2019 Investor Relations Q&A

Walmart - June 7, 2019 12:15 PM

Dan Binder: All right. Good afternoon, everybody. Hope you had a great morning and enjoyed our associate and shareholder meeting. On behalf of the company, I want to thank you for joining us today and for those that are on the webcast, welcome, as well, to our executive Q&A session for the investment community. Before we get started with the Q&A, Doug and Brett will have some opening remarks and then we'll spend the rest of the time on Q&A, which will run roughly an hour. Let me remind you that we may make forward-looking statements today during today's discussion. Forward-looking statements are subject to certain risks and uncertainties and other factors identified in the safe harbor statement on our website at stock.walmart.com as well as in our quarterly and annual SCC filings. With that, it's my pleasure to hand it over to Doug McMillion, Walmart's president and CEO. Thanks.

Doug McMillon: Are you glad you're here instead of sitting at one of the tables this time?

Dan Binder: It is a little surreal. Last year I was sitting with Richard Mayfield, getting ready to ask my questions.

Doug McMillon: We'll answer yours after we answer everybody else's, okay.

Dan Binder: For anybody wondering, it's been great.

Doug McMillon: Hey, thanks for coming. We appreciate you investing your time and energy to come and learn about the company. So many of you have done this many times and we really do appreciate it and know that you could be doing other things. I want to start with some introductions. At the table down here we've got Dan Bartlett, who leads communications, sustainability, and a number of other areas. Rachel Brand, who leads global governance. And someone who's not yet an associate of the company but we've announced that Suresh Kumar will be joining us starting in July and he'll be leading technology, our Chief Technology Officer and Chief Development Officer. So we look forward to him joining. I keep asking him if he's got everything fixed yet and he keeps telling me he hasn't started. So we'll give him a little more time. I think you know everybody up here. We've got some consistency in leadership, which is great. As you've heard all week, what an incredible period of change. A number of us has been doing this a long time and we talk frequently about the pace and magnitude of change and are excited by it. You know, I think you can choose your mindset in that kind of environment and the mindset that we're choosing is one of playing offense, being open, learning new things, as you heard this morning, tackling problems in different ways. And throughout the meeting this morning and hopefully throughout the week, you heard us give you examples of how we're moving faster, putting things in place that solve problems for customers without raising our costs, in fact, driving productivity through this technology and saving them time. And it feels a little like this snowball may be rolling downhill a little bit as it relates to us getting our teams to work in different ways and thinking in a different way. And you can see it when it bears fruit. And I think today and hopefully this week we've given you some examples of that. Our approach is to create shared value so we care an awful lot about how we deliver for our shareholders. We also care about what we do in communities, what we do around the world, and obviously, how we serve customers as an important stakeholder group and we're trying to make decisions that create that balance. And I know today, I tried to give several examples of what the company's been doing. I know others did as well and I'm just really proud to be part of it. This week is a bit of a, it's almost like finals week for us. The last few weeks, we've got a board meeting this week, we have this conversation with you, we have this session, we just did it on Friday. So we've got to pass an exam in Biology and Algebra and we get ready for all those things. And as we've been doing that, in the hallways as we've been bumping into each other, there's just been kind of a sense of pride as you pause and add it all up that this company is providing a lot of opportunity for associates and it's creating good work in a number of areas as it relates to sustainability. So, proud of that, excited about our future, feel like we've got some momentum in the results. The environment, if we look back at last year, was pretty good. The environment's changing. It's changing around the world. I'm sure you'll have questions about that and we're prepared to adapt and feel like we're on our front foot. So, excited to take your questions. I'll turn it over to Brett.

Brett Biggs: Yeah, I'd like to say thank you for coming to Bentonville. Thank you for your interest in the company and I won't go through all of our first quarter numbers. You know those numbers probably as well as I do. But it's a good start, good start to the year and I'm really pleased with it. And if you look at all the businesses that are represented up there, there's really strength in each one of these businesses. And so it's broad-based and that feels really good. I'm excited about what we've done from a leverage standpoint over the last couple quarters and starting the year. I like the way we're getting that leverage and you saw some of that this morning, even the way we're doing that with technology and changes and process. It's a good way for us to get leverage and, of course, having really good comp sales helps a lot. As you think about this company in the future, there's so many different ways in which we can come to the right answer from a financial standpoint, both long term and short term. And, again, you saw that some of the things we're doing this morning, we have so many different things going on inside the business. And the ability to pull that together is a lot of what we spend our time on and how to balance that out and make it all pull together in a way that makes sense for our investors but also for our communities in other places long term. So I'm really excited about where we're going. It feels really good and I think you probably felt that in the room today. So thanks for being here and we'll take your questions.

Dan Binder: Before you -- as you grab the mic, Budd, just please give us your name and your firm name as well for the benefit of the webcast.

Budd Bugatch: Budd Bugatch with Raymond James and thank you for the celebration this morning. I thought it was really very special and appreciate it very much. I have two questions. One of them, actually, involves your new associate, Suresh and when we read about his hiring, he's going to report, as I understood it, directly to you, Doug, which seemed to me to be very interesting and indicative of where the company's mindset is. And maybe talk a little bit about your direct reports and how you think that works over the next couple of years and your thought process. And I have one more follow-up.

Doug McMillon: Yeah, sure. I'll try to be brief with the answer and others may want to chime in as well. But there's a change underway within the company in terms of how we work to become more of an agile company and designing customer experiences in a way that we haven't before. We've operated too often in silos and sometimes been a bit internal-focused in the things that we resource and the way that we develop our technology. And what the team has done is started to pivot that to really become customer-centric in a different way and think holistically end-to-end about customer experiences. Could be, for example, the way returns work or the way that the check-out process works in a store. And as we've been changing the way we work, we're sitting on a tech stack that is a combination of legacy systems and things that have been built recently. And it's global in nature and we've picked up technology through acquisitions. So we have a foundation that is uniquely Walmart in terms of its scale and complexity and we have a tech team that is working to modernize it and moving with speed. But we decided a while back that we wanted to accelerate that process. And we thought we could do it even better and even faster. And by doing that, make data more accessible to our associates to be able to put it to work for customers, deliver a lower cost, pick up speed as it relates to moving to the hybrid cloud, for example, have fewer applications, a number of things that are underway that we thought we could accelerate. And so we started asking through our networks who are the people in the world that we should consider taking on this big challenge of a global system that is Walmart. And there's a relatively short list of people in the world that collectively we would consider and Suresh was on that list. And so we were excited to be able to recruit him and bring him on board to help us accelerate that progress that we're trying to achieve. The last thing I'll say about it and then somebody else can comment if they want is that there's some needle-threading going on between developing the overall infrastructure in a way that it's low-cost, fast, easily accessible in terms of data, and modernized and having a strong connection to the business units. You know, Greg runs Walmart US. I don't. The rest of us don't. And he's gotta have a technology partner at his right hand side that is working in tandem to accelerate these things that we're trying to deliver for customers. Same's try for everybody else. And so Suresh has a team. He walks in the door in July to pick up a team. I'm sure we'll make structure changes. I'm sure there'll be talent changes. We have some openings right now. And as we do that, we'll craft it in a way designing for speed and lower cost and putting our data to work in a way that we haven't before. And we need to do it globally. Flip Cart's in a very different position than Sam's Club is, and, and, and, and, and. So it's a big challenge and he'll work in partnership with all of us to make that happen. Anything you guys want to add to that?

Dan Bartlett: Well, I'd add something. The way we think about it with Suresh taking on everything Doug said across the entire world that our role is to work on the things that are closest to the customer, the customer experience and those can run on top of this organization that Doug's describing. And then Suresh can empower all of us with new technologies and help us save time, cost, energy on the things we're doing today.

Budd Bugatch: Okay. And my follow-up, actually, John, is for you because Bobby I walked yesterday the new Sam's Club in Springdale and loved it, thought it was terrific. But the question really goes to skew management and your major competitor has much less skews than you do, at least as we see it. Can you talk a little bit about where you are? Member's Mark looks great but we saw, in this case, I think four or five different cashews whereas there is one on the competitor that we see in a brand.

Dan Bartlett: Yeah, for the last couple years, we talked about narrowing our focus to a target consumer, which was our homeowner, about 75 to $125,000 a year in income. And we've been working on tools and processes to narrow the assortment. And I think you were in Springdale, Budd, yesterday, if I remember right. And it would actually look a bit different than the two clubs north and south of it in Bentonville and Fayetteville where there's some pretty -- or even more dramatic skew reductions than what you've got in Springdale. So we still have a considerable trade with some small business members. And in the northwest Arkansas area, we left some of the items, actually, some of the ones you described for the business members there. And then the other two clubs, we narrowed even quite a bit more, probably another five to ten percent in skew range. And it's working. Members are responding well to it and overall, I think what you'd hear from them is it looks like there's more even though we've taken the skew count down quite a bit. But Springdale's the club in the Northwest Arkansas area where we left some of the items that we haven't rationalized in the other two.

Dan Binder: Peter? Let's keep it at that table for minute.

Peter Benedict: Thanks. Hey, guys, Peter Benedict at Baird. Doug, I found it interesting in your comments earlier this morning that phone pay seemed to be elevated almost alongside Flip Cart in your comments. Maybe you can share with us what's going on in that business, maybe how it's scaling relative to your expectations and what the future could hold for phone pay.

Dan Bartlett: Why don't you go first, Judith.

Judith McKenna: So phone pay is just two and a half years old and people sometimes don't realize that as you think about that business. As we've got to know the business better over the course of the last ten months, which is since we took our investment stake in Flip Cart. We've got to know more about it. And even in that time, they have launched new products and new business lines. So they've gone into, if you think about the base of it, it is a transaction platform with payments. It's a payments platform. But the way they look at the business is they add new services to that. As I say, since we just took that business, there is -- gold has launched, with anybody who knows the Indian market knows it's actually a really huge market within India to trade in gold. They've just added mutual funds. But one of the other areas that they've gone into, which we weren't clear about even a year ago is adding merchants to that base as well. So they've just launched phone pay for business, which is enabling those local [indistinct] that you hear Doug mention in his speech about how to give them the access through QR codes, which you can use for any platform for anything but put your transactions through phone pay. So we've been really pleased with the way that business is continuing to develop. The team have been in here this week and one of the things they're really doing for us is I know much more about the payments business than I did ten months ago. And as we look to markets like Mexico, which is, you heard us talking about cashew, the team from phone pay are helping advise us about what might be the right routes to go through for that as well.

Doug McMillon: When we were together in October, we showed you a picture of an ecosystem: person, life, family in the middle, data technology and our associates surrounding that and then these various businesses that are mutually reinforcing. I think that ecosystem map will look different by county. But we can learn across the counties about how things like payment platforms relate to the rest of commerce, both stores, any commerce. And these connection points that all center around that individual and the data that emanates from that is an opportunity for us. And so I was in India not long ago and got a chance to get an update from the Flip Cart team as well as the phone pay team and did get really excited about the potential of what phone pay can mean. But you really -- think it through, have to look at that flow chart. Look at -- you'll find it online just for India for Flip Cart and Phone pay and the other brands and business that are part of that ecosystem that we now own the majority of. And the businesses relate to each other. Don't think of them as standalone. Think of how they come together.

Peter Benedict: That's great. Thank you. And then my follow-up maybe for Greg and Marc, I guess, can you talk about how Fresh is performing within your grocery delivery business? Now, I know it's small at this point but just how is Fresh doing there and then how do you think about Fresh as you start to merchandize out even the pet side of your business?

Greg Foran: Fresh is really critical if you want to get into the pick-up and delivery business. So it's been a core focus of ours for several years now. the feedback we get from suppliers is -- sorry, our customers is they like what we're doing. We've still got room to do even better with that. We know that. But it drives the basket and one of the things that I think happens not just in the store but even online is it's a bit like a book, the first chapter and the last chapter. The first chapter invariably in our store is fruit and veg and the last chapter is checkout. Getting those two components right is really, really important. So we're focusing on -- I'm pleased with the way that we're, I guess, executing against that. And something that I've spoken about previously and we all see as we get around the stores is it actually creates a halo on the rest of the business. So because you're now creating a personal shopper experience in Fresh, whether it's fruit and produce, meat, bakery, deli, or seafood, you've got your own associates out there hand-picking those items. They don't want to be going through and say, "Well, I'll pick the first one because I'm a home shopping customer but I'll leave this one down here for the shoppers that are in the store." So what it does is it actually lifts the overall performance of the business. And that's, I think, a really encouraging thing for us.

Dan Binder: Thanks. Karen?

Karen Short: Hi, Karen Short from Barclays. So I wanted to talk about the most recent quarter a little bit in terms of the US gross margins 'cause I think you guys are in kind of, maybe, an enviable, I guess, position where investors have been conditioned to assume gross margins will be down. And I'm talking about the US core. Obviously, that wasn't the case in the first quarter. So I was wondering if you could talk to the sustainability of that because it did seem that a lot of the things that contributed are actually structural. And then I had a follow-up.

Brett Biggs: You want me to start?

Greg Foran: Yep.

Brett Biggs: Yeah, and I think I start probably every gross margin question with this answer, which is every quarter's really different when it comes to gross margin. I think you have to look at it over a longer period of time. There were some things that worked for us and the quarter transportation costs were a little bit less of a headwind than they've been in the past. And so that was one thing. In Marc's business, we've been talking a lot over the last few quarters about leaning in more on apparel and on home and you get a better margin mix out of that product. And we've been seeing that over the last couple of quarters and are encouraged by that. Every quarter's going to stand on its own as far as how gross margin plays out. I'll come back to the comment I made earlier about expenses. It's one of the reasons that we've been so focused on expenses but focused in the right way of how to get expenses down because if we can do that in the way that I think we can, the way we've said we can, it gives the opportunity for us to do what's needed from a competitive standpoint and from a customer standpoint on the margin side and deliver financial results in total that we think investors should be pleased with in the near term and specifically in the long term. So kind of a long answer to the question but getting expenses right allows us to do what we need to do quarter to quarter on a longer term basis on margin.

Greg Foran: You covered it, Brett. I really can't add anything else to that.

Karen Short: Okay and then I guess there was this advertising summit a couple weeks ago in New York, 5260. I was just wondering if you could give a little bit of color on that in terms of what the opportunity there is.

Doug McMillon: Yeah, I'll kick that off if you want, Marc or Greg and then maybe someone else in the room that should comment on it as well. I think we've got an opportunity to grow an advertising business. There've been times in our history where we've done that. We, many years ago, had an in-store television plan that sold ads and ended up being meaningful. I think that opportunity exists today in an omnichannel type fashion. We are focused on making sure that as we grow that business that we don't harm the customer experience in any way, either online or in stores. So there's an opportunity there and it's exciting to have made this progress and we'll manage it accordingly.

Dan Binder: Thanks. Paul?

Paul: Paul [indistinct], Deutsche Bank. First question's on delivery and pick up. You've had a steady drumbeat of announcements over the past few years. Maybe just give us a little bit more color on the customer response. I mean, certainly it's been favorable but any additional details you can provide on, you know, what you're still learning and how you're adapting and improving the process around grocery pick up. And then obviously, we're at the point where we're doing same-day and in-home.

Greg Foran: Yeah, I guess what we learn, I guess the headline that I would share with you is that a thousand things get the job done. So what Mac, who's sitting over the back there with his team and i'm guessing Tom isn't here with us but there's a whole team of people. And what they do is they now get into the absolute detail of how to do this because fundamentally what you're doing is you're not now just running a store. You're running, if you like, a factory. So productivity is incredibly important. So the thousand things are things like getting into the absolute detail, not just around [indistinct] but the cube to fill a basket. So you've got less footsteps to go out and get another tote. And what I'm really thrilled with is the way that Mac and his team, working with the tech team now with Suresh and Fiona in particular and Sam Bruno and her team drive this, they are developing new product after new product after new product. And they have this really extensive roadmap. And clearly, a lot of this is competitive advantage so I'm not going to get into the details of it here. But what it fundamentally does is that it makes you more productive and ultimately improves the experience, not just for the associate but even for our customers. So we're layering things on here in a way that I think gives us some sustainable competitive advantage.

Marc Lore: I would also add on that too; the in-home deliver also gets us productivity advantages because we don't have to deliver it within a specified one or two-hour window. A lot of times people are perfectly find to say, "Hey, in this four to six hour window 'cause I'm going to be at work anyway. You can just go ahead and put it in the fridge." It allows us to batch orders and, you know, the last mile delivery and density's a really important component of managing costs. So it's one of these interesting opportunities where you can create a step change in the value prop and it actually helps your cost at the same time.

Paul: Thank you. And then just a quick follow-up on the international portfolio and just maybe update us on how you're thinking about your position to win in key markets and obviously next steps on ASDA.

Judith McKenna: So I'll perhaps take ASDA first and then come into the overall portfolio. So as you all know, the competition authorities in the UK rejected the merger proposal and as we sort of said when we were in the UK recently, that was then for us. We were disappointed by it but we've moved on from that now. So we recently said publicly that we're seriously considering an IPO for ASDA but the priority for us and for Roger Burnley and the team now is to continue to build a strong, local business. And what's really pleasing about what they have done through this 18-month merger process is actually they have come out of it stronger than they went into it. And I think that's a real credit to them. Still a very competitive environment. Brexit also makes it a challenging environment from a consumer confidence perspective. But we're continuing to work with the team to plot through what's next for them. And I think it's a good example when thinking about the overall international portfolio that one size doesn't necessarily fit all for how we think about a market. And if you think about something like the UK and whether you take a listing there or not, which could take several years to do, we have examples around the world such as Walmex in Mexico, which is publicly listed as well and it helps us drive a very strong business. So the portfolio overall, we continue to be really thoughtful about what that looks like going forwards. We're clear that we can't put all of our resources in too many places and we've been clear as well that the key markets that we focus on have been Mexico, China, India, and Canada. Mexico, you heard me reference today, continue to go from strength to strength. And, you know, that is a 30-plus billion dollar business with a $50 billion market cap. So that is clearly a key priority. India, you know about the investments we've made. China, we continue to focus on being a strong regional business there with the Sam's Club doing particularly well in that market. And then Canada is the update on them. We're continuing to find synergies between Canada and the US to help them get leverage. But we have seen some softness in Canada recently.

Dan Binder: Michael?

Michael Lasser: Good afternoon. It's Michael Lasser from UBS. Doug, one of the elements of your tenure at Walmart or your leadership at Walmart has been changed. What are the bottlenecks right now to accelerating the deployment of change across the organization in ways that are visible to outsiders, things like more online grocery pickup faster, more robots deployed to the stores. And as part of that, is the thinking about the profitability model at Walmart evolving in such a way that you're now serving customers in ways that are more expensive: delivering to home? Yet, technology's also unlocking more profitability in the stores. So those two factors are going to offset in a way that you can keep the profitability of the overall organization stable over the long run? And then I have a follow-up.

Doug McMillon: Yeah, that was quite a question. [laughter]

Michael Lasser: Just one or two-word answer is fine.

[laughter]

Man: Taking my place, Doug.

Doug McMillon: Yeah, it feels to me like, and again, somebody else may want to chime in here, but it feels like this is just such a fluid situation. It's moving very quickly. We're learning all the time and our ability to deploy automation or to do other things that take costs out is increasing and there are investments that we want to make and we've got to manage the total. So we think about our expense rates and are focused on driving productivity. We think about capital discipline. We think about how all those pieces come together and as we can create room or create oxygen because we find a place where we can drive improvement, we'll then make a choice about whether or not we invest that in one of the things that we like to invest in or whether we let that flow through to the bottom line. Quarter by quarter, year by year, you've heard us over and over again say this company has a lot of levers. It has a lot of levers and Brett and I talk frequently about what's happening in this part of the business this month, this quarter and how do we think about how we time these other investments so that we're managing the overall development of what I think is a new business model. I think that core retail, store retail, buying and selling merchandise, first part of eCommerce, marketplace, marketplace services, those things that fall kind of into the merchandizing umbrella will always being our core and focus. And I think there's an opportunity to spot an advertising business or other things along the way that help build out that ecosystem so all the math works. So I can't tell you exactly and I don't think anybody can, what that model looks like in three years. But we can see it moving and we can see it changing. And our conversations as we do planning and think about strategy, which happen a lot more frequently now than they used to in the company have moved on. And it's just a different environment, different conversation, different company than it was, you know, even a year ago, I think.

Michael Lasser: My follow-up question's for Marc. You've talked a lot about how the top million skews represent most of the profitability, I think 75 percent of the profitability of eCommerce. But can you talk about the mind of the consumer and how much the assortment and the breadth of assortment matters in fostering the perception of relevancy from an eCommerce perception in the mind of the consumer? And I'll put it in more specific terms. Walmart's now offering a couple hundred thousand skews for next-day delivery. Amazon's offering ten million. Does that influence how the consumer sees the relevancy of Walmart in terms of eCommerce? Thank you.

Marc Lore: Yeah, no, I mean, certainly, I think the breadth of assortment is critical. We're continuing to add, you know, hundreds of new brands, thousands every year to the website. We've got 75 million products on Marketplace and we're going to be growing that fairly aggressively now, now that we've sort of built the foundation of the value prop and the NPS squares where we want it to be. But with respect to delivery speed, we think that, you know, offering the top, now 200,000 but growing to, you know, hundreds of thousands more represents a really high percentage of sales done. And if we could offer that next-day experience in a very consistent way with no membership fees, we think that's a really compelling value proposition.

Doug McMillon: You know, when we built out the fulfillment center network and then bought Jet, we picked up some additional facilities. And Marc and Nate Foust and the team have done a great job of bringing those things together and improving them month to month, week to week and last week, I got a text from my mom that said, "I ordered these items on Tuesday, and I got them on Wednesday morning before noon. How did that happen? I think she wondered if she was getting special treatment, because she was my mom. And I sent it to Marc with a big smile. And then we got another one from a retiree the next day, so now we're starting to hear from customers that are just amazed by how well things are packaged and how fast they're coming. And that wasn't the case in our history. We're making progress.

Marc Lore: And it's a tradeoff, too. After you get past the top, let's say, high hundreds of thousands or top million SKUs with overnight or next-day delivery, it gets exponentially more expensive. And so we're just thinking about -- you know, there's a limited pool of dollars and you have to decide where to invest in the value prop. And do you invest in beyond the top 80% of sales? Do you go for speed there? Or do you take those dollars and put it into same-day delivery of grocery and the head of the assortment where we have a lower cost to serve and we think is a really compelling value proposition to bring consumers.

So that's sort of the trade we made, and that's how we differentiated the value prop. We can do the top million SKUs next day in a very cost-effective manner. And then really, again, driving down into same-day and into the fridge. That's our advantage.

Dan Binder: Kelly?

Kelly: Thank you. Marc or Brett, I guess by the end of the year, Walmart will have, I think, online grocery pickup in about 65% of the stores. So at this pace, it would suggest you maybe have another year or two of rolling that out. So as that starts to mature over the next couple years, can you just help us think about the top line and how that would moderate and maybe the impact on the bottom line, as that kind of starts to play out and mature over the next couple years?

Brett Biggs: Yeah, so there's two big pieces primarily to that e-commerce number that you see every quarter, which is the grocery part, and then online general merchandise. So we put a lot of effort into both. Online grocery's been rolling out very quickly, but Greg's stores that are even -- that are three years old now. Some of the earlier stores we put in still have really good growth numbers. And we're continuing to learn from that and put that into the stores that are new or stores that are in the first year. So that evolution will continue for a while.

But while we're doing that -- as you know, we're doing so many things on the general merchandise side, where there's bringing brands online, doing things with next-day delivery, all of this is in the works. That will continue, we believe, to give us a healthy top-line growth. And we look at it -- Walmart U.S. segment you know was one segment. And now we serve that customer. We don't give guidance past this year. But it's certainly something that we'll continue to want to have a very strong e-commerce business going forward.

Kelly: Okay, maybe just one other follow-up. Clearly, Walmart doesn't like to raise prices, and the message has been with tariffs that you need to manage the margin with customers and shareholders in mind. So I guess the question that I have is, do you think this could create an opportunity for Walmart to capture a new customer that maybe needs Walmart prices more than ever? And are you doing any specific marketing to go after that customer as these start to filter down to the consumer?

Doug McMillon: Yeah, I can go first. We've seen this before, where if a dip the economy does turned, you find customers that come to Walmart for a breadth of categories that they weren't previously. So yes, it could present that kind of opportunity. And we've just got to make sure the quality is right. So I think the work that Greg and Steve and everyone else have been doing across merchandising, not just fresh but general merchandise. The focus on apparel, Greg, you've been driving SKU counts down, improving presentation. Those things, being able to keep those customers once they try Walmart in ladies' wear or some other category where they might not have previously.

You probably all know this -- it's obvious, I guess -- but our market shares by category can vary quite a bit. I mean, we sell a lot of high share categories in consumables. We have high shares in some other areas and relatively low shares in others where the team's been focused on improving quality and value.

Greg Foran: You know, the only other bit I don't -- I absolutely agree with all those daggers. There's a lot of store closures out there on the marketplace at the moment, and we obviously keep close track of those. And what's happening in terms of tariffs will be interesting, but there's clearly pressure out there in the marketplace. And so as we think, Steve, about what's happening with Payless Shoes or what we saw happening with Toys R Us, those are sort of advantages that can play into Walmart's hand, provided we're good enough to do that. So tariffs is one thing, but I think there's a continuous ongoing pressure in the marketplace and we need to be good enough to step up and take those opportunities when they come. Those attract new customers.

Dan Binder: Thanks. Greg?

Greg: Thanks. Greg with [indistinct]. So I have one question, but it's three parts. So it's tariffs.

Man: That is a Dan Bender approach.

Greg: I'm trying my best to fill the role here. So I guess, Brett, for you, it would be how much more important is list four from list three? Because you guys have done a great job on list three so far with the 10% and now the 25. But how should we be thinking about the importance of four, just given the categories on it, versus three.

Judith, I'd love to hear from you, especially now with Mexico, maybe tomorrow or on Monday? I can't remember what day with the 5% tariff. What are you seeing in China and now Mexico in terms of impact with local demand and local vendors of sort of being Walmart being a large American company involved in those countries?

And then the last part of tariffs would be to you, Doug. Just bigger picture, when you think about when the dust settles around trade war, do you think this has now moved to something beyond just terms of trade and it's more of a national security IP-type issue as it sort of works itself out? And I'll just tell you from our side, our semis team is saying that the semiconductor guys quietly cheered this last pullback, some of them. So I'm just curious from your perspective whether you think that that's actually started to intertwine now that the IP issues are as big a part of the trade discussions?

Doug McMillon: Yeah, I can go first, since you gave me the easy one. You know, I certainly hope that in the case of China and the United States that we find a way to work together. I think these two countries are going to be significant in the next generation and beyond, and it's in their best interests to do so. And we can help each other. And trade overall has been good for Americans, good for consumers, good for the world. And I realize that it gets criticized at times, but when you look at its impact across the broad number of people that it helps, and not just those that it harms in the minority case, I hope that this gets sorted.

And we do spend time talking to both governments actively, trying to encourage things to be worked out in the ways that we can, but we obviously don't control that. I think China's going to be a tremendous business opportunity, and we're still surprised at times when people don't realize that we have over 400 stores there and a big business, and we've been there since 1996, and have been treated well, generally. And the Sam's Club business has incredible potential, Judith, just to touch a little bit to touch on some of the commercial aspects.

So we're hopeful and are trying to help bring people together. And I can't call what this looks like on the other side of the current negotiations. I do hope that they do get resolved, and we're going to do the best we can to manage through this in a way that our customers don't feel it, pulling all the levers that we've got to try to mitigate as much of the impact as we can.

Brett Biggs: Yeah, I mean, specifically, this is something we've been talking about for months now. And I'm sitting there looking at Ashley and Steve, and this is what the merchants do. They work with suppliers, they work on cost, they work on the best way to get the best deal that we can for customers. That certainly interjects a different issue than you see typically. But it's something they've been working on, they continue to work on, and to Doug's point, we're going to do everything we can to protect our customer in this, but with shareholders in mind.

Judith McKenna: And I'd just add, are we seeing any impact? There's no evidence of any impact on either of those businesses as it stands today. So Doug said it. We're continuing to have discussions at a local level as well with government and with and other provinces and other areas. The other thing that we're doing, if I take either China or Mexico, is we're continuing to work on the good we can do for those nations and not just you know, for Walmart itself.

So China's got a big initiative around food safety and supply change. And we continue to do some great work and partnership with academics in the country about how we can help with that. And Mexico's doing some fantastic work on sustainability in the country as well. So I think that trust agenda is a very important part of the overall conversation here.

Doug McMillon: Really helpful that 2/3rds of our U.S. business now is domestic, made-in-the-U.S.A. product, when you start with that advantage. And then the other third comes from a variety of countries. So we've got some diversification there that's helpful.

Dan Binder: Rupesh?

Rupesh: Yeah, Rupesh [indistinct]. So I guess first, Doug, a question for you. So we see mixed retail data points, weak jobs report today. So I was just curious if you guys have seen any changes in a consumer environment. I just wanted to get your thoughts on what you're seeing from the consumer right now.

Doug McMillon: Pretty consistent. Greg, you should jump in here too, but I would characterize the customer at this moment generally as being pretty solid and like what we've seen in recent periods.

Greg Foran: Yeah, I would support that. Yeah, there's a number of other data points that we look at continuously, things like the price of fuel, gas. So it's consistent, it's steady, as much as we've seen.

Rupesh: Okay, and then a follow-up question on Sam's Club. I think in your Q1 report, it was actually surprising that your members are now higher than where they were before you closed about 10% of your stores. So is that ahead of your expectations? And then from -- we haven't seen membership fee hikes in Sam's Club in some time, so when does that support to become part of the algorithm?

John Furner: I'm sorry, I didn't hear the second part of your question?

Rupesh: We haven't seen membership fee hikes in Sam's Club in a while. So I was just curious when that starts to become part of the algorithm for Sam's Club.

John Furner: Yeah, well let me take the first part first. We were happy with the results that we had. We ended the year with a base bigger than it was before we announced that we were going to close some buildings a year ago, or about a year and a half ago now. The primary driver has been not only the change with the free shipping proposition for Plus members online, but also a reinvestment in fresh food in the box. And I think someone asked a question earlier about fresh food. It's no different at Sam's than Walmart or any other business. And our traffic numbers have been consistent and fresh food has been leading those. Along with other categories, but fresh has really had quite an impact.

As far as the fee structure, the way we think about membership fees is obviously we think about the size of the base, renewal rates, and the components of mixing membership. But we also look at the shape of the PnL. And we've got a clear metric that we want our segment operating income as it was last year and close in the first quarter again to be driven by membership and other income. Our business is designed to sell things, great quality items at low prices so that we can have people join and renew. And we're going to keep watching that metric and watching the percentage of segment income that comes from membership and other fees.

Man: One back there.

Man: We've got Brandon over here, too.

Dan Binder: We'll get [indistinct] here, then we'll go to Brandon, then we'll go back over there.

Ed: Hi, thanks. Ed [indistinct]. Lots of regulatory changes in India. Can you talk about and update on Flipkart and maybe how some of those changes have impacted the business. And then as a follow-up, for the U.S. e-comm business, you know, losses continue to intensify or grow every year. Does one day bend the cost curve? Thank you.

Judith McKenna: So as far as India and Flipkart is concerned, I think folks forget that we've been in India since 2009. So it's an environment that we're used to operating. We've got Best Price Cash & Carry stores there already. So we understand the environment and we understand that occasionally there can be changes there. And Press Note 2 was an example of that. We complied with Press Note 2. Our business now is fully compliant, and we had no real interruption to our business as we went through that. So from a regulatory perspective, we continue to have good dialogue to look for a level and fair playing field in India for everybody that's there to help India grow overall.

The Flipkart business is a little like we've talked about is the PhonePe business. At we learn more about it, there is more about that business that we think is exciting and that we think can bring real value across the business as well. When we said at the time, why did we invest in Flipkart, it was already a scaled business, it had great talent within it, and it had a good, strong position within the market. All of those things remain true today. They also continue to think about what their business model is and what are they new areas they can develop.

We some changes this year with Myntra, which was the apparel model, which they brought in under the Flipkart umbrella, although it's a separate platform. And that's continuing to perform well overall. And apparel is a really important part of that mix for us, because what it provides, of course, is margin mix within that business. So some good work going on there. The Flipkart team have also been here this week, and we're actually starting with them now to work out how we start to share some best practices almost a year into the relationship.

Marc Lore: To answer your question about eComm, the losses are a little bit higher this year, but we're making big investments across the board, to try and close the gap. It's probably the most aggressive year yet, in terms of investing in the fundamentals, surge, marketplace, advertising -- really, all the areas we're going after simultaneously. We're feeling really good about the contributed profit margin. We've seen a nice year-over-year increase, better than expected. That should really drive a mix into the higher margin categories of home and fashion. And so as the mix shifts into those categories, which we expect to continue into the future, we should at some point see this flip.

Brandon Fletcher: Brandon Fletcher from Bernstein. One of the things Wall Street has largely blessed you guys with is your strategy for survival. So if you're going to die you traded 10 times, like Kroger -- we'll debate that. If you're awesome and untouchable you're 30 times, like Costco. And you guys did pretty well, at about 20 times. But one of the things that keeps happening is we wonder if we're going to see earnings growth so incredible we have to buy it -- or sales growth so incredible that we have to buy it. And it made me think about an old bet between Mr. Sam and David Glass -- where there was a hula dance for Mr. Sam if there was an 80% profit target. If there was a bet today -- because we'd love to see the dance -- what might that bet be? And perhaps it's blended -- crazy, audacious goal of total sales growth, and a certain reasonable amount of EPS growth. What would that be -- so that we can kind of get a sense of how we know you're really, really winning.

Doug McMillan: Brandon is dangerously informed.

Brett Biggs: If you could have asked me who was going to ask that question, it was going to be Brandon.

Doug McMillan: First of all, none of us are dancing. I'm not dancing.

Brett Biggs: No, probably not.

Marc Lore: I'm not dancing.

Brett Biggs: It's a lot of things. I think that when you go back to that bet there was one thing that Mr. Sam was trying to get the entire organization focused on. It would be challenging to describe exactly what it is, but it is making sure that we serve our customers in a way to win now and win in the future. And there's a lot of pieces to that. Omnichannel's a big part of that. And when you look at the investments that we're making -- and you saw all the things we're doing, this morning -- those are the investments we're making, to make sure we win with the customer over time. And that'll take different forms. And the results will be there when you do take care of the customer. But it will be several different things. It won't be any one thing.

Brandon Fletcher: So my follow-up question is, analytically, it's possible now to make a lot of those goals -- complex goals across multiple businesses -- fair and specific, whereas in the old days it was a kind of simplification of a message. What we worry about -- and this is where we're living in color -- if we just trust that everybody is going to serve the consumer -- which sounds right -- you can still sometimes blow a lot of capital doing something that turns out they don't reward you for later. So that's what I think that we're struggling with, is we completely get the complexity. Should we trust that there's enough ability now, in this incredibly complex business, to have some hard metrics in addition to the soft cultural goals -- so that we can trust and put capital to work, to where we one day have to see radical sales growth or radical earnings growth?

Doug McMillon: Yeah, I wouldn't assume that there aren't hard metrics. But the fact that we have them doesn't mean that we'll share them all with you. We're preserving flexibility and we're operating in a competitive environment. So we forecast out a certain amount of time ahead and preserve flexibility for other reasons.

Brett Biggs: And I think you should get comfortable with the investments. We go back to October 2015. We said there were investments that we need to make. Ecommerce, wages, training. And you're seeing the returns from those investments today. So we continue to make investments for the future, but the investments we made in the past -- you're starting to see the returns. That's where the comp sales are coming from; if you pull out blue card for this year, that's where the earnings growth is coming from. And so I think that should give you confidence as investors that we can do this and we've been doing it.

Peter Benedict: Peter Benedict [indistinct] again. Curious what your view is ongoing vertical in your supply chain, particularly around some of the food items. I know earlier this year there was an announcement around beef or steak in one part of the U.S. I think, as [indistinct] more on that front than Walmart U.S. does -- but as you continue to scale the business and grow, where does going vertical kind of play into the thought process?

Greg Foran: I'm having to take it. Maybe, Steve, you want to grab a microphone and share any thoughts you've got as well. But we've got into milk just over a year ago -- in fact, exactly a year ago, in Indiana with a plant. And what drives a decision like that is if we start to see a consolidation in supply, which is what we were seeing. And that in turn drives prices up for us. We charge ourselves with keeping prices down for customers and if we think we can do something like milk and we obviously had studied it for some time and our competitors out there will get an area like that, then we'll back ourselves. The objective is not that we try and supply every single Walmart store with milk -- but it gives us some leverage. Similar sort of thing with beef, to be honest. Generally, there are two key players out there that we do business with -- between Tyson's and [indistinct] and I think we all know the market dynamics of what happens when you generally operate in a duopoly. It's not all that good for the customer. And so without trying to be the biggest beef producer -- I've done beef before, in previous country's I've worked in, in New Zealand and Australia -- and I've backed the team with Steve, that we can sensibly do that. Are there other areas that we'd look at? I don't know. I throw to you for just a sec, Steve.

Steve: Thanks, Greg. Good morning or afternoon, everybody. I think what you said is spot on. The one thing I would add is -- just use milk as an example -- no, we're not going to serve all of our stores but the transparency to cost and the components of cost has been a great tool for us to understand the market across the entire country. So that's a big learning that we've gotten out of that. And then we're always looking at areas where we think the customer's underserved. So you see or are starting to see a lot of investment in our stores in deli and bakery. So we're always looking for how do we provide fresher product, better product, higher quality product more efficiently, more effectively. As Marc, we try to run the stores more effectively and make sure they're as productive as we can. What should be taken out of the store, versus brought into the store are all different opportunities that we're evaluating right now.

And we're going to learn as we go. There's no master plan to change the entire supply chain. But where there's opportunities we're going to continue to invest.

Judith McKenna: Across the international, [indistinct] does have a business which is International Procurement Ltd.-- IPL -- it is a procurement business but it's also a processing business for things like deli meat, packing for produce, citrus, those kind of areas. But we've also got meat plants and bakeries in Latin America. So, Chile would be a very good example, where they have a number of meat plants there which are central processing facilities for the stores and actually work in a way with more of the supply chain into that as well. So we do have some experience of it in other areas, too.

Greg Foran: In Japan. I'll be there on Sunday having a look at a meat plant in Japan. So.

Judith McKenna: They've done it as well, yeah.

Dan Binder: Next question, Chris Mandel.

Chris Mandel: Chris Mandel of Jeffries. Thanks. To bring it back to the financial platforms that you have internationally I guess I'm just curious what you think about what you have there, the learnings that you're taking away, and some of the competition to which you've looked towards -- to maybe you admire to some degree. At what point does it actually make sense for you to actually bring something like a financial platform to the U.S., in creating a moralistic ecosystem? And I've got a follow-up.

Judith McKenna: Do you want me to start with what we see internationally and then you guys can take the U.S. side of it. So, we're at the very early stages in Mexico. So we talked about cashews today. So that's at the very early stages, but we are interested and curious as to how that can become a greater part of the ecosystem for Walmart in Mexico. Phone pay, we've already touched on and as Stokes said it's part of the broader ecosystem there. But the way that payments are generation skipping in India -- now that is particularly facilitated by some of the changes that the Indian government made. So everybody there has a bank account. And you can actually transfer more easily because of that, with a single mobile number which allows you to be identified. But there is no doubt there is learnings in it. Probably the market of course that has moved the fastest from a payments perspective is China. So if you look at the instruments that are in China and the way that now that society is moving away -- there are stores there where you can't pay with a credit card anymore. Stores only take digital payment. And even within the wet markets that's happening. I think the lesson in that for us, certainly as we think about some of the international markets, is the speed with which it's moved. And if you look at some of the businesses there, such as [indistinct], who we actually have as an investor in our Flip Cart business -- it's really fascinating to listen to the evolution for them, and the way that business continues to accelerate and then they look clearly more services around that as that builds up. So one of the things that we're encouraged by is not only learning from [indistinct] through their partnership in phone pay -- but also phone pay itself and how we can learn about how you can scale rapidly, as you get into these kind of businesses. But at the end of the day, the thing that matters most is that you don't create a payment system for the sake of having a payment system. You have to create one that solves the problems for the customer, which are unique to the market in which you're operating.

Dan Binder: We have time for one more question.

Doug McMillon: You didn't really respond to the U.S. component and then you had a follow up. Anything on U.S. financial services you want to add?

Greg Foran: Look, it's a choice that we can make and we've been talking about it -- not just recently, but even prior to that. I think you're final comment, Judith, is right. I think you've got to look at each market, market by market, and look at the conditions that exist. But it's a choice as to whether we invest in there or we invest somewhere else. And that's pretty much how we're looking at it at the moment.

Chris Mandel: Thanks. And just my follow up is, in terms of the digital advertising that you're going to be pursuing, there's obviously quite a few incumbents at this juncture actually now facing quite a bit of regulation with respect to how they're using data. So I guess I'm just curious for your thoughts there and how sensitive you need to be as you approach this new initiative.

Doug McMillon: Yeah, I think building trust even beyond what we have today is the priority. So we would sacrifice growth and profit to make sure that we're protecting privacy and have conservative policies in that way. Really important to us.

Dan Binder: We have time for one more question. Karen had a follow up.

Karen Short: Hi. Yeah, Karen Short, Barclay's. So just curious -- obviously it's been a tough environment in pharmacy for a while and you've been aware of that and vocal on that front. But you've also talked about health care as being a big area of focus. So wondering if you could elaborate a little bit on how you think health care and the ecosystem will evolve in the U.S.

Greg Foran: That is a really complex question to get for the last --

[cross talk]

Greg Foran: How long have we got? So, first of all, yes, look for pressures that we've spoken about still exist and you're seeing that experienced and coming through in terms of the margins that we get. How we're thinking about it -- we've developed a strategy. Thematically, we feel pretty good about that. But this is very early in its stages. And the way that -- I'm not going to get into too much detail here because it still is very early -- we've got some work to do on our current pharmacy and optical business, and the team is very much focused on what we want to do there. And you'll start to see in here some of that, I would imagine, over the next literally few weeks or months -- if you haven't already experienced a little bit of that. We've got work to do in terms of what we might do in terms of the primary care space. And once again, there's very early work underway on that and that will start to come to fruition. But there are other components of that that need to be put together. And I literally would describe the strategy on a hand. I think there are five key points. I'm not going to go through all of them. Two of them though are the flexa-pharmacy and optical, and another one is around primary care. There's another three things that we have to do. We need to work through that. This is not going to be something that will happen quickly. But I would imagine that if you asked the same question next year we would be able to say well, we learned a lot more about the first point and we've learned a lot more about the third point -- and we can probably share what our thinking is around points two, four, and five. So, still reasonably thematic, I would describe at this stage but we're working hard behind the scenes. Anything you want to add?

Dan Binder: Great, well that's going to end our Q&A session and we appreciate your interest. That will end our webcast as well. Thank you for your time.