket economics working because you have much higher probability of getting stuff in the same basket.

So that's with respect to warehouses that we call sort centers, where there's individual units going into the same box. To the extent that there are pieces of furniture or car seats or big items, then those could be put in different locations and they take up a lot of space, but that's sort of a different animal. But five is optimal. Walmart actually has these five mega centers that they've built that are the proper size to generate significant revenue out of. And it's now time to accelerate and get the product in there and start being able to offer that delivery promise.

David Cheesewright - ***Wal-Mart Stores Inc. - President and CEO, Walmart International***

In India, so our investment there at the moment is pretty small. So we run 20 cash-and-carries. So you know in the past, we've had a joint venture with Bharti where we had a number of convenience stores as well. We're pretty happy to be in that sector. I mean, it's a very different market to anything else we see around the globe, particularly because of the strength of the small stores, the kirana network. There's over 6 million of those. So it's phenomenally strong and actually a very economic network.

So it's -- at the moment, we're at a stage of learning. If you go back to how we categorize the portfolio, it's not one of our focus markets. That's the two core markets in China. And so we're leading hard into China to make sure we've got a good runway for growth. And what we'll continue to do with the market is in our emerging market group is we'll continue to evaluate them and start to prioritize within that group. But at the moment, we're just trying to learn about that market. So we're in the learning stage.

Enrique Ostale, who's at the back over there. Enrique, just stick your hand up. Enrique's fairly recently taken over responsibility to pick up South Africa and India in addition to his responsibilities for LatAm. He's one of our best strategists, very adept at emerging markets. And certainly, that's one of the challenges we've given him is to get some clarity about how big is the opportunity. And most importantly in India, how easy is it to get? It's a very complicated country, very different to anything else. So not a lot and in learning mode at the moment.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

And the headlines that have been out there recently about a potential investment are just that. We can confirm for you there are headlines. And that the media in India is quite aggressive, and that's about all we can say about that.

David Cheesewright - ***Wal-Mart Stores Inc. - President and CEO, Walmart International***

But we spend a lot of time, Doug, talking to a lot of people to go on and learn and do better.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Yes, I used to -- when I was in international, I used to joke with everybody that we try to spin up a bunch of rumors so you don't know which ones are true and become quite good at that.

David Cheesewright - ***Wal-Mart Stores Inc. - President and CEO, Walmart International***

Do you want me to create some more then?

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

No. I think we're good for today. No.

Scott Mushkin - ***Wolfe Research - Analyst***

Scott Mushkin over at Wolfe Research. So just want to get back to the pricing, the competitive environment, what's going on with consumables. Consumables retailing has become kind of the disaster area of retail. When we talk to your competitors, they said basically there's no way Walmart can continue investing in price to the levels they have, their P&L can't take it with all the e-commerce losses. We peg your investments at about -- probably about $4 billion or $5 billion as you go through.

So what do you do? We're down in Atlanta, you see Kroger coming out -- coming back real hard, guns blazing. You get the deep discounters going in. So how do you manage and not -- and make those numbers given the current environment, which is really difficult, and the competitive response, which is clearly going to be pretty strong as you guys try to reestablish your price gaps? Are you willing to go more than $4 billion, several billion? Our number is $4 billion to $5 billion. Are you willing to go stronger than that to reestablish Walmart's price supremacy or is it just too difficult with e-commerce?

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Yes, that's not a question, I think, we want to answer. We have been historically price leaders. Price is important. We're rational. We'll balance the things we need to balance. We'll do it a market at a time. The plan that Greg and the team have laid out is very thoughtful. The media speeds, accelerates or exacerbates sometimes some of these issues. And I think all the competitors are just going to pay attention to what's happening. It'll settle out in some place. Some geographies will be more important or more aggressive, more intense maybe I should say than others.

And we are going to invest in e-commerce, and we understand that we've got to deliver for shareholders as we go through it. So as you can tell from today's presentation, there's a balancing act going on and investments are being placed, as I mentioned just a minute ago, in real-time. But we're not going to signal our level of intensity and what we're willing to do to people. That wouldn't make sense.

Matt Fassler - ***Goldman Sachs - Analyst***

Thanks a lot. It's Matt Fassler from Goldman Sachs. I want to talk a bit about some of the incremental investments that you made in Jet and the recent additional purchase of shares in JD.com. Together this year, they amount to about half your CapEx, nearly as large as the dividend. Understanding that some of these opportunities will come up from time to time, do you see this kind of capital allocation as a recurring element of your big-picture capital plan? Or is this more of an outlier kind of year?

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

More of an outlier. The organic businesses that we build will be more profitable, and that's our desire. But we have to put the capabilities in place that we can then go invest in and scale, and that's what's happening.

Matt Fassler - ***Goldman Sachs - Analyst***

And if I can just ask a brief follow-up. If we think about the difference between the guidance that you laid out a year ago and then the guidance that Brett discussed earlier this morning, clearly, as we think about next year, you're annualizing the Jet investment and we understand the impact that would have. If you think about the delta and your thought process, that would take 5 to 10 prior, to just 5, if you will, as you stated. What's going through your mind as you think about taking that range in a little bit?

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Yes, to get the e-commerce businesses, Walmart and Jet, the brands to the scale that we need to get them to, it requires the level of investment. We're basically accelerating that investment, pulling it forward into a shorter period of time to get that scale. So we have the strength that's happening in our stores business that would have created upside, and we invested that back and a little bit more that took the range from 5 to 10 down to 5 to go get the e-commerce businesses growing.

And as we mentioned earlier today, we feel like that in the Walmart case, we've now got the foundations in place to do that and we want to continue to have the trajectory of Jet continue on as it would have, and then Marc, over time, will look for synergies between those two brands as it relates to how we approach first-party and third-party merchandising and things like that, but that will happen over time in parallel with the technology platform and the plan that ultimately we design for that, which is also work to be done.

But this really is about we have strength going on in the stores. We know we need to invest in e-commerce to get to scale. It's about the longer term for the company. And from a position of strength, we're deciding to do it now.

Steve Schmitt - ***Wal-Mart Stores, Inc. - VP of IR***

Let's go to Budd and then Karen.

Budd Bugatch - ***Raymond James - Analyst***

Budd Bugatch with Raymond James. Knowing that one of the big opportunities is to get e-commerce and stores totally aligned, and Greg, you were talking about that, can we get a little more color on the work that's being done to align the store inventories to the e-commerce inventory? Who's doing the work? What do you -- when do you define success and talk about that? And maybe also talk about inventory harmonization and price harmonization as an offshoot of that, if you would?

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Yes. Greg, why don't you go first and then Marc may want to fill in? You've had more time to think about it than Marc has.

Greg Foran - ***Wal-Mart Stores Inc. - President and CEO, Walmart U.S.***

Sure. So I'd say the first point is we're still working on all of those plans. But clearly, we see an opportunity, as I shared in my presentation, to make sure that effectively what you see in the store should be available within our FCs. And if you get that product mirrored across the FCs, then it allows us to not split ship and be able to get that product into customers' homes, over 70% of them next day and basically all the country within two days.

So the work that Steve and his merchants will do with Marc and his merchants is let's get on and make that happen and that should include private label. And then, of course, it's what you do from there and other first-party extended products, and then how quickly we move. Our Marketplace has been -- some really impressive acceleration from the team in San Bruno, and I can see Michael and Anne down the back there, in terms of how quickly we've been able to get Marketplace up and running. But we need to have a relevant assortment there.

So the way that we've sort of been discussing it is three buckets. Let's get that store assortment online and transactable. Let's make sure that we work quickly on what we're going to do then in terms of extending first party and then how do we get Marketplace to be really relevant for the customer. And as you also saw in Doug's presentation, winning that hit of the assortment, that grocery consumable is pretty important to us.

So that's how we're thinking about it, the details we're working through at the moment. We've got to work together because if we don't, we're not going to use the scale of Walmart to our advantage, and we're not going to let that happen.

David Cheesewright - ***Wal-Mart Stores Inc. - President and CEO, Walmart International***

Your team had done a nice job at working with the e-commerce team to work out how to make sure the strategies work off each other and get aligned, haven't they?

Greg Foran - ***Wal-Mart Stores Inc. - President and CEO, Walmart U.S.***

Yes.

David Cheesewright - ***Wal-Mart Stores Inc. - President and CEO, Walmart International***

Yes.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Yes. Marc, anything you want to add?

Marc Lore - ***Wal-Mart Stores Inc. - President, CEO, Wal-Mart eCommerce***

No, no.

Steve Schmitt - ***Wal-Mart Stores, Inc. - VP of IR***

Up here, Michael, get to Karen up here. Karen, get Michael's attention. Then we'll come over here after that. You're good.

Karen Short - ***Barclays - Analyst***

Karen Short, Barclays. Just a question. So looking at your 3% to 4% CAGR sales, obviously, e-commerce is going to be a larger component of that and unit growth as a lesser component of that. So in my mind, the offset is the remodels. So I guess I'm wondering if you could talk a little bit about how many remodels you plan at least into next year, and then what the cost per remodel is and maybe some color on what the sales lifts are. And then I had another question on ROIC.

Greg Foran - ***Wal-Mart Stores Inc. - President and CEO, Walmart U.S.***

So in terms of remodels, as I shared, we'll go from sort of 400 this year to 500. Judith and JP are doing a really good job working closely with all the stores' teams to make sure that we're thoughtful about which ones we do. The general cadence is you do them sort of every seven years, so if you sort of go back 7 years, 10 years, you can do the math and you can work out where we're sort of opening, in some of those years, 300 supercenters a year. So a lot of those stores are actually due for some investment.

In terms of the cost, that's not something we give out and I can tell you that it varies quite widely anyway. And the reason for that is that some stores are more heavily trafficked than others. Some are in areas where customers are tougher on the store environment. If a store is generally done, 14 years, we need to replace refrigeration. So every second cycle, it's a lot more. But we're pretty thoughtful about how we do it. We want to leave the store in a condition that the associates and the leadership group in that store say, "We've got something out here that we're proud of for our community and we know that we can win."

The results you get out of it also are dependent on so many things. Did it compare to their open down the road? Are you the only store in town? So I often will say in this very room to my team, I'm not really interested in averages, let's get into the specifics. But what I will tell you is that you can tell I'm not from America. So I am amazingly impressed with the quality of the portfolios of stores, Doug, in the U.S. They have so many stores that are in such great locations in this country, I think, is an amazing situation. And that's another reason why we should look after them. Don't let them get dirty and dark and the restrooms smelly and all those sort of things. Let's look after them. Make them places that people want to come to.

Karen Short - ***Barclays - Analyst***

And then just a follow-up on ROIC. You made a comment on ROIC improving, I think, into '18, you were referring to. So does that include e-commerce and Jet.com pressures or not?

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

We had talked about returns, longer term, improving. And so if we can get comp stores growing, comp sales growth, that is where you get the real leverage on the assets. E-commerce growth as well, if you get the assets in place, like we have some with systems and for some fulfillment centers, you can get a better return off of those sales longer term. Similar to what you saw on the capital as well, our capital stayed pretty well steady from a dollar perspective. Fewer new stores, more shift into technology, logistics, some of the things that Greg was referring to, those are also intended to drive costs down at some point. Make us work differently, make us work more efficiently. And so all of that is in mind with our returns going up over time.

John Zolidis - ***The Buckingham Research - Analyst***

John Zolidis, Buckingham Research. I was wondering if you could give us a little more color or some numbers around the grocery pickup initiatives. So it looked like 600 stores this year, 500 next year, will have the grocery lanes intact. Any idea -- or I'm sure you know, but anything you might want to share with us around the addition to sales you get from this, the mix of new versus existing customers, the basket size of a pickup order versus in-store order, incremental cost to deliver that order? And then if we can't get any numbers around that, generally, would you characterize this as a defensive measure to keep the existing customers that you have in an environment that's going more online? Or is this an offensive measure to capture customers from competing retailers?

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Yes. The customers we're attracting are -- there are new customers coming to Walmart because of online grocery. It's more an offensive category than a defensive category. Michael Bender's at the back of the room and Judith and Marc are here. Why don't you guys pop up and answer one of these questions? They'll make good use of your time spent in this room this morning. If we can get a microphone to Michael. Talk a little bit about the online grocery expansion.

Michael Bender - ***Wal-Mart Stores, Inc. - COO of Global eCommerce***

Yes. Good morning, everybody. As we talked yesterday when we were in the store over at 5260, we're not sharing all the details in terms of the numbers associated with the progress that we're making specifically. But as it relates to new customers, we have many new customers coming into the fold. That's one of the planks of the focus that we have. Building the share of wallet against the existing customer base that we have is also a big priority for us inside the business that we're building as well.

So those two things are happening and we are ahead of schedule in terms of all the metrics and the milestones that we've set, both in terms of the top line coming in top of the funnel -- again, to the funnel in terms of sales, but then also in terms of the operating metrics associated with it. So we feel good about the progress that we're making. And the numbers that you see are solid for us in terms of the commitment that we made to the business.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Anybody want to add anything else?

Judith McKenna - ***Wal-Mart Stores Inc. - COO, Walmart U.S.***

So the only thing I'd add to that is that actually one of the key things about grocery home shopping is the loyalty it drives to the store as well. And if you think about the ecosystem that we're building between our online business and our physical business, actually encouraging people to use all of the channels that's available to them is really important. And that traffic driver, which is even if every time you don't visit us, you don't come inside the store, what we're seeing on loyalty is, is that you come in and you do spend more with us overall. We've shared that before about people who shop online and people who shop in the stores. The sweet spot is people who do both for us. So that's the other really important thing about grocery online for us.

Greg Foran - *Wal-Mart Stores Inc. - President and CEO, Walmart U.S.*

But a lot of people really like pickup, don't they? You were sharing with me, you were out earlier on in the week and someone confronted you and said, "I need pickup."

Doug McMillon - *Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.*

It was a retired Army general. He was very clear about what he needed from Walmart. I told him, we're scaling, man. We're coming to your store soon.

Greg Foran - *Wal-Mart Stores Inc. - President and CEO, Walmart U.S.*

I need it on a schedule.

Oliver Chen - *Cowen and Company - Analyst*

Oliver Chen for Cowen and Company. For investors interested in Walmart for the long, long term, what do you think are some of your key competitive advantages versus Amazon? As we look at our data, there's 50 million Prime members growing at 20% to 30%, which have pretty good shopping frequency. So I'm just curious, how would you prioritize your competitive advantages as we think about that? And as you talked about EDLP and EDLP 2.0, how will that manifest over the next decade in stores? Just your hypothesis in artificial intelligence or smart baskets and how will that manifest in the whole seamless ecosystem?

Doug McMillon - *Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.*

Great questions. Okay, let me take a breath. We'll go into those one at a time. I think as it relates to the advantages that we have as a company, customers like stores. And if we run good stores, there's going to be some portion of the business that will just be pure in-store shopping. My wife and I personally have found ourselves buying a lot online, a lot with the mobile app and then Saturday afternoon, after watching two football games, she said, "Please take me to Walmart. I need out of here for a little while."

And we just went and walked around the store and we ended up picking up five or six items and it didn't have anything to do with me working at Walmart. It's just a social experience. And we've been doing delivery in the U.K. for a long time, and we still have a vast majority of our business, north of 90%, that's still done in the store.

So it is really going to be true that seamless or omni-channel or whatever you want to call it is going to be the winning strategy. Customers will interact with Walmart. They will not think about how they're interacting very much and we'll build the capabilities to serve them in total. So being a good store operator matters, the locations matter, the merchant DNA matters, the culture of the company matters. We're competitive winners, and we're going to change as individuals and as a team to do what we need to do to win, which includes embracing new tools and new ways of thinking.

And when Dan asked about costs earlier, there are things we can do in the short term, but longer term, as I alluded to earlier this morning, we have to change how we work. And I really enjoyed learning the last few years about how we work inside of our company as it relates to technology and how other companies work, including Silicon Valley start-ups, with the product mindset.

Jamie Iannone is here, and Jamie's been one of my mentors and teaching me about design thinking and what he calls an acceleration process. There's a new way of working as it relates to customer mindset, product mindset, technology and business leaders, that has a faster cycle time, is more customer-centric, is more effective at serving customers, and again, faster and cheaper because you just take cost out.

So in the core operations of the business, we have opportunities to drive productivity at store level, equipping people with technology; at home office level, working in a different way and the way that I just described on our way towards becoming more of a digital enterprise. And I meant to introduce some folks earlier, Dan Bartlett, would you and Jacqui Canney and Jeff Gearhart stand up for a second? Dan leads corporate affairs, sustainability, government relations. Jacqui has been with the company a little over a year, came to us from Accenture and she's leading people. And her passion and her experience have got her pointed towards changing the overall associate experience at Walmart and becoming more of a digital enterprise, equipping people with information and tools in different ways so that the work experience is different. Everything from the recruiting process, application process, development process, there's a significant change that will happen in the company over time.

And I don't know how long it will take, so I'm a little hesitant to even talk about it too much because it's significant and because it will take time. But we know that we have to change how we work to drive customer centricity, speed and get cost out and be more productive. Jeff Gearhart leads global governance, compliance, ethics, security and aviation, and he and Dan and others are leaning into how we use advanced analytics, how we deploy bots, how we think differently about white-collar analysis and some of the things that we do across the company. It's not all taking shape yet and I don't think that's unusual. I talk to a lot of other CEOs, not only in retail, but in other businesses, and we're using a lot of the same words and we're describing a future that sounds similar in some ways, even though we might be in different industries.

And so I do think AI and machine learning will play a huge role. Marc has a real passion around virtual reality, which you can expand on if you want to. But this company will look even more like a tech company. And it will move faster, and it will be more customer-centric, and it will be more productive. But it is a journey, and we've got $2.3 million people to take on that journey, which means it will probably take some time and in some ways require cultural change to deliver on the other side. How we work matters, where we work matters. We have a large team in Silicon Valley. We have tech teams in India. We have a large number of tech people working here. The network of Walmart is not really a Bentonville-centric hub-and-spoke network anymore. It's a connection of people that work together in different ways, and I also think that that's key.

David Cheesewright - ***Wal-Mart Stores Inc. - President and CEO, Walmart International***

Maybe a couple of other bits on that on competitiveness. I think we have a long history of approaching business challenges in a collaborative way rather than a transactional way, and that's not the same for all our competitors. And I think that will be a big competitive advantage in the long term.

Second thing is that there's a huge depth of knowledge in our business of 50 years of working up and down supply chains. And particularly, in the areas of fresh products, that's not something you can learn overnight, access to our sourcing hubs, the knowledge that we have in our business, the art side, if you like.

And the third bit I'd flag out was one I touched on in my presentation, which is the area of compliance. And I think increasingly in a transparent world, companies that are going to be in control of their processes and supply chains and have checks and balances in those processes to ensure that they do things right first time every time, they're going to get rewarded for that. And I genuinely think we built some world-class capabilities there that would be very hard to replicate, is just the transactional layer of goods.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

We're appropriately paranoid about the whole thing. Yes, go ahead, Roz.

Rosalind Brewer - ***Wal-Mart Stores Inc. - President and CEO, Sam's Club***

On the changing the way we work, I think Sam's is a good example of why we've seen some of the acceleration and innovation in technology. And our e-commerce growth that we've seen is because we did take our e-commerce team and merge them very carefully with our membership team. When you talk about Prime, you can sort of think about our membership model and what we've been able to accomplish.

So when you've got that dedication of a member just paying to shop with you like that, mobilizing their data, using it through the different channels of our membership team and our e-commerce team and our analytics team, it helps us do things like rapid prototyping on Scan & Go, getting right in front of the member and creating a really close, intimate relationship.

So I think Sam's has been able to just step out because of the membership model that we have that is similar to the Amazon Prime relationship.

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

I think if you get a sense when you're here today that we're doing more than just running these businesses or managing them. We're also learning together, and we're exposing each other to different people and leaning into the change. It really is exciting and I mean that. It's a great time to be in retail because so much change is going to happen and we get to architect some of that future, and we have all these resources. And if we just are smart about the choices we make and execute well, we can help define the future and not just react to it.

Steve Schmitt - ***Wal-Mart Stores, Inc. - VP of IR***

We got two more questions. We got Michael and Simeon.

Michael Lasser - ***UBS Investment Bank - Analyst***

Michael Lasser from UBS. Doug, what is your outlook for the overall profit pool in consumables, in general, merchandise retail? Do you see it growing? And how do you strike that balance between getting your fair share of that overall profit pool and bringing down the overall profit pool?

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Yes. We're not out to change the shape of the profit related to merchandise in the world. But I do think that the whole world, driven by the Internet and technology, is becoming more efficient. So would I expect to have higher margins and higher SG&A in 5 and 10 years? No way. The world has changed.

So as we were just saying, we have to change how we work to be more productive, to drive leverage so that we can participate in the margin that is available. And I can't forecast for you what gross margins will be, but I think margins, in general, are going to be under pressure, not because of a retailer but because the world has changed. We have to get prepared for it. I think we are. You just can't do it all at once.

Simeon Gutman - ***Morgan Stanley - Analyst***

Simeon Gutman, Morgan Stanley. A question on comps. I think the comp run rate of the business has been implicitly raised, more of the onus on the sales growth coming from comp. My question is, why couldn't -- or why shouldn't comps run at 2%-plus going forward? The business has momentum. Deflation may be bottoming. You have some merchandising activities. Jet seems to be an accelerant to that growth. Why shouldn't we think of 2%-plus being the new normal?

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Do you want to manage guidance?

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

Want me or want Greg?

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

You don't want to answer that question.

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

But I think part of the way that you asked the question, I think, answers the question. Some of it is deflation. When we've had -- particularly in Walmart U.S., we've had pretty good comps even with deflation. You saw Dave's numbers on comps as well, good International. Comps are better at Sam's Club. E-commerce has started to accelerate. So you're starting to see, I think, what can be with Walmart. Some of it is we've been -- or had these comps even with that deflationary pressure, which I think would give you some hope for what could be.

Steve Schmitt - ***Wal-Mart Stores, Inc. - VP of IR***

So we're out of time for the formal Q&A. There'll be plenty of times to ask questions after the webcast is over. Any final comments from anyone?

Doug McMillon - ***Wal-Mart Stores, Inc. - President and CEO, Wal-Mart Stores, Inc.***

Maybe just in summary, what we hope you're taking away from today is that we're starting to play offense, that we see traction across a number of metrics in different parts of our business, and we are trying to aggressively lead change, not just respond to the market that we're in. We've got a talented team. We've got a deep team. We're going to become more of an e-commerce and technology company.

We've made the decision, given that we do have strength in the business, to accelerate some investments that we know we're going to need and want to make in the future. And we're excited about the addition of Marc and Jet to the team and how that adds to our equation, including the business model and the productivity loop that we shared with you.

We're going to find a way to make sure that this company is strong and positioned well to be here 50 years from now. And we understand we need to deliver short-term results, and we think about the weeks, the months and the quarters just like you do. But first and foremost, we're going to win with customers, and we're going to make sure that Walmart is healthy over the longer term.

So again, we appreciate you making the trip to be here. A number of you have been here recently on different visits and the engagement's really appreciated, and we're trying to do the best job we can of being transparent and at the same time not tipping our hand to much, and I hope you can appreciate that. Let's go have lunch.

Steve Schmitt - ***Wal-Mart Stores, Inc. - VP of IR***

Okay. So this concludes our webcast. Thanks, everyone, in the webcast for joining in, and we look forward to having lunch in a minute.