

Company Name: Walmart  
 Company Ticker: WMT US  
 Date: 2018-05-17  
 Event Description: Q1 2019 Earnings Call

Market Cap: 247,004.35  
 Current PX: 83.66  
 YTD Change(\$): -15.09  
 YTD Change(%): -15.281

Bloomberg Estimates - EPS  
 Current Quarter: 1.219  
 Current Year: 4.774  
 Bloomberg Estimates - Sales  
 Current Quarter: 126073.714  
 Current Year: 514691.889

## Q1 2019 Earnings Call

### Company Participants

- Kary D. Brunner

### Other Participants

- Oliver Chen
- Mark Carden
- Simeon Ari Gutman
- Christopher Horvers
- Matthew J. Fassler
- John Parke
- Edward J. Kelly
- Robert Drbul
- Peter S. Benedict
- Paul Trussell
- Robert Ohmes
- Karen Short
- Benjamin Bienvenu
- Scot Ciccarelli
- Daniel Thomas Binder
- Kate McShane
- Gregory Scott Melich
- Seth I. Sigman
- Joseph Isaac Feldman
- Noah Zatzkin
- Rupesh Parikh
- Bobby Griffin

## MANAGEMENT DISCUSSION SECTION

### Kary D. Brunner

#### *Q1 Highlights*

##### *Net Sales and Adjusted EPS*

- I'd like to point out that this quarter the company revised its corporate overhead allocations to the operating segments
- Accordingly, previous segment operating income was recast to be comparable to the current period's presentation
- So now let me discuss our Q1 results
- Overall, we had a solid quarter across the company
- We're encouraged by the progress made across the business and the continued momentum we're seeing

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- On a constant currency basis, consolidated net sales were up 2.7%; adjusted EPS was \$1.14, a 14% increase vs. last year

### ***GAAP EPS***

- You would have noted that GAAP EPS was \$0.72 per share
- The main difference vs. adjusted EPS is related to the new accounting rule, which requires us to recognize gains or losses on some equity investments
- During this quarter, JD.com stock decreased in price causing the accounting loss, but we still have a solid gain in the shares since we acquired our stake

### ***U.S. Comp Sales***

- Walmart U.S. comp sales increased 2.1%
- Our comp was trending higher through early April, but general merchandise sales and traffic were somewhat negatively impacted by cool weather in April
  - This business has picked up again as the weather has normalized
- You would have seen that our Walmart U.S. eCommerce sales accelerated in Q1 with 33% growth and contributed 100BPS to the comp

### ***International Performance***

- Walmart International had another strong quarter of top and bottom line growth, where 8 of 11 markets reported positive comps, including our four largest markets
- The earlier timing of Easter helped pull some sales forward into Q1 in a few markets
- Sam's Club comp sales were driven by strong comp traffic
- As in past years, we will update certain full-year guidance with our second quarter release
- So, in closing, we have good momentum in the business, we're focused on serving customers more effectively and we're executing on our strategy

## **QUESTION AND ANSWER SECTION**

**<Q - Oliver Chen>**: Our question is regarding eCommerce and the growth in the quarters ahead. What would you say are some of the main drivers in terms of your guidance in driving an improvement there? You showed some nice momentum this quarter. And more generally, if you could help us focus on the aspects which will improve eCommerce profitability over time or how you're thinking about balancing growth vs. profitability, that would be helpful. Thank you.

**<A - Kary D. Brunner>**: Sure. Thanks, Oliver. We're really pleased with the performance in Q1 from our U.S. eCommerce business with 33% growth. We're seeing a good momentum with a broad assortment and the right pricing, supported by marketing. Online grocery is also a contributor to our eCommerce growth and you've seen us introduce a number of initiatives, including the expansion of online grocery, as well as grocery delivery in the U.S. this year. We think a combination of executing the fundamentals of eCommerce and continuing to make progress there will help us achieve our full-year net sales goals. So we're pretty pleased with where we were in Q1 and we're trending the right direction to meet our full-year goals.

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**<Q - Oliver Chen>**: Okay. Just lastly on curbside pickup, that's been impressive, the speed at which you're expanding that. Are there any thoughts on the nature of that customer vs. your other customer and are you happy with the economics of that mechanism and also what it may mean for omni-channel customers? We'd love any thoughts there. Thank you.

**<A - Kary D. Brunner>**: Sure. Yeah, we have been very pleased with online grocery. Customers really love the service. It's very convenient for them. Our Net Promoter Scores are still very strong. And so, as you know, it's an important initiative for us, we are rolling out an additional 1,000 locations this year to reach 2,100 locations by the end of this year with online grocery pickup and we see it as just providing choice for the customer, providing the convenience that they can shop Walmart in all the ways they choose to shop us.

**<Q - Mark Carden>**: I want to dig into the U.S. business a bit. Can you guys quantify any of the weather impacts on the comp? And then, is accelerating eCommerce growth cannibalizing in-store sales? Thanks.

**<A - Kary D. Brunner>**: Thanks, Mark. Yeah, the U.S. business had a really strong quarter. We did have some headwinds that we faced at the end of the quarter in April with some unseasonably cool weather that impacted some of our general merchandise weather-sensitive categories as well as some traffic in those categories.

As we've started Q2, some of those categories are turning around as weather has normalized. Overall, the health of the business is very strong. Our grocery business continues to have strong traffic and sales and you saw that our ticket was good this quarter as well. So, overall, the health of the business is very good.

**<Q - Mark Carden>**: All right. Great, thanks. And then as a follow-up to Oliver's question, how much did the rollout of online grocery pickup to more stores contribute to eCommerce growth and is grocery delivery typically more or less impactful than pickup? Thanks.

**<A - Kary D. Brunner>**: Yeah. I mean, it is a contributing factor to our overall 33% growth. It's both contribution of trip-to-home as well as online grocery pickup.

**<Q - Mark Carden>**: And then on the delivery vs. pickup?

**<A - Kary D. Brunner>**: Yeah, we're just starting to roll out delivery across the U.S. We think it's an important additional choice we can provide to customers. Clearly, the customer has really appreciated the online grocery pickup service and so we think this is just another choice that customers can make and we're providing convenience to them to shop Walmart.

**<Q - Simeon Ari Gutman>**: I guess, I want to follow up and maybe to put this question to bed on the weather, Kary, I guess you're choosing not to sort of quantify and maybe it's hard to quantify the weather impact. I think the important question around it is, is you are making price investments, so I think some would have expected the traffic to be a little bit higher, but so, if you have any comment on that. And then if, I guess, you can say whether or not you're not going to quantify the weather impact?

**<A - Kary D. Brunner>**: Yeah. As you saw in our materials this morning, our overall grocery business was very solid with strong traffic and sales, good unit growth in grocery categories. And then the weather really impacted our general merchandise traffic and sales, so in areas like sporting goods, in areas like apparel that are weather-sensitive, swimsuits, things like that. So, really, weather was specific primarily to general merchandise categories and the traffic and sales. We didn't quantify it, but we did call out that it was a headwind. Comp sales were trending higher before this cooler weather hit us in the end of April.

**<Q - Simeon Ari Gutman>**: Okay. And my follow-up is if you look at just the eComm acceleration, where does it get captured in the comp? Does that get captured in both the traffic and the ticket or is that captured in the traffic alone?

**<A - Kary D. Brunner>**: No, it's traffic and ticket. If it touches the store, it will impact our traffic number.

**<Q - Christopher Horvers>**: I'm going to try my best to ask a similar question. So, if you look at the past two quarters, the back half of 2017, you take out the hurricane in Q3, you're comping in that like 2.3%, sort of 2.4% kind of

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range. Is that a good approximation of sort of what the underlying business did ex the weather?

**<A - Kary D. Brunner>**: Yeah. Again, we're not quantifying the weather impact. We've told you the categories that it impacted. Our grocery business was less impacted as a result of being strong with traffic and sales. Ticket was stronger. We did see some trip consolidation, but we're not going to quantify the weather impact, other than to say it was an impact. And as weather have normalized, sales have turned around in those categories.

**<Q - Christopher Horvers>**: Understood. Maybe it's put to bed now. So I also want to talk about the eCommerce growth. So first a clarification. Was the 33% all organic? And then maybe you could help us put it into context by bridging the 23% in Q4 vs. the 33% in Q1 here? Refresh the factors that drove that drop-off in Q4 and then bridge it out. And did you reverse course on any strategy around pricing or assortment that helped that you, maybe, turned off in Q4 that drove a reacceleration in Q1?

**<A - Kary D. Brunner>**: Yeah. You'll recall that in Q4 we talked about a number of factors that impacted our overall growth rate and most of it was planned. We planned to be down in Q4 relative to the prior year due to some promotional approach year-prior and so really to create a better, healthier top and bottom line mix in certain categories in eCommerce that was the primary driver of the headwinds there.

The business has accelerated in Q1. We had said that we expected that to be higher in Q1, but not reach the 40% growth rate, and that's kind of what we saw. We're really pleased. We're really executing the fundamentals better. Certainly, new initiatives that have been rolled out recently, we think, are a component to overall reaching our full-year goals. Things like the site redesign, the recently announced site with Lord & Taylor, think about our online grocery pickup and expanding the locations there as well as the new delivery component. So all these factors will contribute and then it comes down to just executing on the fundamentals. Marc talks a lot about nailing the fundamentals and that's just being there to serve the customer so that they can shop you with the right price, the right assortment and the right experience overall online will help contribute to our growth goals.

**<Q - Matthew J. Fassler>**: My first question relates to the expense ratio in the Walmart U.S. business. You spoke about having leveraged the stores, but deleveraged overall on some incremental investment in tech and eCommerce. Is this a change at all in the pace of investment in that business within the U.S. or was the deleverage more of a function of the fact that the sales slipped a bit late in the quarter?

**<A - Kary D. Brunner>**: Thanks, Matt. Yeah, eCommerce and technology were a headwind to our Walmart U.S. business and we were pleased that the store business continues to operate very efficiently, such that the U.S. store business leveraged expenses in the quarter. The work that we've done around operating efficiency and leveraging technology within our stores is really contributing to the ability to leverage expenses and we're pleased with that.

**<Q - Matthew J. Fassler>**: And as you think about that digital investment, the other piece of it, is that something that you'd expect to persist through the year?

**<A - Kary D. Brunner>**: We did talk about in Q4 that as a result of tax reform and the benefits that we receive there, we made some strategic choices to reinvest in the business. And one of the components and areas of reinvestment was in eCommerce and technology. So that is a focus area this year as well as a result of those tax benefits.

**<Q - John Parke>**: If we kind of just look at the U.S. business, is there any way to decouple the drag in gross margins between the price investments and the freight headwind?

**<A - Kary D. Brunner>**: Hi, John. We do continue to invest in price in the U.S. business. It's important component of our overall strategy and we expect that to be a headwind to gross margin, as we've talked about in the past. We did see a pickup in transportation expenses. We didn't break out the quantification between each, but we are seeing as a result of increased fuel prices in the U.S. as well as some impact from higher trucking market rates. But again, we didn't break out the components of the overall decline.

**<Q - John Parke>**: Great. And then just switching gears a little bit. How big was the loss on the disposal of the Canadian banking business and then, I guess, the store closings at Sam's?

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<A - **Kary D. Brunner**>: Yeah. We called out \$81mm for the loss related to the Canada bank.

<Q - **Edward J. Kelly**>: Could you maybe just talk a little about the gross margin and the improvement in the decline in Q1 vs. Q4? And if you were to sort of parse it out, what do you think the biggest change was there?

<A - **Kary D. Brunner**>: Yeah. There's a lot of components that go into overall gross margin. And if you think about the U.S. business specifically, the main drivers of gross margin headwinds continue to be our strategy to strategically invest in prices and be thoughtful about that as well as this transportation expense that you see impacting not only the U.S. – Walmart U.S. business, but also the Sam's Club business as well. Q4 did have some one-time items, unique items within there, some headwinds in Sam's Club regarding the club closures and inventory liquidations and you saw that come through a little bit in Q1 as well.

<Q - **Edward J. Kelly**>: Okay. And just a quick follow-up on the SG&A side and particularly labor. How are you thinking about wage rates at this point given what we heard from Target and their desire to go higher overtime?

<A - **Kary D. Brunner**>: Yeah. As we noted, we recently increased the starting wage rate for our U.S. associates to \$11 an hour, and part of the benefit that we'll receive from tax reform that was one of the components that was reinvested into the business and we're pleased to be able to do that. We're going to be competitive in the markets that we operate in to get the right talent to run our stores.

<Q - **Robert Drbul**>: Couple questions. On the online business, can you talk about trends in pickup in-store outside of the grocery? And, I guess, in the last few quarters, you had talked about the mix impact on the gross margin line from eCommerce. Can you just talk about if that had at all a factor – any factor on the gross margin line this quarter?

<A - **Kary D. Brunner**>: Yeah. So, your first question, Bob, around pickup outside of grocery, overall, if you think about our omni-channel approach in the U.S., online grocery, as we mentioned earlier on this call, really pleased with the progress there and pickup as well – non-grocery-related pickup. You've heard us talk about rolling out additional pickup towers in our stores. These fully automated pickup towers is where customers can be in and out with their general merchandise order in a matter of minutes, and so we're really pleased with that.

As you've heard us talk about in the past, we think that we have a real opportunity to leverage the proximity to customers that we have with our stores to provide convenience, and that's exactly what we're doing. So we're pleased overall with the strategy both on the grocery side as well as non-grocery.

What was your second question, Bob?

<Q - **Robert Drbul**>: Sorry. Mix impact on the gross margin line from eCommerce. You had called it out before, but it wasn't called out this quarter. I was wondering if you could just maybe clarify.

<A - **Kary D. Brunner**>: Yeah. This wasn't one of the primary drivers for this quarter, so we called out price investments in the U.S. as well as the higher transportation expense that we experienced. Those were the primary drivers of the headwind this quarter.

<Q - **Peter S. Benedict**>: Yeah. Hey, Kary. So just on private brand growth, it was called out in the U.S. comp section. Remind us kind of the steps you guys have been taking lately to drive that business. Is it something you're doing or do you think the consumer is just kind of making these decisions kind of absent any major focus by you guys?

<A - **Kary D. Brunner**>: Thanks, Peter. We have really stepped up our focus on private brands. Walmart has long been a house of national brands and it's important to our overall strategy that it's easy to communicate your everyday low prices relative to the competition when you have national brands, so that's important. But we have seen opportunity to increase the quality of our private brands and probably the most recent example is our introduction of new apparel brand. We think there's an opportunity to gain extra share of wallet as a result of providing quality private brands. So we're focused on not only quality and the grocery and non-grocery areas, but also in the quality and price that we offer to the customer.



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**<Q - Peter S. Benedict>**: Okay. That's helpful. Thanks. And then just turning International to the relationships you guys have with JD.com in China. Can you talk about some of the capabilities that they have that can be used to help you guys here in the U.S.? The comments in the transcript kind of had some indications that there would be some leverage there in terms of taking these capabilities outside of China. Just whatever you're comfortable speaking to, where could we see maybe the next 12 to 24 months some of these capabilities that JD.com has showing up here in the United States? Thank you.

**<A - Kary D. Brunner>**: Sure. If you think about our portfolio of companies, Walmart has a long history of really sharing best practices and leveraging learnings from various markets and certainly on the omni-channel front and the ability of a customer to be served in an efficient manner, as we called out in the script, 177 stores through JD Daojia are getting one-hour delivery service. I mean, we're able to leverage those learnings as we expand omni-channel in the U.S. as well.

And so it's not unlike what we've done in the past in the sense of sharing best practices for the benefit of the whole business, but certainly there's a lot to learn from how a customer is served. There's different density population levels, so it's not exact like-for-like, but shared learnings are something that's part of our heritage and something we'll continue to leverage in the future.

**<Q - Paul Trussell>**: The Sam's Club business was remarkably better than I think your initial thoughts, coming into the year, especially with the negative impact from tobacco. Just walk through some of the drivers of the comp outperformance and how we should think about that business now on a go-forward basis.

**<A - Kary D. Brunner>**: Yeah. Sam's did have a good first quarter and really across the categories, our food business in Sam's, grocery business performed really well, particularly around fresh with strong performance in produce and deli and some of the other areas there. But really across the board, Sam's had a good performance and traffic is good. Traffic is strong at Sam's Club and we just continue to focus on serving the member with value and the right assortment to continue to move the business forward.

**<Q - Paul Trussell>**: And just to circle back on the delivery. Years ago, you guys did a pilot out in Denver, did a number of tests and ultimately decided that the economics didn't work overall in the U.S. for grocery delivery. Just help us understand the economics today and why the model all of a sudden does work for you guys.

**<A - Kary D. Brunner>**: Yeah. As we have thought about omni-channel and really the maturity of different offerings for the customer to provide convenience for that customer, Walmart always test and learn from different approaches and we see the opportunity to serve customers in a variety of ways.

Online grocery pickup is something that's been well received, leveraging the proximity of our stores to the customer, and delivery is something that's another choice for the customer. Because the customers can choose that convenience by paying a fee of \$9.95, they can get their grocery order delivered right to their doorstep. So we're trying a lot of things and ultimately we're here to serve the customer in the best way that we can and offer them choice, and that's really what you see us doing in our omni-channel approach.

**<Q - Robert Ohmes>**: Hey, Kary, just a few follow-ups on the U.S. business. First is can you give us the U.S. GMV growth for the quarter? And then the second is, and I'm sorry if you said this already, but can you give us roughly how many online grocery locations you had at the end of Q1? And then the third follow-up to Paul's question, I think Brett in his comments mentioned beginning the rollout of new grocery delivery service. Was that the rollout you're already doing or was there something even more new that's coming? And maybe remind us how you're thinking about partners for delivery because I know you guys stopped working with Uber and Lyft. So thanks for that.

**<A - Kary D. Brunner>**: Sure, Robby. Thanks for the questions. So, overall, online grocery is now in around 1,400 locations around the U.S. And as we've mentioned, we plan to continue to roll out more locations throughout the year to reach around 2,100 locations by the end of the year. For the rollout of grocery delivery, we just started that this year and we will scale that to reach about 40% of the U.S. population by the end of the year. So that's what the reference was in Brett's remarks.

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From a GMV growth perspective, we really are focused on driving U.S. eCommerce net sales and that's what our targets that we gave you are based upon is net sales growth, so we didn't report on GMV this quarter.

**<Q - Karen Short>**: One housekeeping and then a bigger picture question. Just on the Sam's comp, how much did the closures benefit the comp – I guess, comp and then overall comp and then traffic comp? And then I just had another bigger picture question.

**<A - Kary D. Brunner>**: Yeah, Karen, thanks for the question. Again, Sam's Club had a good quarter. We didn't call out the specific impact of club closures, but we're really pleased with the traffic that we're seeing in our clubs. And I think this gets back to having the right merchandise at the right price to serve our member, couple that with the convenience offerings that we have through Scan & Go and other ways to allow the member to get in and out of the clubs efficiently. That's really our strategy to serve the customer effectively and we're seeing good results from that.

**<Q - Karen Short>**: Okay. My real question was just when you look at the U.S. operating profit dollars, the y-over-y number is kind of not relevant, just given some reallocations, but overall U.S. operating profit dollars came in below our numbers and I would say below consensus. So wondering if U.S. operating profit dollars came in – or where they came in relative to your expectations internally.

**<A - Kary D. Brunner>**: Thanks, Karen. Overall, you see the drivers of gross profit as well as operating expense leverage and so we're not going to speak to what our plans are. But as you look at the business, we think about the business, we gave guidance in Q4, we expect to invest in price and we expect to continue to invest in eCommerce, and those will have impacts on the gross margin line as well as the operating expense line.

We're very focused on operating efficiently in our business, throughout our business, and we're pleased with the progress that the U.S. physical stores had again this quarter. I think it's the fifth consecutive quarter now of expense leverage from our U.S. stores and that really gets back to what we talked about earlier – associates leveraging technology, a change in processes to make a serving customer more effective and efficient, and so we're pleased with the direction that we're headed there.

**<Q - Benjamin Bienvenu>**: The ticket, second consecutive quarter of really strong ticket. I'm curious if you could parse out the biggest contributing factors to the ticket strength that'd be really helpful.

**<A - Kary D. Brunner>**: Sure, Ben. Thanks for the question. Again, there's a number of factors that contribute to that number. Our grocery business has been really strong, both on the traffic side as well as on ticket with larger baskets, more units. That business just continues to be very strong. We're particularly pleased with our fresh business and continues to deliver strong comps. That just gets back to assortment and merchandising and the right prices for the customer.

And then the other component is our eCommerce business is a contributing factor to the ticket growth as well, so nice acceleration from Q4 in eCommerce in Q1 and that's a contributing factor as well.

**<Q - Benjamin Bienvenu>**: And as a quick follow-up to your grocery commentary, another positive comp quarter in the U.S. To what extent are you seeing any inflation in that business? Just curious about what you're seeing around cost inflation, if you have seen any.

**<A - Kary D. Brunner>**: Yeah. From the cost side, we do see some. On the sales side, it just wasn't a meaningful impact overall on our comp sales, so we didn't call that out this quarter, but really it gets back to managing the business through different inflationary or deflationary cycles and we've done this for a long time and our merchants are really focused on serving the customer ultimately and inflation and deflation will be what it'll be. Clearly, we're focused on everyday low costs and everyday low prices and that's what makes us effective in serving the customer.

**<Q - Scot Ciccarelli>**: So it makes sense that weather impacted the business for the latter part of April, but it also did coincide with the rise we've seen in gas prices. Can you tell us kind of how you guys are thinking about the impact of gas prices on both traffic and comps as you think about the balance of the year? Because it does look like the last big upswing we had in gas prices did seem to have a negative impact on your traffic. Thanks.

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**<A - Kary D. Brunner>**: Thanks, Scot. We certainly watch the rise in gas prices pretty closely. You saw that we called it out as a headwind to our gross margin line as it relates to our own fleet and transportation costs. From a customer perspective, certainly it's something we watch closely. As gas prices reach significant levels, maybe in the \$4 range, you can see trip consolidation and things like that. I think the most recent rise in gas prices probably hasn't had a dramatic impact on our Q1 results, but it's something we'll watch closely.

**<Q - Scot Ciccarelli>**: And so – just so the group understands kind of how are you guys thinking about it for the balance of the year, are you just kind of assuming that we level off here or just kind of a general trend, that would be helpful. Thanks, guys.

**<A - Kary D. Brunner>**: Yeah. We're not going to predict where the rest of the year will go. It's something we'll watch closely and we'll manage the business through the cycle, whatever it is.

**<Q - Daniel Thomas Binder>**: I was wondering if you could help us understand how membership fee income will be affected this year as a result of the 63 closings. I realize when they close, they don't immediately fall off, but I'm just curious what your assumptions are and how we should think about that membership fee growth?

**<A - Kary D. Brunner>**: Thanks, Dan. We're really focused on adding new members as well as you saw part of the contributions in Sam's Club business was providing more value with the Plus membership and that has allowed members to upgrade to the Plus membership. We're pleased with that. I think as we continue to offer things like the new free shipping offer for Plus members on Sam's Club, you see members upgrading to the more premium Plus level.

**<Q - Daniel Thomas Binder>**: And my follow-up question, was there a reason in the adjusted earnings that you didn't call out the [ph] lease liability (34:13) costs for Sam's and the bank charge that you mentioned earlier?

**<A - Kary D. Brunner>**: Yeah. Those are all judgment calls and ultimately our goal would be not to adjust out items all the time. So we just called out the large items that we determined we'd adjust out this quarter – unique items.

**<Q - Kate McShane>**: Did you see the same weather impact on general merchandise at Sam's as you did in the Walmart stores in April?

**<A - Kary D. Brunner>**: Well, Sam's business, clearly the weather impacts their business as well. And as you think about their service to the customer, their categories are a little bit different from a percentage perspective of overall sales relative to the U.S. business and so it wasn't a meaningful call-out this quarter.

**<Q - Kate McShane>**: Okay. And then my second question is, I wondered if there was any way for you to quantify or rank the size of the basket for grocery delivery vs. pickup vs. grocery shopping in-store.

**<A - Kary D. Brunner>**: Yeah. So what we've said in the past, Kate, is that omni-channel customers are really important to us because overall their spend – if they choose to spend or shop with us in various channels, whether it be through pickup, whether it be through in-store, online delivery or their home, whatever it is, if we can get a customer into our ecosystem, ultimately there's overall twice the spend and that's an in-store customer that's converted nearly twice as much. And so it's really important to us. That's why it's part of our – a key part of our overall strategy, and online grocery customers have higher basket sizes than in-store customers do.

So what's exciting about that is that as you serve a customer effectively through these services where our own personal shoppers are shopping on behalf of a customer, customers are increasingly choosing fresh items in their overall orders, which really, again, speaks to the trust that they have in our shoppers and the job our shoppers are doing on behalf of the customer.

**<Q - Gregory Scott Melich>**: Just wanted to follow up on two things. eCommerce, we have the growth numbers, as we try to back into what it is as a percentage of sales now, it looks like it's a little over 3% in Q1. Is that correct? And then the second question is on the costs. You guys talked about cost deleveraging. Is Q1 a good run rate when we think about those incremental costs in technology, which looks like it was about \$100mm? Should we expect it to be that sort of y-over-y in each quarter or is that the sort of thing that builds through the year? Thanks, Kary.



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 Company Ticker: WMT US  
 Date: 2018-05-17  
 Event Description: Q1 2019 Earnings Call

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 Current PX: 83.66  
 YTD Change(\$): -15.09  
 YTD Change(%): -15.281

Bloomberg Estimates - EPS  
 Current Quarter: 1.219  
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**<A - Kary D. Brunner>**: Yeah, it can vary from quarter-to-quarter. Thanks, Greg. Technology costs can vary from quarter-to-quarter, so couldn't give you much help on that on the go-forward. But what we have laid out is our priorities for where we're investing. And as we've said in our last quarter call, the opportunity to reinvest some of our tax reform savings into serving the customer through lower prices, through investments in eCommerce, including the rollout of grocery delivery throughout the U.S. that we've talked about, supply chain, those areas are going to be the areas of focus and so you would see us those being called out throughout the year.

**<Q - Seth I. Sigman>**: Hey, Kary. A couple follow-up questions here. First just on the online growth. If you look at the contribution from online grocery and online growth, obviously it's a function of the rollout of more stores. But what are you seeing in terms of the ramp in the stores with online grocery for more than a year now that you have critical mass?

**<A - Kary D. Brunner>**: Thanks, Seth. We're pleased with what we're seeing. Important component that we talk about a lot is the Net Promoter Score and it's continued to remain high. Customers are really pleased with the service. We're providing convenience. You think about a young mom with kids who can come to the store at her convenience and pick up her full grocery order with the kids in the SUV in the back within five minutes and not even have to get out of her vehicle and be on her way. It's just very convenient and customers really like it. If you think about the overall approach here, the strategy is we're pleased with the metrics that we're seeing and that's why you see us leaning in and adding 1,000 additional locations this year.

**<Q - Seth I. Sigman>**: Okay, thanks. And then on the U.S. gross margin being down less than prior quarters, given the pressures that you called out, the investments in transportation costs, it would seem that the offsets were greater this quarter than perhaps in the last couple of quarters. Is that right? And if so, can you elaborate on that and how you're thinking about that for the rest of the year? Thanks.

**<A - Kary D. Brunner>**: Sure. And again, we try to point your attention to an annualized gross margin impact number because there's a lot of shifts from quarter-to-quarter and there's a lot of puts and takes within that gross margin line. Fourth quarter had a number of unique items in it that we talked about.

As you think about gross margin in the quarter, kind of the same drivers that you've heard us talk about in the past, things like price investment. We've been very clear that we see an opportunity to invest in price and we're pleased with what we're seeing from the strategy that's been executed over the last couple of years with strong traffic in our stores as well as overall strong comp growth. And over the last couple of quarters, you've seen transportation expenses called out, somewhat a function of volatility and overall fuel prices then also trucking, market rate pressures as well. So, overall, I would just direct your attention to our annualized impacts. There can be some noise in the quarters.

**<Q - Joseph Isaac Feldman>**: One question again on the quarter. Were there any regional trends to call out through the quarter that we've seen presumably weather-related or even not? Maybe you could share some thoughts on that.

**<A - Kary D. Brunner>**: Sure, Joe. Thanks for the question. We did see impacts, as we mentioned, from the cooler weather in April in certain general merchandise categories. You think about lawn and garden, you think about sporting goods, some apparel categories saw some headwinds. And as we analyze the overall business, in certain areas like the South and in the West, they were less impacted in those regions from weather-sensitive categories where they have more normalized weather. And so, overall, the business remains strong. We have good momentum in the business and both in our stores and through eCommerce, we're pleased with where we landed in Q1.

**<Q - Joseph Isaac Feldman>**: Thanks. If I could follow up sort of shifting to Europe, with the UK, you guys have had some good success there the past couple of quarters, positive comp trends. Is there something you guys figured out relative to Aldi and Lidl? Because I know they continue to gobble up share, but you guys have been doing a better job there and, again, having positive comps. Is there something you've been doing there that you could also extrapolate and take to the U.S.?

**<A - Kary D. Brunner>**: If you look at our Asda business in the UK, I would remind you that there was some Easter calendar shift that benefited sales and comp this quarter, so keep that in mind. But we continue to make steady progress and we're investing in price to provide the right value and we're also focused on improving the store experience in the UK to continue that business on the right trajectory. And as far as shared learnings, as I talked about earlier on the call,

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that's really been something because of our global portfolio we're able to share best practices and support overall future growth across the enterprise.

**<Q - Noah Zatzkin>**: Just to confirm, was the negative impact of weather greater than the Easter benefit? And then maybe second, have the issues related to the eCommerce distribution centers that you experienced last quarter been totally remediated? Thank you.

**<A - Kary D. Brunner>**: Sure. So, on our U.S. comp business, there wouldn't have been any Easter impact there, so we called out weather because in certain general merchandise categories due to the unseasonably cool temps in April across the country. And what was your second question?

**<Q - Noah Zatzkin>**: Oh, yes. Just related to the eCommerce distribution center issues last quarter, have those been remediated?

**<A - Kary D. Brunner>**: Yeah. We're really focused on serving the customer through not only providing the right assortment and delivering on time, but also having the right experience on our site and our site redesign is receiving good reviews from our customers already.

**<Q - Rupesh Parikh>**: So first on Sam's Club. I was curious, if you look at your closed stores, how the retention numbers is going vs. your expectations.

**<A - Kary D. Brunner>**: Thanks, Rupesh. Yeah, Sam's Club has had a good quarter. And clearly, as we focus on serving the customer effectively in the clubs that are offering good assortment at the right price and providing value to these members. The clubs that we closed just didn't strategically fit into our overall future plans. And the current clubs that we have we're pretty pleased with the results. You see strong traffic in our clubs and so there is some trade-off or carryover from some closed clubs.

**<Q - Rupesh Parikh>**: And then my second question, if we look at your U.S. eCommerce growth, is there any more clarity you could provide on growth rates between grocery and non-grocery or even if you look at whether grocery or non-grocery was a bigger contributor during the quarter to the growth rates?

**<A - Kary D. Brunner>**: Yeah. They really are both contributors to the overall growth rate. We're not going to quantify how much was each. But I'll tell you they're both important components to driving our overall targets for the year and we've been pleased. We're certainly pleased in Q1 with the 33% that we're able to deliver with contributions from both online grocery, omni-channel as well as our ship-to-home business.

**<Q - Bobby Griffin>**: Just actually on Sam's Club again, backing out the closed stores, can you just give any color on what you're actually seeing from new member sign-ups, now that you guys have been kind of putting in the work with the merchandising stuff?

**<A - Kary D. Brunner>**: Sure. I mean, I think that as John and the team are focused on continuing to drive both new members as well as providing additional value to the customer and Plus members, we're seeing, as we called out, the good uptick in Plus member sign-ups. And I think things like this free shipping offer for Sam's Club Plus members is just another example of providing that convenience and the value in that more premium membership.

If you think about things in making it simple for the member, that's another thing that's important. Our Scan & Go has been well-received, allowing the customer to shop on their terms and get in and out of the clubs more quickly, and even things as simple as the new member sign-up process. You may have heard John talk about this in October. We've taken steps by leveraging technology to just simplify processes, experiences for customers that are resonating well and you see both growth in membership income as well as in our comp traffic and ticket at Sam's Club. So, overall, another good quarter for Sam's.

**<Q - Bobby Griffin>**: All right. And then lastly just to help us from a modeling standpoint, it was touched on earlier, but I don't think we got the full answer. A 140 basis point impact this quarter from tobacco. The original guidance we spoke in the last quarter is maybe 400-or-so basis point headwind. How should we think about that headwind progressing through the rest of the year on Sam's Club comp?

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<A - **Kary D. Brunner**>: Yeah. Just keep in mind that that was full-year guidance and so we're not updating that today. We'll provide an update on certain full-year guidance metrics in our next quarter release, but just keep in mind that's full year and there could be varying impacts throughout the year.

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