



Wal-Mart Stores, Inc.

NYSE:WMT

Company Conference Presentation

Tuesday, March 14, 2017 12:50 PM GMT

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Call Participants

EXECUTIVES

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*Chief Executive Officer, President
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Presentation

Robert Frederick Ohmes

BofA Merrill Lynch, Research Division

Walmart Stores here with us today, especially in a day like this. So we -- and we appreciate all of you making it in on a day like this with the weather. Most of you are very familiar with Doug. He's been with Walmart since 1984, working in many, many different roles. He was a summer associate in Walmart, D.C. He's been an assistant store manager. He started as a Buyer Trainee, when he entered the merchandising organization. Before taking over the CEO role of Walmart in 2014, Doug was President and CEO of the Walmart International division. He's had multiple leadership positions at Walmart during his career. He's also on Walmart's board. I think as most of you know, he's also on several other boards. He's on the consumer goods forum. He's on the U.S.-China base Business Council. He's on the Crystal Bridges Museum of American Art board. He's also on economic and business school advisory boards. He -- I don't know how he does all this stuff, and he comes to conferences in the middle of snowstorms. So extremely busy guy. We really appreciate him making the time to be here. Also want to thank Brett Biggs, the CFO of Walmart, for coming and also Steve Schmitt from Investor Relations, both of them made the crazy trip as well.

So let me turn it over to Doug for some comments before we go into Q&A.

C. Douglas McMillon

Chief Executive Officer, President and Director

Good morning, everyone. It's really a relief to see other people here. Brett and Steve and I thought we were going to be talking to each other this morning, which wouldn't been all bad. We had some things to talk about, but it's really nice that you made it. Appreciate that.

We will make some forward-looking statements today. So please refer to our website for our safe harbor statement.

Let's start with the customer Rob, because I think that's ultimately where all this change is coming from enabled by technology, in particular. It's helpful in an environment where the world is changing so much to break things into pieces. And if we were to quickly characterize some of the pieces we think about as it relates to price, value is only going to increase the product itself, quality is going to improve, prices are going to be under pressure over time. The Internet brings efficiency. It's also going to be increasingly transparent. You can see a lot of that today, that trend's just going to continue and intensify.

Assortment has changed. There is a lot more choice out there. The world now has access to just about everything, which is exciting as a retailer.

And then on the experience side, maybe there's more change happening there than anywhere else. Technology, in particular, is being used to get rid of friction, make things simpler and easier. And consumers just expect that as a company, you're innovating all the time and making things more enjoyable for them.

We've got to get faster. We've got to make our customers worlds simpler, and we're excited about doing that and feel like we've just started to make some changes that will help us win in the future.

So think about the customer back into the company. What that means is, inside the company, we've got to change a lot, and we have a history of changing that, I think, in today's world, it's larger and faster than maybe it was in some future -- past periods.

Inside the company, this is a one pager we use to talk to our own associates. At the top, you'll see the purpose of the company. We save people money, so they can live better. When Sam Walton said those words, he was on a stage receiving the Presidential Medal of Freedom from George H.W. Bush. And what he said after he uttered those words was, "Our customers will have a better lifestyle." And so today, we

don't just think about saving their money. We do also think about saving them time and creating more sustainable company, so that they benefit when they shop with us.

That next row refers to our 4 core values. When you're in a people business like we are with 2.3 million people around the world working for the company, it's important to constantly be talking about culture and values. And behavior equals culture, and we want behaviors that are consistent with the 4 core values that you see on this page, and they have been timeless for us, and we believe will be our 4 core values for a long, long time.

On those 4 middle points, I'm going to come back to in a second and break them down piece by piece, these are the 4 things that this year, in particular, we are most focused on. And what I'm going to share with you is very consistent with what we would tell all of our associates.

Last week, we had the Walmart U.S. store manager team, about 7,000 people together in Orlando. We also had the Sam's Club U.S. meeting in Orlando at the same time. So we had all of our management team from around the country assembled, and these are the things that we talked about with them while we were together.

As we do those things, we believe in shared value. We believe that multiple stakeholders can benefit from this company. At its size and scale, we can make decisions that will help local communities, that will help shape systems to be more sustainable, deliver for shareholders, win with customers and create opportunity for own associates. And as we design our system, if you want to think of it that way, we're working to solve for all of the stakeholders that benefit from Walmart.

So as it relates to these 4 objectives that we're focused on this year, I'll start with making every day easier for busy families. This relates, as I mentioned just a moment ago, to time and not just money. We really do believe that the omnichannel model is the winner, and we believe we see quantitative evidence to support that. We're not just saying it because we happen to own and operate a bunch of stores. Our data indicates that customers are going to want to have a personal experience and want to have some interaction with stores. But they also want an e-commerce capability from the company. They want to be able to have access. They want to be able to do it easily. And as we work together to figure out how to take all the scenes away, we see a path to winning. And in the future, customers won't think as much about the scenes that we see today, stores, e-commerce. Today, you're starting to see voice emerge. There will be a great virtual reality and augmented reality experience. They'll order on their mobile device. All those things are going to happen. And we believe if we work hard enough, we can erase all the scenes and customers won't even think about it. I personally experience this at times today when I'm shopping. My wife and I shop at Walmart and Sam's Club, as you would expect. And now Jet, a few other places like Hayneedle and ShoeBuy and Moosejaw that we've acquired recently, but I don't really think about the channel as much. Sometimes, we pick merchandise up at the Sam's Club in the local town that we've ordered on the mobile app the night before. Sometimes we go in the Club. Sometimes you place an order on e-commerce. And those lines are starting to blur away. We're working hard now to erase those for all the customers. And you can see it with this acceleration in our e-commerce business, you can see it with our grocery pickup business that we're building. Recently, you may have heard about announcements related to payment with Walmart Pay or a Scan & Go capability at Sam's Club, where as you're going through the Club, you put it on the flatbed of the cart. When you get up to the front, you completely skip the checkouts. You just go to the exit, an associate there has a tablet. They look at what's in your cart and say, "Thank you and have a good day," and you're gone. We're also figuring out how to do that within the Walmart Stores, not just the Sam's Clubs.

And then in the last week or 2, we made an announcement that, this year we'll be rolling out some digital experiences with financial services in the store and also at pharmacy. Today, it's too cumbersome to do a money transfer in our stores. You have to fill out a paper form that looks like it came from the IRS. Tomorrow, you'll walk up, go to a line, and if you've been with us before, it'll be incredible fast. All those kind of changes have got to be delivered for our customers and members, and we're on it.

As it relates to changing how we work, we were born with the low-cost mindset. But as time goes on and a company gets bigger and older, you inherent -- inherit bureaucracy, layers and expense that in some cases, we don't need. We've been trying to chip away at that, but we've got more of a transformation to

go through. We'll keep working on the more conventional ways to reduce cost. But we're really excited about changing how we work inside the company to be digital inside, not just with the things that customers see, but how we actually do work.

So if you just simply took the concept of designing for a change for a customer and instead thought about it as designing change for an associate. We can do a better job of building new tools inside the company, enabling them to have better access to data, to be more digital. Some times when I'm talking to our folks, I'll say that the phrase, "Please, go run that report for me," is going to go away. You just -- it's just there. The data is just there. And the way that we've designed the work inside the company is more like work would be designed for an app for a customer. And we do some of that now, and I could tell you some success stories about different parts of the business where it's being deployed.

The great news is that makes you faster. It also reduce cost -- reduces cost because you just don't need as much overhead. And in addition to taking costs out of store level and being more productive with technology and other things, we also must do that in a home office, which will increase our speed. So there's a bigger change that is really in its very early stages. We've been in this past year as a leadership team reading about design, thinking and talking with each other about what it means to be a digital enterprise and having guest speakers come in from digitally-native companies to talk to us about it. And I'm really excited about it. I mean, I've been around Walmart for a long time. I got to see Sam Walton work a little bit and all the leaders from Sam to today. And we like change, and there are so many things you can do right now to improve this business that one of my biggest challenges is not flooding the engine with ideas. We just -- we've got to also be able to execute. But it's really an exciting time to be part of our business, and I think, our team is starting to feel the same way.

As it relates to the next one of delivering results and operating with discipline, Brett talked about this financial framework when some of you were in Northwest Arkansas in October, strong efficient growth. We don't want to waste anything, whether it's expenses or capital. We want to deliver growth that delivers a return. Our time horizon and years don't always match up, but we have the same objective. Strategic capital allocation. I think in Walmart, you run this risk that because you have so many resources and cash flow, you feel like sometimes you can do everything, but you can't. And I think, we've been more deliberate, more choiceful recently as it relates to where we're putting capital, you can see it in the reduction in the number of U.S. supercenters that we're opening, for example. And then on the operating discipline side, managing all the costs, as I was speaking about earlier. Comp sales are increasing in importance within the company. We want to get our growth from comp store sales growth and e-commerce growth.

And as you well know, comp store sales growth has a really attractive return. So investing in price for comp stores, investing in remodels, those things are deliberate to over time lift the comp store sales number. We're experimenting with different types of stores, different formats of supercenters, and by the way, we like the supercenter format, particularly, in this country. It's a very effective vehicle, and we believe will drive traffic over time if run well.

A couple of sores we've opened recently in the Orlando area, Lake Nona, Florida and in the Houston market, Tomball, Texas or the Woodlands area, represent some of our latest thinking in terms of supercenters. And if you are in those markets, go check them out. That will give you some idea of where we might allocate some of our remodel dollars going forward. We're focused on working capital. I think the inventory and payables performance you've seen recently is vital to us being able to generate the money that we need to invest and really pleased with the job that Greg Foran and Walmart U.S. team have done, in particular, as it relates to that.

So going forward, this is the framework that we'll be using as we talk to you, and we think about how we run the business. Being the most trusted retailer is the next one. We do believe we are in an era of increased transparency, and trust is really important. And with all the things that we do, we want to earn trust. A few years ago now, I guess it's been about 10 years ago, we started on a sustainability journey, started working on energy and eliminating waste in different ways, and we've made progress. We recently announced that we had achieved the goal of eliminating 35 million metric tons of greenhouse gases as reported through our supply chain. In 2011, we set a goal of sourcing \$20 billion from women-owned

businesses, and just recently announced that we made it. We have U.S. manufacturing program that we started in 2013, where we said we want to go out and find an additional \$250 billion in U.S. manufactured goods. We put a team together. We are bringing states together with manufacturers and investors, in part suppliers to help deliver against that goal, and we're on track as it relates to that. We're hiring U.S. veterans. We've hired 169,000 since 2013, and we promoted 20,000 of them.

And in October, we announced a new set of targets around greenhouse gases and science-based targets and continuing to try and lead in that area, and it's good business. It helps us reduce cost. It helps us be more efficient. It helps as it relates to people understanding the company better, demonstrates a heart. And again, we've become convinced. You can do multiple things at a time serving multiple shareholders and actually create a higher quality and stronger business. And it's one of the reasons why I like working at the company and why I think, we've been able to attract and retain great talent.

So in summary, our plan to win is getting clearer. Our team is becoming more confident in it. This last year, we generated over \$31 billion in operating cash flow. So we have resources to invest, but we have to be choiceful to get positioned for the future. We're moving faster. We're trying to do a good job of balancing the short term with the long term. And what I would like to have this leadership team accomplish is that when we're a few years ahead here, we've been through these changes, we've positioned the company to win for a long, long time, culturally and in terms of positioning and what we've done with technology. It's fun. It's challenging. The world is changing quite a bit, but it creates great opportunities.

Question and Answer

Robert Frederick Ohmes

BofA Merrill Lynch, Research Division

I'm going to kick it off with the questions. The -- you're going to get, I think, a lot of questions on the e-commerce side. But I want to -- I just -- 2016 was actually a really good year for the U.S. supercenters. You guys had positive comps. You had a great fourth quarter, particularly, relative to the rest of the retail and your traffic comp was really standout. The question I get a lot, so as we're moving into 2017, you begin to anniversary a successful year, what would you say to someone that says, "Hey, you're up against tough comparisons there, you increased wages, gas prices were in your favor." How do you guys keep that core U.S. momentum going?

C. Douglas McMillon

Chief Executive Officer, President and Director

What goes through my mind first is that, we're controlling the things we can control better. The job that Greg Foran and the U.S. leadership team are doing to create a better experience for customers is real. And I get into a lot of stores and almost all the time unannounced. The store standards are higher. The in-stock is better. Inventories weigh down. The comp store inventory being down 6% or 7% is a big deal. If you work in a store and you can find merchandise in the back room and you're not moving things twice, it just creates this positive morale and feeling in the store that you can do what you need to do. And then they layered on training and technology. We went from these old handhelds we've been using forever to tablets and store managers today can run their store to some extent on apps, and it feels more like a contemporary experience. We can't control fuel prices. We can't control some other things that are in our environment. But from what we can see, if we just continue to make improvements like the ones I just described, layer on an intelligent price investment to help move the productivity loop, customers are going to find faster checkouts, technology to help them checkout, improved in-stock. Steve and the team are working hard on new items and being exciting. What I'm confident about is that, as a team, we can keep making these supercenters better as the weeks and the months go on. And then the external environment will be what it will be, but we should outperform as it relates to competition. And as long as we don't get too shortsighted and try to manage the short term too much, we're going to keep seeing that improvement. And then the way that Greg and Mark are working together as we build e-commerce business to find ways to save customers' time and have experiences that you can only create by having an e-commerce business and a stores business, all the better.

Robert Frederick Ohmes

BofA Merrill Lynch, Research Division

Another question I get all the time or more recently, Lidl is coming. How should -- how would you tell us to think about the deep discount or threat?

C. Douglas McMillon

Chief Executive Officer, President and Director

Yes. We've had Aldi here for a long time, as you know, so -- and we're familiar. And then in the U.K., we've been through the Lidl and Aldi growth over the past few years, and that certainly focuses you. As it relates to what we offer, I think it starts with assortment. We've got to make sure that the quality of our merchandise, not just the price, is right. So that takes a little bit of time, and we've been working on that for some time. Sizing of a product, so that it's easy for a customer to compare one item against another, which is harder with private brand than brand or off-brand than brand, first-tier brands like we sell. So product engineering comes to mind first. Price comes to mind second, and we have been, as you know, making some price investments. And then in the supercenter, what we can't do is have too much friction. And part of a small store's benefit is getting in and out. We certainly see that with Neighborhood Markets. So finding ways to innovate for speed, so you can find [indiscernible] get out of a store quickly is also really important part of the offer. So we're going to try to take away advantages that discounters have and then play to our strengths.

Robert Frederick Ohmes*BofA Merrill Lynch, Research Division*

And then I know a lot of people are going to ask if I don't ask it. Can you just talk a little bit about the outlook for food inflation and deflation? And how you're thinking about your grocery business through 2017?

C. Douglas McMillon*Chief Executive Officer, President and Director*

Sure. Deflation has been issue. We think it will moderate some this year, but we still expect 20 years over, all in, there'll be some deflation. We don't worry about that too much. We're tracking units and tonnage. We want to see the trips continue to increase in the supercenters and in the Neighborhood Markets. So managing all the things I've already spoken about, including price, come to mind. Again, we try not to get too distracted by things we can't control. Currency, inflation, fuel prices, be aware of them, understand their impact on the business, but nail what you can.

Robert Frederick Ohmes*BofA Merrill Lynch, Research Division*

So on e-commerce, you mentioned few of the acquisitions you've made. Can you give us a little more color on how you're thinking about the potential for future acquisitions in the e-commerce business?

C. Douglas McMillon*Chief Executive Officer, President and Director*

Yes. Sure. It's not very complicated. Customers want a great assortment, great prices and service. And we haven't been delivering for a number of years on those things as well as we have to. So assortment is driving a lot of these acquisitions. We can pick up some of these companies that are great in terms of the assortment and the service they provide, but they don't have enough money to lose to go market their brand and scale it. And an e-commerce scale is obviously very significant. So by joining Walmart, they get some benefit, as it relates to the halo of marketing. They can sell through the brand that they've established. They can take their assortment and make it available to customers through Walmart or Jet, and we can scale faster and we get some synergies as a result of that. So the acquisitions are largely being driven by assortment.

Robert Frederick Ohmes*BofA Merrill Lynch, Research Division*

And in grocery, how important is -- how do you think about pickup versus delivery over time?

C. Douglas McMillon*Chief Executive Officer, President and Director*

Yes, it's cool. Customers love pickup. Our customer satisfaction scores related to Online Grocery, and the pickup experience are amongst the highest that I've ever seen, and they've been that way really for quite a while now. I was in this Orlando location. I was in Michigan earlier last week. And given the time that we've had to plan now, the physical store is improving as it relates to pick up. We're learning how to manage the outside experience, so it's faster. And we're learning how to build the back room, so inventory can be moved from in-store pickup to the exterior pickup quickly and easily. The systems are getting better. On-hand accuracy is getting better. We're starting to learn how to put refrigeration closer to the pickup area that our associates can use, so that it's just -- it's fast. And ultimately, we want to make that a great experience. And with people coming to the store through the portfolio that Walmart will make money. But if the customers don't want to pick it up, we still won't be able to deliver. What we've learned from the U.K. where we've been doing grocery delivery for a long time, well over 15 years now, with our own trucks, our own drivers, a really good experience is that we're still doing well over 90% of our volume in store. So there's a role for delivery. There's a role for pickup. And by the way, the on-hand inventory management for pickup is the same as it would be for the delivery. You just have to sort out last mile whether you want to do it or have somebody else do it. So the capabilities are being built within the

company. And then she'll decide. The customer will decide on that moment what she wants. There'll be times when she wants to come into the store. There'll be times when she was to pickup. And increasingly, you can order it on a mobile device or whatever technology you want to use and it'll be faster. And then if you want to have a delivery, you can have it delivered. And humans won't have to decide a week ahead or 2 days ahead on something you can decide faster how you want to shop. The delivery times are becoming shorter. So we just -- we want customers experiencing our brand, Walmart. And as long as you're in the Walmart ecosystem, whether it's delivery, pickup or in-store, we'll be there to serve you.

Robert Frederick Ohmes

BofA Merrill Lynch, Research Division

In the economics of those choices, do they become very similar over time or...

C. Douglas McMillon

Chief Executive Officer, President and Director

Yes, as you scale pickup, the economics become favorable, but you've got to get the orders up to a certain number. And what we've learned is that, not every store needs to pick. It actually does make sense, in some cases, to have a hub, picking and delivering to other stores and to the home. So it's just math. It's capability and math. And we're figuring out where to do it and where not to do it.

Robert Frederick Ohmes

BofA Merrill Lynch, Research Division

And how it -- how should we ultimately think of Walmart.com versus Jet.com? And do these come together over -- or what -- how should we think about them?

C. Douglas McMillon

Chief Executive Officer, President and Director

They're coming together behind the scenes now. But on the front end, we want to keep them separate. Jet attracts a slightly more affluent, more urban and younger customer than the Walmart brand. The Walmart brand, when you think of the Walmart brand, just think of the U.S. demographic. There's so many transactions there, and it's largely through former dotcom as well as stores. When you think of Jet, you shift that demographic a little more towards urban, more affluent, younger click. But there are some suppliers that don't want to sell on Walmart that'll sell on Jet. Mark's got some ideas, which I'm excited about on what Jet might be in the future, and it'll be different than Walmart. Recently, we decided to do shipping without charging for it for 2 days, which is different than a membership model. So having multiple brands give us the opportunity to make different choices with those brands based on our best ideas and what customers want.

Robert Frederick Ohmes

BofA Merrill Lynch, Research Division

I will just stop there and give a chance for someone in the audience to ask a question?

Unknown Analyst

Could you talk a little bit about the marketplace side of the Jet and Walmart.com business to the extent that there's 3P, what is the strategy? How you're thinking about referral pricing? How you're thinking about ultimately fulfillment for the 3P part of the business, just overall?

C. Douglas McMillon

Chief Executive Officer, President and Director

Yes. Building a 3P capability is obviously really important because of the breadth of the assortment, and we don't want to own all the inventory. And many of you that have been following us know that for a while, we were telling you we have foundational things to take care of. We need a new operating system, and we've got to get these fulfillment centers built. I got tired of saying that. And I think, I went around saying that for about 1 year or 2. And those things finally got taken care of. And then along comes Jet,

and we see this opportunity to drive up units per basket and really kind of step on the gas here. And so as it relates to 3P, once we got operating system and fulfillment center foundation in place, we can really scale it. So it came later than we wanted. But if you look back, almost 12 months ago now, we started really seeing the item count and the sellers go up and we started gaining traction, and it drove growth each quarter as we went through last year. We'll continue to build a 3P business, and we don't currently have plans to do fulfilled by Walmart, but we wouldn't rule it out. Ultimately, we believe that managing first party inventory is a core competence that we should take advantage of. And so tying up fulfillment space for others may not be in our best interest, because we may want to own the inventory. When you own the inventory, you control the customer experience more effectively. It feels to me like that this rapid expansion of enormous assortment is going to kind of play out. There are only so many items in the world, and then we'll move into a period of time in coming years, it's more about optimization. And that mathematical optimization may cause us to want to -- I'm just thinking of the U.S. here, in particular, may cause us to want to have more first party items than we might have imagined 1 year or 2 ago. So it's a fluid situation. We're seeing the math every day, every week. And we'll make decisions as we go along. But it's important, we need to have third party. But first party is hard, and that creates opportunity for those that can do it well.

Unknown Analyst

Just to follow-on to that. While you don't disclose your total GMV, you disclosed GMV growth. It seems to us that the size of your GMV positions you, right now, including your 1P is kind of the third-largest GMV overall retailer in the developed markets or at least in the United States. Can you just comment on that little bit? And then also on the 3P side, can you just comment on referral pricing? It looks like you're kind of 15% across the board, where some other marketplaces may be on certain items [indiscernible] excepting for electronic which are 11.7 [ph]. Other marketplaces may be a little bit more competitive, just how you think about competitive pricing in 3P?

C. Douglas McMillon

Chief Executive Officer, President and Director

Yes, yes. I don't want to get into too much detail on third-party pricing, but we will do over time what we need to be competitive because we got to grow that assortment. As it relates our position in this market and in others, we just have the great opportunity. This e-commerce business is not magical. You can build it. And I think today, we understand a lot more than we did in the past about how to do it. And really excited about the talent that we have in the company, helping us figure that out. So I think, we've got a great opportunity. The question that I think is kind of on all of our minds is, how fast can you scale it? And what does that mean to profitably to over time? If we look back at the past, I think most, if not all of us would say, we put too much pressure on short-term profitability and didn't really drive the J curve like we should have. And as I have to look back right just at the last few years, we made some choices, and I regard them as being truly strategic. They were intentional. We thought about it. And as a team management and the board, we decided if the supercenters are running really well, we have cash flow and time. So phase 1 was, go make the supercenters strong, particularly in the U.S. So how do you do that? Well, number one, it's a people business and your people got to be with you. They got to know their jobs. They've got to be excited about their opportunities. They've got to have the resources they need, including technology to be successful, go do that. That took a little bit of time and it took some money. And so all of you, a lot of you came back and said, "Whoa, too much money, not enough return, whoa, it's tough." And we said, "Yes, it is," but we're not running this business for 1 quarter. So we're going to go do that. And I'm really pleased with how all that's coming together. We got demand there every day. There's a lot to do. But I'm pleased with that. Then we came back to, particularly, in October, and we said, now that we're operating for more of a position of strength there, we see the opportunity to step on the gas as it relates to e-commerce. We have the people, we have the plan, we now have the fulfillment centers, we now have the operating system. We're going to bend that curve a bit more. This is a fluid environment. Competition is not sit and still. Customers are changing. It's faster cycle time than I can ever remember in my history, and I think it's only going to get faster. So we're going to be really thoughtful about what we commit to you and say to you and try to be -- leave ourselves enough room to make the decisions that we need to make to ensure that Walmart wins. And part of winning is generating a return, but that return doesn't have to be delivered in 1 quarter. It's got to be delivered over time. And I'm not trying to say

just hang with us and in a decade, we'll make money. I'm not saying that. I'm saying that as you hold us accountable, you'll see progress, but we're not going to be shortsighted. We're going to do what we need to do to build the capabilities to win. So those things were on purpose. And again, I think in summary to your question, we have a great e-commerce opportunity. We have a great e-commerce opportunity as it relates to food and nonfood. We have a great opportunity in this country and in the other countries where we operate. We've learned a lot.

Unknown Analyst

I just wanted to follow up. So first, get the house in order was sort of the communication and now you're saying, we can go a little bit faster with online. I also wanted to understand like the other half of that, if what was going to happen in the stores was price investments will be made. We can get the prices right, we're going to win versus -- I think the theory behind it was, we can get right and win versus the Aldi and Lidl over time. At this stage, we've made some cost reductions in the store, just try to drive some fuel to make those price investments, but the price investments continue. So how are we funding like lower prices for Pop Tarts, Tide, Chunky Soup, like very specific, like lots of items are clearly lower price? Are we asking vendors to lower prices as we see in the media a little bit? Are we able to get money out of them by charging them for late deliveries or not full delivery or being the -- like what's happening, or are we looking at just gross margins under pressure?

C. Douglas McMillon

Chief Executive Officer, President and Director

Yes. We had some pretty big opportunities with private brand and with sourcing. So we've resourced private brand. We have more talent there than we've ever had before. On the floor of our store managers meeting last week in Orlando, the first time I can remember, there were lab coats, some scientists and suppliers and some of our own merchants that were showing how we have built some of these private brand products, and we wanted our store managers to see quality. We had examples from food, we had examples from footwear and apparel, so that our own team would know we're really investing and ensuring that our specifications here are strong. So that opportunity is still in front of us. We've started to see some momentum in private brand, and we'll still sell brands for less. But for the space we allocate to private brands, it's going to be -- it's got to be great. And we have some really big private brands and some that have a great reputation, but we have a lot of upside there, too. We had some opportunities as it relates to sourcing. We've engineered our sourcing team. David Cheeswright's been leading that. We're making some progress there. As it relates to supplier funding, we had drifted away from a more pure EDLP model, and you guys probably look at it and say, "Well, no, you really didn't drift away." But through our lens, we did some. We were running too many print ads. We went through a year of comp store paying. My first year in this role where we told you we're cutting our tabs back, and we cut them back from, I think, it was over 100 to 12 or 13 or something like that. The suppliers were funding some of that. So there were dollars in that first year that had been going towards advertising that we told the suppliers we no longer want for advertising. We'd like to talk to you about an off-invoice price, working through that math together to figure out how to get the price into the invoice lowers the cost, and we get back to a more pure EDLP model, which helps us get the store inventory down, because when you're advertising something, you've got to ship in a feature because you promised customers you're going to be in-stock. When you stop advertising it, you stop sending your extra inventory in, it helps reduce labor, it helps reduce markdowns. So some of the funding that we will experience and are experiencing just comes through operational efficiency by getting back to the model that we'd always build and it works for the stores. Dynamic pricing and e-commerce are a different thing to figure out, and how we put it all together is other work to make sure that all of this ultimately builds trust with the customer and through inventory flow, be able to lower cost operating model. So we're creating oxygen from a number of different places. And we're not hitting 100% max on our ability to do that.

Unknown Analyst

Just a follow-on to that private label comment you made. Walmart's always been a house of brands, so I know Walmart is cheap because Tide and Kroger is [indiscernible] and Walmart it's x minus 10% or whatever.

C. Douglas McMillon*Chief Executive Officer, President and Director*

Right.

Unknown Analyst

So how -- why then is private brand's a focus? And so maybe you can wrap that into -- I think all the Lidl model has a lot more private brands in it, they're showing a price that's 20%, 30% less in some cases than a branded product. So I mean, should we think that private brands become a much bigger part of the assortment at Walmart over time?

C. Douglas McMillon*Chief Executive Officer, President and Director*

Yes, it should, and things have changed. Let me try to explain this in a way that's brief. Let's take Tide. If Tide is available on the Internet and you can see pure e-commerce sellers, store retailers, all the above, and we're all selling the same size Tide, that margin over time is going to be compressed. So having a private brand from a margin mix has always been important -- margin mix point of view has always been more important, but it's even more important now and as sourcing capabilities even more important now. Then layer on that loyalty, if you can get Tide anywhere, but you can't get Sam's Clubs Member's Mark or Equate or Great Value anywhere, and we have engineered the specs such that you just really love our granola, then there's a loyalty there that passes not just through the store, but through and to the e-commerce business as well. So product-driven loyalty becomes even more important going forward than it was in the past. That does it mean we want you to walk into a Walmart store, and if we've got an 8 foot section of something, we don't want you to see 4 foot of private brand. But for the space that we do allocate to private brand, and we don't have a target set by category to say each category is got to be x percent of a private brand, we're letting the product itself and the customer pull that through as we do it for whatever space we do allocate, it needs to be great. And we had to get out of this binary or your private brand all in or not into let's be more specific, can we be great at selling brands for less and resource private brands so that when we do sell a private brand, it's great. Yes, we can do both at the same time, and that's what we're doing.

Unknown Analyst

Amazon has shown the ability to create ancillary profit streams through recent 10-K advertising, obviously, the cloud credit. It's allowed them to subsidize in effect retail pricing. How do you think about ancillary revenue streams or profit streams to continue to support your pricing?

C. Douglas McMillon*Chief Executive Officer, President and Director*

Yes. Within the company, the language that we use is where to play and how to win. And the management team and the board regularly are thinking about the where to play side of that equation, where we in, where we out? Which geographies are we in on? Which categories are we in on? Which formats are we in on? And are there other things we need to do that will help generate profitability if we are in a situation where retail margins are suppressed because someone has a different model? All of those things are being actively discussed. We need to be really thoughtful about that and not try to do things that are not in our DNA and are too far from the core of what we do. But there are things that are closer to the core of what we do. Financial services would be one. Health and wellness is an area where we think we have an opportunity that we probably need to be more aggressive and resource in a different way to capture those opportunities. So it could be in the future that you see us be more deliberate about creating additional profit pools, that is certainly on the agenda. And we're thinking about lots of things, and many of which you could probably guess. But we will be really thoughtful and deliberate about those kinds of choices, including managing our existing portfolio.

Unknown Analyst

So one unrelated question, but follow-up to the other person's question. So if you look at the margin structure of your company or other large mass retailers and your suppliers in the last 10 to 15 years, there's been a huge divergence in terms of margins, one is going up, the other is going down. How do you think about that longer term? And is that right? Is that need to be corrected? Or is that just a state of the world?

C. Douglas McMillon

Chief Executive Officer, President and Director

Well, that's hard to -- it's hard to predict. I think, we have to -- well, first of all, as we've looked at the years that are closest to us here, we've already said some things about how we feel about our operating margins and where it's going to come from. Longer term, it's really harder to call. I do believe that technology and the Internet will make the world more efficient period. And that some of these ecosystem or where to play questions that you raised earlier will factor into the longer-term future of business, not just retail, but business in general. What's going on in supplier community, let's just say it this way, I hope that folks continue to invest in R&D and innovation, and our supplier community doesn't become too short-term focused either. We need them to think longer term and to create exciting new products to drive demand. So as we're talking to suppliers and I talk to leaders from suppliers, I'm encouraging them to make sure they've got the right short and long-term balance.

Robert Frederick Ohmes

BofA Merrill Lynch, Research Division

And with that, we unfortunately have run out of time. I want to thank Doug and Walmart for coming to the conference.

C. Douglas McMillon

Chief Executive Officer, President and Director

Thanks. Thank you.

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