

Company Name: Wal-Mart
 Company Ticker: WMT US
 Date: 2017-11-16
 Event Description: Q3 2018 Earnings Call -
 Pre-recorded

Market Cap: 288,387.83
 Current PX: 97.35
 YTD Change(\$): +28.23
 YTD Change(%): +40.842

Bloomberg Estimates - EPS
 Current Quarter: 1.353
 Current Year: 4.442
 Bloomberg Estimates - Sales
 Current Quarter: 134921.409
 Current Year: 498535.640

Q3 2018 Earnings Call - Pre-recorded

Company Participants

- C. Douglas McMillon
- Brett M. Biggs

MANAGEMENT DISCUSSION SECTION

C. Douglas McMillon

Business Highlights

Sales and Adjusted EPS

- We're pleased with the strong results in Q3 across each of our business segments
- We're providing customers with fast and easy ways to save money and time, and they're responding
- The highlights for the quarter from my perspective are
 - The Walmart U.S. comp sales of 2.7% were strong
 - Walmart U.S. eCommerce sales were up 50%
 - Adjusted EPS exceeded our guidance range
 - Sam's Club comps were strong at 2.8%, and in International, 10 of 11 markets posted positive comp sales
- So overall, we're moving in the right direction
- The productivity loop is starting to turn, and I'm encouraged by our results

Strategy

- I'll discuss more details from our third quarter in a minute, but I'd like to start by thanking everyone who came to Bentonville for our Investment Community Meeting in October
- We hope that you gained a clear perspective of our strategy to make every day easier for busy families
- We have a plan that plays to our unique strengths
- We're acting faster and being disciplined about costs and capital
- Curiosity, creativity, decisiveness, and speed are priorities
 - There's a lot of innovation today in the business, and we enjoyed sharing some of the initiatives with you

Mobile Express Returns

- We've expanded online grocery pickup, launched Mobile Express Returns, and we're testing automated pickup towers and same-day grocery delivery

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- We're also learning how to automate some routine functions in our stores, like scanning for shelf level out of stocks and modular accuracy
 - We're leveraging our unique assets and financial strength to better serve customers and accelerate growth
- When we were together last month, we outlined four priorities: make every day easier for busy families, change how we work, deliver results and operate with discipline, and be the most trusted retailer

Mexico

- By executing on all these strategic priorities, we're confident that our customers and shareholders will benefit
- The importance of that fourth priority, being the most trusted retailer, was certainly amplified over the past three months
- We saw significant destruction through hurricanes and wildfires in the U.S. and the earthquake in Mexico

Customer Demand

- I'm so proud of the commitment our associates showed to the communities we serve
- During these difficult times, our customers needed us more than ever, and associates responded to each crisis in remarkable fashion
- We're proud that as a company, we committed over \$38mm to disaster relief this year, and that our customers have donated over \$43mm, bringing the total to more than \$80mm to-date

Puerto Rico

- As you know, Puerto Rico experienced widespread devastation and with the ongoing recovery, we'll continue to partner with government officials, relief organizations, and others there on the island to support the rebuilding efforts
- We'd also encourage each of you to get involved by financially supporting the Puerto Rico recovery efforts at give.miamifoundation.org/Walmart
- Now, let's move back to our third quarter results and briefly discuss each area of the business
- Brett will provide more details on the financials shortly

Walmart U.S

- Let me start with Walmart U.S
- We had a strong quarter, with comp sales growth of 2.7% and comp traffic growth of 1.5%
 - While we recognize that there are some incremental hurricane-related sales in these numbers, our core business is performing well
- Greg Foran and the team continue to improve our U.S. stores
- Across almost all categories, we're seeing growth
- The food business, in particular, has accelerated and delivered the strongest quarterly comp sales performance in almost six years, with our fresh meat, bakery, and produce teams leading the way

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- Expense leverage has also been a priority, and we're pleased that the segment leveraged expenses in Q3

Inventory Management

- It's important to note that we've accomplished this while maintaining high in-stock and service levels for customers
- Our associates are using technology and apps for inventory management and price changes that help make their jobs easier and increase productivity in the stores
 - Store leverage is helping to allow our strategic investments in eCommerce to continue
- It's also exciting to see how we're removing friction from the customer experience with express pharmacy, an easier money services process, and by expanding pickup options with our automated towers and online grocery
- We now have online grocery in more than 1,100 stores, and are looking forward to expanding this popular offering to another 1,000 locations next year

Initiatives

- Walmart U.S. eCommerce sales were up 50% this quarter, with the majority of the increase through Walmart.com
- Existing customers have become advocates for popular initiatives like online grocery and free two-day shipping, and as a result, new customers, suppliers, and partnerships are coming to Walmart
- The expanded assortment on Walmart.com has also contributed to growth
- Over the past year, we've tripled the number of items on Walmart.com, to reach more than 70mm SKUs today

agreement with Lord & Taylor

- As you heard last month, Marc's team is making progress on hiring additional category specialists focused on improving the customer experience and our positioning with the top 1mm eCommerce items
- The recent agreement with Lord & Taylor is a great example of how we will be creating specialty experiences that complement what we offer and serve customers with the brands they want
 - We're making good progress attracting premium brands to the site such as KitchenAid and Bose

Acquisition of Parcel

- We're continuing to expand our tests of same-day delivery and next day delivery, including our test with August Home, and the use of crowd-sourced partners for grocery and our own associates
- The acquisition of Parcel brings us the ability to deliver items in New York and other major metropolitan areas on the same or next day

Jet.com

- At Jet.com, we continue to position the business to focus on higher-income, urban customers
- We launched the Uniquely J private brand and also began selling ModCloth items on Jet this quarter
 - In addition, we've started to attract more premium brands to the site and we expect this to continue

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Sam's Club

- Staying in the U.S., let's talk about Sam's Club
- Sam's Club delivered comp sales growth without fuel of 2.8% in the quarter
- We're especially pleased with the improvement in member traffic, which was up 3.6%, including some hurricane-related benefits
 - We're focusing the business to accelerate growth, narrowing the target member, and taking steps to become more special to that member

Team Performance

- As John Furner outlined last month, the target member is a larger family with a higher income, probably in the suburbs
- They own their own home and a car or two
 - They may own a small restaurant or buy for their office as well
- By narrowing the focus on this member, we believe we can earn a greater share of their wallet
 - We're already making good progress in areas where we want to win, including fresh food and with our Member's Mark private brand
- In addition, John and the team are using technology to make Sam's a better place to shop and work
- I'm encouraged by what we're seeing at Sam's Club

Walmex

- Outside the U.S., the Walmart International team continued to deliver strong top line results with 10 of 11 markets posting positive comp sales
- Walmex performed well again this quarter with comp sales growth of 7%
- Last month, I visited stores in Mexico and was energized by how the team is improving each of our formats
- Our stores and clubs are fun to shop
- The team is also on their way towards a digital transformation
 - They're changing how they work and that will bear fruit in the future

Mexico

- In Mexico, we're providing convenience through initiatives like online grocery and we recently launched an eCommerce marketplace which expanded our general merchandise assortment by about 20%

Canada

- In Canada, customers are responding to the investments we've made in price and this is contributing to market share gains in key traffic driving categories

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- We continued to expand the number of locations where we offer online grocery pickup during the quarter and also launched an eCommerce marketplace which doubled our online assortment and continues our focus on key categories like home and apparel

China

- In China, we saw solid net sales growth of 4%
- The team continues to do a nice job of improving key categories like fresh and consumables
- We also further expanded the number of Walmart stores in China that offer grocery delivery in less than one hour through the JD Daojia delivery platform, to nearly 140 stores

UK

- In the UK, Asda delivered positive comp sales again this quarter
- The improvements in store experience and price investments are increasing store basket sizes
 - We're excited to have Roger Burnley lead Asda into the future as CEO starting next year
- Over the past year, Roger has been our COO and Deputy CEO, and he has a long, distinguished retail career
- I'd like to thank Sean Clarke for the tremendous work that he 's done over the past year to stabilize the business and position it for growth
- Sean has done a lot for our company, living in 5 countries over his 21-year career with Walmart
- Thank you, Sean
 - So overall, the International segment continues to execute the strategy and deliver solid results

Conclusion

In conclusion, I'm pleased with our third quarter results

But I'm more excited about our strategic positioning as we enter Q4 this year

We're stronger as a company

- We have momentum

And we have more opportunities to leverage our unique assets to serve customers in ways that are easy, fast, friendly, and fun

Thanks for your interest in Walmart, and on behalf of all of us here, have an enjoyable holiday season

Brett M. Biggs

Financial Highlights

Performance

- I want to begin by thanking everyone who attended our Investor meeting last month in Northwest Arkansas or listened via webcast

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- We really enjoyed hosting the meeting, as it gave us the opportunity to highlight our plan to win with customers and shareholders
- Underlying this plan is our financial framework, which highlights focusing on delivering strong, efficient growth, being disciplined in how we operate, and allocating capital strategically

Top Line Growth

- We expect top line growth going forward to be led more by comp sales and eCommerce, with less emphasis on new units in the U.S
- We have good sales momentum, and cost transformation is gaining traction
 - This gives us confidence in our ability to operate with discipline and leverage expenses

Capital Allocation

- In terms of capital allocation, we're prioritizing eCommerce, technology, supply chain, and store remodels over new stores and clubs, which we believe will contribute to long-term value creation for shareholders
- We're excited about the future of Walmart

GAAP EPS

- Before I move on, let me highlight three items that negatively impacted GAAP EPS in the quarter
- First, there was \$0.29 charge related to the premiums paid for bonds tendered, which allowed us to retire higher rate debt, reducing interest expense in future periods
- Additionally, discussions with the government agencies in the FCPA matter have progressed to the point that the company recorded an accrual of \$283mm, or \$0.09 per share
- In Walmart International, the decision to exit certain properties in one of our markets led to an impairment charge of \$0.04 per share

Q3 Results

Net Sales and Adjusted EPS

- Now let's turn to our third quarter results
- Consolidated net sales increased 3.8% in constant currency, driven by comp sales growth across the company, and adjusted EPS was \$1, which is above the high end of our guidance range

Leveraged Expenses

- I'm especially pleased with our progress on expenses
- Excluding the charge for the FCPA accrual, we leveraged expenses as a company in the quarter
- The leverage and adjusted EPS is even more encouraging, given the hurricane-related costs in the quarter
- Overall, our results were strong
 - However, results were positively impacted by currency translation in the quarter

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- Sales and operating income benefited by approximately \$450mm and \$60mm, respectively

Gross Profit Margin

- Gross profit margin declined 29BPS during the quarter
- Price investments in certain markets and the mix effects of our growing eCommerce business were the primary contributors to the decline, although the impact from hurricanes in the U.S. was a significant contributor as well
- The presentation accompanying this transcript includes more details on gross margins for each segment

FCF

- Cash flow from operations and FCF for the first nine months were solid, at \$17.1B and \$10.2B, respectively
- Compared with last year, the decrease in FCF is due to timing of payments, an increase in incentive payments, as well as lapping last year's improvements in working capital management

Capital Allocation

- In terms of capital allocation, we completed remodels of 342 stores globally, and in the U.S., we further expanded our online grocery service to include more than 1,100 locations
- In addition to investing in the business, we returned \$3.7B to shareholders through dividends and share repurchases
- For the trailing 12-months ended October 31, 2017, consolidated return on investment decreased 30BPS, due primarily to reduced operating income

eCommerce

- Let's move on to eCommerce
- As a reminder, eCommerce 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 the other sites in our family of brands

Net Sales Growth

- Walmart U.S. eCommerce continued its strong performance with net sales growth of 50%
- We began to lap the acquisition of Jet.com mid-quarter, which impacted our overall growth
- Walmart.com, including online grocery, once again led the way and was responsible for the majority of the growth in the period
- Throughout this year, we've talked a lot about the speed at which we're moving, and we continued that progress in Q3
- For example, we launched new partnerships with Google and August Home
 - These are capital-light initiatives that expand convenience for customers by enabling hands free voice shopping and unattended delivery in the home

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- We also acquired Parcel, a technology-based, same-day, last-mile delivery company focused on customers in New York City

Walmart U.S

- Let's move on to operating segment details
- Walmart U.S. had a strong quarter with comp sales growth of 2.7% led by a traffic increase of 1.5%
- While difficult to quantify precisely, we estimate hurricane-related impacts benefited comps by 30 to 50BPS
- On a two-year stacked basis, comp sales were up 3.9% and comp traffic increased 2.2%
 - This is the strongest quarterly and two-year stacked comp performance in more than eight years

Food Business

- The food business continued to accelerate with sales, traffic and unit growth across categories
- In fact, food categories delivered the strongest quarterly comp sales performance in almost six years
- Market inflation was around or slightly less than what we saw in Q2
- All formats had positive comps and eCommerce contributed approximately 80BPS to the segment

Gross Margin Rate

- Gross margin rate declined 36BPS in the quarter
- The margin rate decreased in part due to the continued execution of our price investment strategy and the mix effects from our growing eCommerce business
- In addition, we estimate that hurricane-related impacts were about one-third of the overall decline

Operating Expenses

- Operating expenses as a percentage of net sales decreased 10BPS, with stores leveraging at a higher level than that
- The U.S. team has made great progress while maintaining high customer service levels, as associates are more efficient with improved technology, training and processes

Gross Margin and SG&A

- The combination of strong sales and greater operating discipline led to operating income increasing 0.8% in the quarter
- Recent hurricanes benefited top line results, but negatively impacted gross margins and SG&A
- We estimate the net result was a negative impact to segment income of approximately \$150mm

Inventory

- Our stores continued to do an excellent job of managing inventory while maintaining high in-stock levels

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- Inventory at comp stores was down 3.5% in the quarter
- Overall, we're pleased with the execution and momentum
- Q4 is underway and we're offering easy access to great products at excellent value heading into this holiday season both in our stores and online
- For the 13-week period ending January 26, 2018, we expect comp sales to increase between 1.5% and 2% on a more difficult comparison

Walmart International

- Now, let's move on to Walmart International
- We continue to experience broad-based momentum across the business and deliver strong top line results
- During the quarter, 10 of 11 markets delivered positive comp sales
- We're focused on driving growth across our markets through our fresh offering, private brands, and online grocery expansion

Net Sales

- Net sales on a constant currency basis increased 2.5%
- On a reported basis, net sales increased 4.1%, which includes a benefit of approximately \$450mm from currency
- Additionally, it's important to note the impacts from the divestitures of Yihaodian and Suburbia created a headwind to sales of nearly \$560mm when compared to last year
 - While our solid sales performance was fairly broad based, we are particularly pleased with the results in Mexico and China, as well as with the improved results in the UK

Operating Income

- Operating income declined 12.2% in constant currency and 7.8%, or \$105mm, on a reported basis
- The decline is attributable to two items: an impairment charge of approximately \$150mm due to our decision to exit certain properties in one of our markets, and lapping last year's gain of \$86mm from the sale of several shopping malls in Chile
- Without these items, operating income would have increased year on year

Walmex

- Let's now turn to highlights from key 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
- Net sales increased 9.2%, excluding Suburbia, and comp sales increased 7%
- In Mexico, comp sales increased 14.5% on a two-year stacked basis
- All divisions outpaced ANTAD self-service, and our strongest performance came from food and staples

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Canada

- In Canada, net sales increased 1.9%, and comp sales increased 1%
- We further improved our price position, which contributed to market share gains in key traffic-driving categories such as food and consumables
- The team reduced overall inventory levels even as sales increased

UK

- Turning to the UK, net sales increased 3.6%, and comp sales increased 1.1%, as customers are responding to investments in the value proposition
- In-store service metrics have improved, and our performance has strengthened across private brands and online grocery offerings
 - While the business has improved, we still have more work to do

China

- In China, net sales increased 4%, and comp sales increased 2.5%, which is the best comp result in about four years
- Results in the quarter were primarily driven by strong seasonal categories during the Mid-Autumn Festival, as well as strength across key categories such as fresh and consumables

eCommerce

- From an eCommerce standpoint, we continue to grow our partnership with JD.com
- During the quarter, we launched the Walmart-JD Omni Channel Shopping Festival, expanded our 1-hour grocery delivery service to additional locations, and focused on initiatives related to inventory management and logistics efficiencies
- Overall, it was another solid quarter for Walmart International

Sam's Club

- Moving on to Sam's Club
- Comp sales without fuel increased 2.8%, with strong traffic growth of 3.6%
- We estimate that hurricane-related impacts benefited comps by approximately 70 to 90BPS, but negatively impacted gross margins and SG&A.
- We estimate the net result was a negative impact to segment income of approximately \$20mm

People, Product and Digital

- The focus at Sam's is on People, Product, and Digital

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- From a product standpoint, we're making good progress in fresh and with our private label brand, Member's Mark
- During the quarter, fresh categories including meat, produce, and bakery all performed well
 - This is an important traffic driver for our clubs, and I'm pleased with the results we're delivering
- Member's Mark is a trusted and growing brand, and we recently increased its penetration across multiple categories
- More than ever, we're leveraging this brand to highlight value on items found exclusively at Sam's Club

Leveraged Expenses

- Efforts to simplify the business are paying off, and we're becoming more productive
- The team leveraged expenses in the period, and operating income, excluding fuel, increased 4.2%
 - This was a really solid quarter for Sam's Club
- For the 13-week period ending January 26, 2018, we expect comp sales to increase between 1.5% and 2%

Guidance

EPS

- Let me close today with guidance
- We have good momentum in the business, and we are executing within our financial framework
- We expect a solid performance for the important holiday season, and we are raising expectations for full year adjusted EPS to a range of \$4.38 to \$4.46
 - This compares to previous adjusted EPS guidance of \$4.30 to \$4.40 for the full year
- In closing, I want to say thank you to all of our associates for the work you do every day in serving our customers and communities around the world.

QUESTION AND ANSWER SECTION

There is no question and answer section.

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