

Company Name: Wal-Mart
 Company Ticker: WMT US
 Date: 2017-05-18
 Event Description: Q1 2018 Earnings Call -
 Pre-recorded

Market Cap: 236,855.49
 Current PX: 78.13
 YTD Change(\$): +9.01
 YTD Change(%): +13.035

Bloomberg Estimates - EPS
 Current Quarter: 1.066
 Current Year: 4.359
 Bloomberg Estimates - Sales
 Current Quarter: 122769.320
 Current Year: 495531.111

Q1 2018 Earnings Call - Pre-recorded

Company Participants

- Steve Schmitt
- C. Douglas McMillon
- Brett M. Biggs

MANAGEMENT DISCUSSION SECTION

Steve Schmitt

Q1 Highlights

Opening Remarks

- As a reminder, our earnings materials include the press release, transcript, and accompanying slide presentation, which are intended to be used together
- All of this information, along with our FY2018 earnings release dates, store counts, square footage, interactive earnings site, and other materials are available on the Investors portion of our corporate website, stock.walmart.com
- For our U.S. comp sales reporting in FY2018, we utilize a 52-week calendar
- Our Q1 reporting period ran from Saturday, January 28, 2017 through Friday, April 28, 2017

Conclusion

Before we get started, I'd like to remind you of a few upcoming dates

Our Annual Shareholders' Meeting will be held Friday, June 2 on the University of Arkansas campus in Fayetteville

- This meeting starts at 8:00 AM Central Time and is also available for viewing via webcast through our website stock.walmart.com or via Walmart's Investor Relations App

We will release second quarter earnings on Thursday, August 17

Also, please save the date for our Investment Community Meeting which will be held in Northwest Arkansas on October 9 and 10

C. Douglas McMillon

Business Highlights

Comp Store Inventory and GMV Growth

- As you may have seen this morning, we delivered a solid first quarter and we are encouraged with our start to the year

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- From my view, I'd say the Walmart U.S. highlights were the 1.5% growth in comp traffic, comp store inventory being down over 7%, improved expense performance in our stores vs. last year, and the acceleration of e-commerce GMV growth to 69%
- There were some other highlights outside the Walmart U.S. business that we'll touch on later

E-Commerce Business

- Inside the company, we can see that we're moving faster to combine our digital and physical assets to make shopping easier and more enjoyable for customers, but we can also see plenty of room to improve
- We need to scale our e-commerce business further and see some additional strength in our store comps to deliver the results we know we're capable of, so that's what we're focused on

Store and Club Associate

- I'm really encouraged by how our store and club associates are embracing change
- We're creating new solutions to help us run the business better in addition to creating a better experience for the customer in stores and online
- Let me give you a few examples
- A few weeks ago, while visiting stores in Oklahoma City, I saw firsthand how the combination of some new in-store apps and mobile handhelds are improving our in-store processes and making life easier for associates
- A grocery department manager in one store showed us how she now ensures side counter modular accuracy and in-stock with a new app we've developed for our mobile handhelds

Omaha

- With this new app, the time to complete her work has now been reduced, improving her productivity and giving her more time to interact with customers
- I saw it again last week in Omaha, Nebraska
- I saw another example in Canada in April
- There, we have an improved process at store level that is reducing inventory levels in the back room in a meaningful way
- Our team is building better tools, our associates are embracing them and the results are improving
 - This is important because our key to winning starts with how we work inside the company

Online Grocery

- We're transforming to become more of a digital enterprise
- The change is starting to be visible to our customers as they use online grocery, Walmart Pay, Scan & Go at Sam's Club and our Walmart App to skip the line when using our pharmacies and financial services in our U.S. stores
- Online grocery also continues to perform well, and we're on track to scale the offering to more stores this year in several countries, including the U.S.

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- We're taking steps to save customers time as well as money

Walmart U.S. Business

- Brett's going to take you through the financials, but before he does, I'll talk briefly about each area
- Let me start with our Walmart U.S. business
- Comp store sales grew 1.4% and comp store traffic improved 1.5%
- We got off to a slower start than expected, due in part to delayed federal tax refund checks, but saw sales strengthen throughout the quarter
 - We also continued to manage the business well from an inventory and availability standpoint

Edmond

- I recently attended the grand opening of our 100th training academy in Edmond, Oklahoma
- I met associates there who were new to Walmart and were quickly learning about our business
- I also met associates who have been with us for 30, 35 and even 40 years, and they were learning about new processes and tools

U.S. Store Management Team

- I'm proud that we have lifelong learners at Walmart and am excited about the training we're providing
- We plan to graduate approximately 225,000 associates from our U.S. academies this year
- Remember, 75% of our Walmart U.S. store management teams started as hourly associates, so it's critical we provide effective training for our associates as they take on more responsibility in our company
- Overall, the store business is getting stronger, and I'm thankful to Greg Foran and the team for a thoughtful plan and the energy they're investing to lead the improvement
- Greg, Marc Lore, and the team continue to partner closely to serve our customers and figure out how to invent a seamless shopping experience for customers across our apps, sites, and stores
 - They are plowing new territory and I'm excited about what's to come

E-Commerce

- In U.S. e-commerce, we like the traction and we are working hard to make even more improvements
- Walmart.com launched two new initiatives in the quarter
 - First, we made the change to shipping terms at the beginning of the quarter
 - Customers don't have to pay a membership fee to get two-day shipping on millions of items
 - Second, we recently began offering customers pick-up discounts on non-store items

Walmart.com

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- Our stores are located within 10 miles of nearly 90% of the U.S. population, so this is convenient for many of our customers, and also saves them money when they order online and pick it up during their visit to our stores
- Walmart.com now has 50mm first and third-party items to choose from compared to 10mm at this time last year, so our assortment continues to ramp

Acquisitions

- We also made a few small, but strategic e-commerce acquisitions to further improve our assortment, while gaining critical category expertise in higher-margin categories like shoes and apparel
- The acquisitions have received a lot of attention, but our plan in e-commerce is not to buy our way to success
- The majority of our growth is and will be organic
- The acquisitions are helping us speed some things up
- So overall, we're making progress in providing the seamless shopping experience our customers desire and we will keep moving along this journey

Sam's Club

- Staying in the U.S., let's talk about Sam's Club
- John Furner and the team have hit the ground running
- They are focused on members, merchandise and our associates
- They achieved comp sales growth of 1.6% in the quarter, led by 1.1% comp traffic growth, and e-commerce GMV increased 21%

Private Brand Offering

- I'm excited about how we're ramping up our private brand offering with improved quality and compelling new items
- We've streamlined 20 private brands into one and we'll be introducing 300 new items this year that are branded Member's Mark
- The team at Sam's Club is also taking important steps to simplify the business and give club managers more time on the floor to serve members
- Outside the U.S., Dave Cheesewright and the team continued to deliver solid results
- Overall, constant currency sales growth of less than 1% was negatively impacted by a couple of timing and divestiture-related issues that Brett will discuss, but our underlying business continues to perform well

Walmex

- At Walmex, we continue to see strong momentum in the business across formats and countries
- Comp store sales growth was nearly 4% this year and 12% on a two-year stack
- In April, I visited our businesses in China and Japan

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- China continues to be on fast-forward as it relates to all things digital, including e-commerce
- Operationally, our stores continue to improve and Sam's Clubs are doing well
- Working with JD.com and New Dada, China's largest local on-demand logistics and grocery O2O, short for online to offline, delivery platform, we now offer one-hour delivery service from 80 stores
 - This is an improvement from the two-hour service we launched last year

China

- We can see the benefits of omni-channel retail even more clearly in China than any other country where we operate
- Given their urban density and automobile traffic challenges, stores serve the triple purpose of in-store shopping, pickup and delivery most effectively
- I saw some similarities in Japan where stores were serving more than one purpose
- In both markets, we're piloting the use of stores as shipping locations and we're learning what works best from a financial point of view in different types of store trade areas given how customer densities and travel distance can vary

Canada

- Moving on to Canada, our business continues to perform well, delivering 12 consecutive quarters of positive comp sales
- We've made some progress in the UK and the team is executing their plan
- We are navigating our way back to a position of strength in that highly competitive market
- When normalizing comp sales for the later Easter and Leap Day, we continued to see sequential improvement in the business, including customer traffic and ticket
- For the overall segment, International had another solid, predictable quarter
- The team's done a nice job of growing profit faster than sales as they simultaneously shift our positioning in terms of store formats, online grocery and e-commerce

Conclusion

In conclusion, we're encouraged with our start to the year

We have a clear strategy we're executing against

We're uniquely positioned to deliver value through both our physical and digital assets

- We have momentum across the business

We're making progress and we know we're on the right track as we work to become the most trusted retailer for our customers, provide ongoing opportunity for our associates and deliver results for our shareholders

We look forward to seeing many of you next month at our Annual Shareholders' Meeting here in Northwest Arkansas

Brett M. Biggs

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Financial Highlights

Opening Remarks

- As I've been saying over the past few quarters, this is an exciting time to be at Walmart, and we are delivering solid results
- In the U.S., important initiatives are underway both to accelerate growth in e-commerce and drive traffic to our stores
- Most of our key international markets continue to perform well and top line performance at Sam's Club remains solid
- On today's call, I'm going to cover our consolidated results from Q1, talk about e-commerce in the U.S. and then provide details on our operating segments
- We will discuss the consolidated results in the context of our financial framework of strong, efficient growth
 - Operating discipline
 - And strategic capital allocation

Q1 Results

EPS

- Let's start with our consolidated results
- EPS was \$1.00, which is at the top end of our guidance of \$0.90 to \$1.00 and 2% higher than last year
- This marks Q1ly EPS increase in more than two years on an underlying basis
- On a constant currency basis, total revenue increased 2.5% to \$118.8B, as we saw solid top line performance across the business

Walmart International

- Walmart U.S. continued its momentum with comps of 1.4%, while Sam's Club posted comp sales, without fuel, of 1.6%
- In Walmart International, 7 of our 11 markets reported positive comps, even as the timing of Easter and last year's Leap Day negatively impacted results
- The U.S. e-commerce GMV growth accelerated significantly, up approximately 69%
- Through the lens of strong, efficient growth, I'm pleased with the results

Gross Profit Margin

- Gross profit margin increased 1 basis point during the quarter
- The rate for Walmart U.S. was flat, while Walmart International was up slightly
- In regard to operating discipline, while we didn't leverage expenses on a consolidated level primarily due to investments in e-commerce and technology, I'm pleased that we leveraged in our U.S. stores

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- We're making progress towards our objective of slightly leveraging expenses on a consolidated basis for the year
 - We continued to generate strong operating and FCF in the quarter, \$5.4B and \$3.4B, respectively
- Cash flow was down year-on-year primarily due to an increase in incentive payments, as well as the comparison against significant working capital improvements last year

Capital

- As we strategically allocate capital, our first priority is to invest in improving and growing the business
- In the quarter, we completed remodels of 95 stores globally, and in the U.S., we continued to expand our online grocery service to include nearly 670 locations
- We also added a limited number of new stores, and made two relatively small acquisitions in the e-commerce space, Moosejaw and ModCloth, to expand our online selection and improve our category expertise in important areas like apparel and outdoor gear
- In addition to investing in the business, we returned \$3.7B to shareholders through dividends and share buybacks

Walmart U.S. E-Commerce

- Before I get into our operating segments, I'll talk about Walmart U.S. e-commerce
- As a reminder, the results include all web-initiated transactions including those through Walmart.com such as Ship to Home, Ship to Store, Pick Up Today and online grocery, as well as transactions through Jet.com and other sites in our family of brands

GMV

- Y-over-y growth in GMV was approximately 69%, including acquisitions
- The majority of this growth was organic through Walmart.com
 - This is extraordinary growth, and we're pleased with the traction we're generating across our e-commerce offerings
- We've recently introduced free two-day shipping with a basket size of \$35 or more on select items, and launched a new service called Pickup Discount, where customers can order non-store products online and receive a discount for picking these items up in our stores
 - This is a service that's convenient for customers and saves them money

Walmart U.S

- Let's now discuss the results for each operating segment in more detail, starting with Walmart U.S
- You will recall in our fourth quarter comments that Q1 started out slower than anticipated from a sales standpoint, due in part to the delayed issuance of federal income tax refund checks
- As anticipated, our sales strengthened as the quarter progressed, delivering comp sales growth of 1.4%, led by an increase in customer traffic of 1.5%
 - This marks the 10th consecutive quarter of positive comp traffic
- On a two-year stacked basis, comp traffic is up 3%

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Grocery Business

- Average ticket declined slightly primarily due to the lower sales of higher ticket items at the beginning of the quarter, as well as continued price investment
- Additionally, the grocery business continued to improve with food categories delivering the strongest quarterly comp sales performance in more than three years, due in part to a lack of market deflation in food, excluding price investments
- All store formats had positive comp sales and e-commerce contributed approximately 80BPS to the segment
 - We were really pleased with our results for the Easter holiday period, as both food and general merchandise performed well

Gross Margin Rate

- Gross margin rate was flat in the quarter
- Savings from procuring merchandise and the acceleration of post-holiday markdowns taken in Q4 benefited the margin rate, but this was offset by investments in price and the mix effects from our growing e-commerce business

Operating Expenses

- Operating expenses as a percentage of net sales increased 14BPS primarily due to investments in e-commerce and technology
- While we didn't leverage expenses for the overall segment, I'm pleased that we leveraged in the stores

Operating Income and Inventory

- Operating income increased 0.9%, which is the first increase in more than three years
- The team continues to do a fantastic job managing inventory
- During the quarter, inventory at comp stores fell 7.3%, while in-stock levels remained high
- We're pleased with the continued momentum at Walmart U.S. in both the digital and physical space
- For the 13-week period ending July 28, 2017, we expect comp sales to increase between 1.5% and 2%

Walmart International

- Now, let's move on to Walmart International
- The International business continues to execute against its strategic priorities and delivered a solid start to the year
- As I mentioned earlier, International performance was negatively impacted by one less operating day this year due to Leap Day last year, as well as the later timing of Easter this year
- Before we get into the results, let me discuss the financial impact, beginning in Q1, from strategic decisions we made previously to divest two businesses; Yihaodian in China and Suburbia in Mexico

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Alliance with JD.com

- In Q2 last year, as part of the announced alliance with JD.com, we divested our e-commerce business in China, Yihaodian, except for the first-party piece of that business
- Beginning in Q4 last year, we began to wind down the first-party business, with only a small amount of sales remaining at the end of Q1 this year
- This created a sales headwind vs. last year of \$385mm in the quarter, and we expect a similar impact in each of the next couple of quarters until we lap the unwinding of the business

EPS

- Additionally, last month, Walmex announced it completed the sale of its apparel format, Suburbia
- The gain from the sale of this business will be recorded in Q2 this year, and as a result, we expect a net benefit to EPS of approximately \$0.05 in the quarter
- Beginning in Q2 and continuing throughout the remainder of this year, International's results will be negatively impacted by the operating profit lost due to the sale of the business
- We expect a negative impact to EPS of approximately \$0.01 for the third and fourth quarters
 - We also expect a full year impact to sales of approximately \$600mm
- We'll continue to detail the impacts of these transactions as we go through the year

International Results

- Now, let's move on to the overall International results
- On a constant currency basis, net sales increased 0.8%, and excluding Yihaodian, net sales increased 2.2%
- Reported net sales declined 3.5%, impacted by \$1.2B currency headwind
- From a profitability standpoint, first quarter operating income increased 9% on a constant currency basis and declined 0.1% on a reported basis

Operating Income

- During the quarter, a benefit to operating income of approximately \$47mm from a land sale was recorded in one of our markets
- Excluding this item, operating income would have increased 5% on a constant currency basis

Walmex

- Let's now turn to some brief highlights of key markets
- Please note that the accompanying financial presentation includes detailed information on our four major markets
- The results discussed below are on a constant currency basis
- Let's begin with Walmex, where sales momentum continued across all countries and regions
- Total sales increased 5.2% and comp sales growth was 3.7%

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- In Mexico specifically, comp sales increased over 13% on a two-year stacked basis, and each of our merchandise divisions outpaced ANTAD self-service

Canada

- In Canada, net sales increased 2.7% and comp sales increased 1.5%
- During the quarter, we reduced inventory levels even as sales increased, and according to Nielsen, we continued to gain market share in key traffic-driving categories like food and consumables and health and wellness
- Continued planned investments in price and in-store efficiency initiatives are being supported by progress with our cost analytics program

China

- In China, net sales increased 0.7% and comp sales decreased 1.3%
- In addition to the impact of one less day in the quarter due to Leap Day last year, sales were impacted by our strategic decision to reduce low-margin bulk sales
- During the quarter, we continued to expand our e-commerce offering by entering new cities through our crowd-sourced delivery partnership with New Dada and now offer one-hour delivery from 80 stores
- We also launched new product categories such as produce and frozen items on our Sam's Club flagship store on the JD.com platform

UK

- Turning to the UK, net sales increased 0.9% while comp sales declined 2.8%
- When normalizing for Leap Day last year and a later Easter this year, we continued to see sequential improvement in the underlying business, including customer traffic and ticket
 - We're confident we're on the right track
- So, overall, our international strategy continues to produce consistent results, and we are pleased with the solid start to the year

Sam's Club

- Let's turn to Sam's Club
- At Sam's Club, comp sales, without fuel, increased 1.6% as traffic grew by 1.1%
- We had good results across many of our categories, and comps have been positive for five consecutive quarters
 - We're also pleased with our digital growth as Club Pickup increased nearly 30%
- The team at Sam's is taking steps to simplify the business and give club managers more time on the floor to serve members

Initiatives

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- The initiatives underway at Sam's are designed to grow membership and sales, and we know it all starts with member experience
- We'll deliver for them through our efforts to lead in digital and provide unmatched value on great merchandise
- For the 13-week period ending July 28, 2017, we expect comp sales, without fuel, to increase between 1% and 1.5%

EPS

- With that, let's discuss total company EPS guidance
- We feel good about the momentum across the business and expect progress to continue
- For Q2 FY2018, we expect EPS, excluding the gain from the sale of Suburbia, to be between \$1 and \$1.08

Strategy

- In closing, I want to say thank you to all of our associates around the world for the important work you do every day
- As a company, we're moving with speed and executing against the strategy we've outlined, and it's all happening through the lens of our financial framework
- I look forward to seeing many of you at our Annual Shareholders' Meeting in a few weeks
- QUESTION AND ANSWER SECTION
- There is no Question and answer Section.

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