Bloomberg Transcript final

Company Name: Walmart
Company Ticker: WMT US
Date: 2018-08-16
Event Description: Q2 2019 Earnings Call

Market Cap: 285,464.69
Current PX: 96.74
YTD Change($): -2.01
YTD Change(%): -2.035

Bloomberg Estimates - EPS
Current Quarter: 1.032
Current Year: 4.798
Bloomberg Estimates - Sales
Current Quarter: 125129.238
Current Year: 514878.217

Q2 2019 Earnings Call

Company Participants

- Dan Binder
- Kary D. Brunner
- Michael Brigance

Other Participants

- Robert Drbul
- Karen Short
- Simeon Ari Gutman
- Edward J. Kelly
- Michael Lasser
- Kate McShane
- Chuck Grom
- Robert Ohmes
- Scott A. Mushkin
- Seth I. Sigman
- Matthew J. Fassler
- Benjamin Bienvenu
- Gregory Scott Melich
- Justin E. Kleber
- Rupesh Parikh
- David A. Schick
- Christopher Mandeville
- Beryl Bugatch
- Christopher Horvers
- Paul Trussell
- Scot Ciccarelli
- Oliver Chen
- Edward J. Yruma
- Mark Stiefel Astrachan

MANAGEMENT DISCUSSION SECTION

Dan Binder

Q2 Highlights

Net Sales, EPS and Net Loss

- In terms of key takeaways, we had a strong quarter with good momentum in many parts of the business
- On a constant currency basis, consolidated net sales were up 4%, or about $4.9B.
- Adjusted EPS was $1.29, a 19.4% increase vs. last year

- From GAAP perspective, the company posted a loss of $0.29 per share in the period, which was primarily driven by $4.5B net loss from the sale of 80% of Walmart Brazil

Comp Store, E-Commerce and International Sales

- Notable callouts include the 4.5% Walmart U.S. comp store sales gain, which was the strongest in more than 10 years, driven by traffic and ticket gains, both of which exceeded 2%
- Walmart U.S. e-commerce sales increased 40%, representing the second consecutive quarter of acceleration in that growth rate
- Walmart International had a solid quarter with positive comp store sales in our four largest markets

Sam's Club

- Sam's Club also saw strength with a 6.5% comp club increase, excluding fuel and 150 basis point negative impact from tobacco
  - Excluding fuel only, the 5% comp gain at Sam's was the strongest in six years

Expectation

Comps and Sam's Comps Ex-Fuel, EPS

- As detailed in our release, we raised sales for the year
- We now expect Walmart U.S. comps and Sam's comps ex-fuel to be about 3% each
- The Sam's Club guidance includes the negative impact of about 200BPS from tobacco
- We're now expecting full year adjusted EPS of $4.90 to $5.05
  - Keep in mind that this excludes the potential impact of Flipkart, including interest, as this transaction has not yet closed

Closing Remarks

A few reminders; first, our annual Investment Community Meeting will be held on in Northwest Arkansas on October 15 and 16 of this year

Second, we will release third quarter earnings on Thursday, November 15

QUESTION AND ANSWER SECTION

<Q - Robert Drbul>: The first question that I have is on the eCommerce growth, can you give us a little bit more color in terms of the 40% increase, in terms of what drove the 40% increase, and then what we can look forward to in the back half of the year on, I think, even further acceleration to get to that 40% annual number?

<A - Dan Binder>: Contributions from walmart.com Ship to Home, as well as online grocery, were the main drivers. More specifically, marketing price competitiveness – price competitiveness, I should say, assortment, and expanded grocery pickup and delivery, were all instrumental in driving that growth. In terms of back half of the year, we don't break out specific eCommerce growth by quarter, but we reiterated our 40% growth rate today for the full year and we're comfortable with that based on the momentum we're seeing in the business.

<Q - Robert Drbul>: And then just a follow-up question, if I could. On the inventory level, specifically in the U.S. continue to be down. In terms of the ability to continue to drive an accelerated comp or an improved comp, can you continue to have reductions in inventories? Just let us know where you think you are on the inventory cycle right now.

<A - Dan Binder>: As you know, we've made great progress on inventory in recent years. The velocity is looking great. In-stocks are up, which – it's helping to drive comp store sales, and so we've been really impressed with the team on the work they've done there. We continue to expect good progress on inventory. We don't guide to that specifically, but we are positioned for the back half of the year to win not just in toys and grocery, but overall.

<Q - Karen Short>: Just a question on the guidance for H2. I guess, it doesn't – your implied guidance for H2 doesn't really reflect the momentum continuing. So, I guess, the first question is, is that fair? And then, I guess, the second follow-up would be, is that more a function of accelerating investments, particularly in eCommerce, as per your transcript?

<A - Dan Binder>: I may have missed the first part of your question. You said the back half guidance, and I missed what you said there.

<Q - Karen Short>: The back half guidance doesn't really reflect the momentum that you just demonstrated in Q2 continuing.

<Q - Karen Short>: So that seems to be the number, but is that more a function than anything of accelerating investments, particularly in eCommerce, and is that fair, because that just kind of...

<A - Dan Binder>: As we pointed out in our materials this morning that Q2 clearly had some weather benefit. We're not quantifying that today. Make no mistake, though, we had strength throughout the quarter. It wasn't just in May. We are really pleased with the momentum. And the guidance today reflects our best estimates based on what we know and what we're seeing, but there is good momentum. You've seen the eCommerce growth accelerate. The store business is strong, grocery is strong. The strength in the quarter was really broad based. It wasn't just grocery, as you could see in the materials, good general merchandise sales. Don't forget, we do have Q3 comparison, where there was some incremental spending from around the hurricanes, but we're pleased with the plan.

<Q - Karen Short>: And then my follow-up, I guess, would be that there seems to be a view that, I guess, once you close on Flipkart and it starts to burden your P&L and your earnings, you might have to let up or lessen your investments and price in the U.S. I mean, can you maybe just comment loosely on whether or not that thesis has any validity?

<A - Dan Binder>: As you know, we don't guide specifically on price investment in any given quarter or any given part of the country or any category. But I think it would be a mistake to assume that Walmart is going to stop investing in price. That is a constant. I do not think that the theory holds any water.

<Q - Simeon Ari Gutman>: Following-up on the first question, you mentioned some of the drivers for eCommerce growth. Can you say, Dan, directionally did the Click & Collect contribution accelerate from Q1? And if there's any magnitude, of course, we'd love that as well.

<A - Dan Binder>: We don't break that growth rate out specifically, but it has been quite strong. It's a meaningful contributor to eCommerce growth and will continue to be. The customer feedback has been very strong and – yeah, that's probably all I can say at this point. But we're really pleased with the results there and I think our actions speak louder than words and the roll-out, obviously, is still on plan and significant.

<Q - Simeon Ari Gutman>: I want to follow-up to Karen's question on the guidance. So it looks like the back-half top line was raised a little, but not raised as much as the strength in this quarter. And I think, you kind of suggested there were some helpful levers this quarter that may not continue, but there was a back-half raise to that. But, it looks like there isn't a back-half raise to the profit, implying that the flow-through could be a little bit worse. And I want to just ask exactly what she did, is that because the eComm losses are going to be greater or there are other things that Walmart will be spending on in the back-half?

<A - Dan Binder>: We're obviously coming from a position of strength as we go into the back-half and we're leaning in on eCommerce because it's obviously, where the future is. We haven't quantified how much higher those losses are, but there's a lot of moving pieces. For example, as you all know, currency markets have been in a bit of a tailspin. At the beginning of the year, we gave you guidance of about $0.05 from currency. Today, when we sit here today looking at the rates, that's not going to be the case. So that was factored in to our thought process. But, there's a number of moving pieces. As you pointed out, eCommerce loss will be a bit higher. But, we feel that the guidance is prudent because a lot of the year is still in front of us. But, we do feel good about the business. We feel good about the SG&A leverage and that's our estimate as we stand today.

<Q - Edward J. Kelly>: I wanted to ask about the grocery business. So whether and the consumer clearly played a role in your overall comp performance, but grocery is probably not as impacted and it obviously accelerated nicely. It doesn't seem like we've – this has been the case from the industry. So, could you just talk specifically about what you think drove what looks to be accelerated share gains in grocery this quarter or maybe some additional color by category, how much was traffic vs. basket, any of that would be helpful?

<A - Dan Binder>: A few things here. First, you're correct, we did take market share. Two, it's a function of a few things, but not surprisingly, price investment has helped, in-stocks have helped, assortments have helped.

In terms of traffic vs. ticket, we don't break it out by category, but you can see from the overall results that traffic and ticket were strong. I would point out that inflation was not a major contributor. While there have been some increases on input costs, we have made some very deliberate price investments which have offset that and so, net-net, there was not an inflation benefit.

<Q - Edward J. Kelly>: And just as it relates to online grocery, obviously, you were pleased with your Click & Collect effort. If we think about what some of your competitors are now looking to do with Kroger's announcement with Ocado, obviously the strategy is shifting a bit there. How are you thinking about long-term online grocery and what needs to be done beyond Click & Collect and [indiscernible] (00:13:41) from store, any color there you could share?

<A - Dan Binder>: We've been really pleased, as I mentioned earlier, with the business. We're rolling out aggressively. We haven't outlined our rollout plan for next year; but we're obviously very pleased with what we're seeing and grocery delivery is a little bit newer initiative, also pleased with that. The execution has been good based on what we're seeing from customer feedback. There's still a lot of innovation going on in the business overall. But where we're playing to win, I think we're executing well. Our results have been solid and so stay tuned.

<Q - Michael Lasser>: Your comp was up 4.5% in the U.S. Your total sales were up 5.2% and yet your operating income was up around 1.4%. So, should we think about this as the right algorithm for how this business is going to unfold if you do that type of comp growth moving forward?

<A - Dan Binder>: Today, we gave you some updated guidance, which included a 4.4% adjusted operating margin ex-Flipkart impacts. I think you can look at the full year numbers and see where we are on the comp and kind of back into the gross margin based on our 10BPS of expense leverage guidance. We haven't set a plan for next year. Obviously, we'll share more with you at the October Analyst Meeting, but I think when you think about what we're doing as a company, it's about gaining greater share of wallet with the consumer. And that is achieved on a number of levels whether it's assortments, it's in-stocks, it's price investment, it's innovation, we're doing a lot of things on a lot of different fronts. There are investments, obviously, along the way. This quarter we had some nice upside in sales. We've got some expense leverage out of it. You can back into what the back half looks like, and we'll provide you with more color on what next year looks like at the October Analyst Meeting.

<Q - Michael Lasser>: My follow-up is, philosophically, how do you think about continuing the price investment in light of what's likely to be a more inflationary environment overall, maybe not in the food category, but overall and particularly on the expense side as wages go up, transportation goes up, will that in any way shape or form inform your decision to invest further in price across the business?

<A - Dan Binder>: There's a lot of levers to pull in the business. And, yeah, I think you've seen we've been able to get to our numbers or better without sacrificing the right investments in price. As you can see from our gross margin today; down 17BPS, price investment is pretty clear. And as I said, you can back into the numbers for the back half and assume that we're going to continue to invest in price.

There is obviously some cost inputs rising. We've got risk of tariffs and transportation costs, et cetera. This is all in our plan. We are not going to get beat on price. We're about EDLP. We work with suppliers to get costs down. We have a good history of doing that, and you should expect that will continue. But again, I think the takeaway, as I mentioned earlier, would be that – it would be a mistake to assume that we are not going to invest in price, we absolutely are.

<Q - Kate McShane>: I wondered if there were any bigger comments you could make on the change that you're making with the private label credit card?

<A - Dan Binder>: Today, we're just limiting – the answer is no. Unfortunately, the press release that we issued recently really is about as much detail as we can provide at this point. So, if you have another question, I'm happy to take it.

<Q - Kate McShane>: And then, just shifting gears to Sam's Club, just the strength specifically there any changes made to the business during the quarter that may have resulted in the accelerated comp and did you see a lift to the Walmart stores in the areas where you closed the Sam's Club?

<A - Dan Binder>: Comp store sales have benefited from a number of things. First, I think they've done a great job on fresh. If you do a good job in fresh, as you all know, that helps drive customer traffic and sales. They've been priced right. Merchandise has been right. Private label has done well. And we've also, as we highlighted in our materials today, benefited from club sales transfer from those closed clubs. We quantified that at about half of the comp, the 5%, about half of that. I would expect we'd continue to benefit from that, but we're not quantifying how much today.

But I think overall execution is up, eCommerce is strong. We've seen good renewal rates, ex the closed clubs if we're just looking at comp clubs the Plus membership is up, part of that is a function of offering free delivery online. So they're doing a lot of things right right now, and I think that's showing up in the top line. I don't have specific data on how the local Walmart stores are doing where those clubs have closed. Frankly, if I did, I'm not sure we would share it anyway. But hopefully, that's helpful.

<Q - Chuck Grom>: Just on the traffic, a real big acceleration here on the two-year stack going from 2.3% to 3.5% and for a company your size, obviously huge. Just wondering if you could maybe break apart where you think the gains were. I think it's important part of the conversation today.

<A - Dan Binder>: Grocery was the strongest we've had in nine years. I think that says a lot. As I spoke to earlier, that's a function of a number of things, including price assortment and stocks. But it wasn't just about grocery. We could point to a lot of different areas of the business. Home, apparel were strong. We were strong throughout the quarter. So, when we highlighted weather and we definitely saw an inflection in May, the gap across months was not huge. We don't give specific numbers by month, but I just want to emphasize that the strength was throughout the quarter, grocery being a highlight, but not the only highlight.

<Q - Chuck Grom>: And then, just on the expectations on eComm and the losses, I think you guys said in the pre-recorded call that they're going to be greater than you were anticipating earlier in the year. I guess, if you could walk through the factors of why. And then when you look out over the next couple of years, do you think the pace is going to continue to accelerate or do you expect to curb those losses, specifically on eCommerce?

<A - Dan Binder>: We mentioned at the start of the year that losses could be somewhat higher than last year and we now expect that to be the case as we continue to invest for both the mid- and long-term with continued site enhancement, new tools and technology, Store N°8 initiatives, all while we're trying to work towards the right balance of assortment and margin. So that's sort of the long way of saying that we continue to invest in that business. We haven't provided any specific guidance beyond this year but we're seeing good results obviously with the acceleration to 40% this quarter, maintaining our 40% sales guidance for the year. I'm really pleased that we were able to do that and simultaneously take up guidance while raising these investments in that part of the business.

<Q - Robert Ohmes>: I wanted to ask you about the sustainability of the ticket strength. You mentioned I think that inflation didn't play a big role in that. How should we think of it going forward? Is it sustainable because the shift to the eCommerce, grocery pickup drives a bigger basket or is that where we should look for the sort of seasonal benefit from weather in the quarter and so maybe ticket be tougher to stay at this level, or is Walmart seeing signs of trade up in the U.S. business that's supporting that? Maybe a little color on how we should think about modeling or not modeling sustainability of a higher ticket going forward?

<A - Dan Binder>: Sure. So, baskets on online grocery are higher. We've said that previously. Certainly that helps. We've also said that any inflation we've seen in cost inputs have been offset by price investments, so there's no meaningful inflation of benefit. We're not forecasting inflation today. We're not forecasting ticket today, but we are forecasting comps and in that plan, we take a lot of things into consideration and we feel good about where we are on the business today and relative to that guidance.

<Q - Robert Ohmes>: And maybe just a follow-up. You called out the apparel strength, does that fall in, hey, it was a really strong seasonal quarter and...

<Q - Robert Ohmes>: ...apparel benefited from that or is it the changes you've made, you're seeing signs that it should drive sustainably better comps in apparel going forward?

<A - Dan Binder>: A few things there. First, we're really pleased with the brands we've introduced this year. Two, to answer your question, yes, we did have a benefit from weather. Three, we're in the throes of back to school and we're pleased with the business there, not just in stationery, but in apparel and home as well. So, clearly, the consumer backdrop is favorable, we're getting a little bit of benefit from that, hard to disaggregate exactly how much is weather vs. the macro economy, but I am pretty certain that there's a lot in there for Walmart specific initiatives because we are taking market share in key categories.

<Q - Scott A. Mushkin>: You're always a very good investor, so I'm not surprised to see the start-up so much. So, my question really goes to a couple of questions. Number one is Kimberly-Clark put out a – I would say kind of an unusual announcement yesterday basically flagging the idea that they're going to be raising prices meaningfully here in the U.S. [ph] that follows on P&G (00:26:07). So, obviously, Walmart is their biggest customer. You guys have been holding line on price, I think it was really clear on this conference call that you intend to do so. So how do you deal with this vendor community that basically is being very public at this stage saying hey we're going to raise your prices Walmart?

<A - Dan Binder>: Every vendor situation is different. We obviously are very tough negotiators. We have a history of being tough. We are about EDLP and we won't be beat on price. There are certainly some concerns around potential tariffs and what that may mean for some vendors and cost inputs and we're monitoring that situation. We are developing mitigation strategies and we'll respond accordingly. But there's not a lot of color I can give you on specific vendor negotiations. We work with them and have a strong history of getting cost out to keep prices down. And yeah, look, we're agents for the consumer and we are going to make sure they are getting the best value from Walmart and the best value in the market.

<Q - Scott A. Mushkin>: And my second question is as investors, I noticed the return on invested capital keeps coming down as you guys invest heavily. How should we think about that? I mean generally speaking, is there going to be a bottom there or like what's management's thought process on ROIC and how we as investors should look at it? And then thanks for taking my questions.

<A - Dan Binder>: I can assure you having been here only five weeks that our ROI is absolutely a focus for this company, for this management team. We're a very large company with a lot of different businesses that a really interesting time in retail and there's lots of investments happening and we are investing for the long-term. I think you've heard Doug talk about making sure that Walmart is here in 50 years, that thought process hasn't changed.

If you look at our release today, you do see a decline in the return on capital to 13.8%. There's obviously some adjustments you could make to try and get to a sort of an underlying number ex some of the one-time stuff and that would probably get you to only down slightly from last year vs. that 13.8%. But we'll have more to share with you on strategic initiatives and OI outlook when we get to October. There's not a lot more I can say at this point, but hopefully that helps.

<Q - Seth I. Sigman>: My question is around the evolving online offering. So, Doug, on the other call discussed more work to do on the eCommerce assortment and specifically to get the margin levels desired. Can you elaborate on that comment and if you're seeing something that's maybe different than you would have expected from a mix or brand perspective? Thanks.

<A - Dan Binder>: First, our SKU count has not changed meaningfully in the last quarter. There's a lot of work that we're doing in eCommerce, among them a top priority is mirroring inventory across our FCs and we're making good progress on that. We're also focused on attracting the right brands and focused on the quality of those brands, not just the number of the brands. We've been very pleased with the new website. It's been great not only for customers but also attracting brands and helps in – as we talk to new brands and we [ph] cited (00:30:14) 1,100 new brands YTD, some very recognizable ones. So, we are really working towards getting the right mix. It's a work in progress. It doesn't happen overnight, but I think we're pretty pleased as a team with what we've seen YTD.

And to Doug's comments, finding that right balance of assortment and margin, that's a constant. I mean, whether that's at store level or eCommerce. I know eCommerce is the big focus today because the losses have been going up. But I think we'll probably have more to share with you in October. As I said, meantime, pleased with the brand additions, pleased with the website, the new look of the website, pleased with online grocery. So I think we're moving in the right direction.

<Q - Seth I. Sigman>: And then my follow-up is just on the ticket growth. As you think about the acceleration that you saw from Q1 to Q2, so it sounds like no net inflation, the online contribution to comps was similar. So, is it fair to say that the primary driver of the acceleration in ticket was related to mix and seasonal specifically?

<A - Kary D. Brunner>: I'd say that's fair. If you think about the strength of our fresh items and our food categories, grocery is really strong, but particularly strong in fresh. And you think about areas that can impact your ticket overall in the fresh categories and then as Dan mentioned, the general merchandise side with apparel being strong, with even electronics having a really strong quarter. So instead of looking and dissecting some of the category components that we outlined in our slide deck, you can reach that conclusion.

<Q - Matthew J. Fassler>: My first question relates to your comments in the presentation on consumer electronics. You speak about the comps there being the strongest in four years. You speak about an elevated assortment in some of the key categories. So, can you talk about whether there is a directional change in the way you're coming at that marketplace or whether the comp acceleration is a function of the market at large?

<A - Dan Binder>: But you know as you've seen over the course of the TV cycle, we've added more technology in the assortment. We've had more in voice devices. We've done more in mobile. So, it's a focus. I mean, clearly and obviously it's big particularly big around holiday. I think we're in a good position both from a product assortment and availability standpoint, but Kary feel free to weigh in on that too.

<A - Kary D. Brunner>: As you mentioned Dan, continued strength in 4K, price points are really in the ballpark for our customer and even later technology will add as well. Also, don't miss, we've really focused on the service aspect in that area as well. So, in areas like wireless and others, we're seeing the result from a customer response perspective.

<Q - Matthew J. Fassler>: And then my follow-up relates to eCommerce and Brett had this detail in the prepared remarks on eCommerce losses and essentially, confirming that the losses might go up a bit more. Just to confirm is that a function of stronger eCommerce sales and the losses associated with day-to-day eCommerce given some of the rollouts or is the confirmation of the higher loss levels really more about some of the longer-term investment story and some of the M&A and kind of longer-term initiatives.

<A - Dan Binder>: I'd say a bit more of the latter. As I mentioned earlier, the investments we're making that are forcing those losses up a bit are related to innovation, site enhancement, new tools and technology, Store N°8 initiatives. Obviously, we need to work towards the right balance of assortment and margin, but it's a lot of the medium and long-term stuff that's pushing that up a bit.

<**Q - Benjamin Bienvenu**>: I'll add my congratulations on a nice quarter. You talked about the inventory that continues to be a nice source of cash, but this is now Q3 that we've seen accounts receivable down as well, payables continued to grow. Just a little color on what's going on in accounts receivable and then, what the payables opportunity looks like as well going forward would be helpful.

<**A - Dan Binder**>: There's a few items that are affecting that including Brazil tax payments. Kary, you have some detail on that specifically?

<**A - Dan Binder**>: I know we have two moving pieces there. You've seen in payables as well, but it is related to Brazil and tax, and then the inventory is obviously being affected by not only Brazil, but the Sam's closures as well.

<**A - Kary D. Brunner**>: And on the payables side, I mean, you'll recall that the U.S. business made really strong progress on – in terms of allowances and really providing consistency among our supplier base on those items, and when we're seeing similar strategies taken up in some of our international markets that are providing good benefits on the payable side.

<**Q - Benjamin Bienvenu**>: And then shifting to the grocery pickup, that offering will reach about 40% of the U.S. population by year end. This program, it's been really well received by consumers. How is that strong adoption changed, how you think about the long-term opportunity for this service beyond this year and into the future?

<**A - Dan Binder**>: As you've seen in a relatively short period of time, the consumer is evolving the way they buy grocery. We were early movers on this. We are uniquely positioned with our store base to capitalize on this. You can expect those investments to continue. We're extremely pleased with the results and the customer feedback.

<**Q - Gregory Scott Melich**>: I wanted to make sure that I understood [ph] Brett's (00:37:14) comments on tariffs and sourcing a little better. I understand it's too early to know exactly what's happening, but just to be clear there's no tariff – nothing in your guidance assumes any tariffs going to effect, is that correct?

<**A - Dan Binder**>: We're monitoring the situation. We are certainly developing mitigation strategies and will respond accordingly. Yeah, we're going to be EDLP, we're not going to lose on price. We're going to continue to provide that value. We're going to work with suppliers, if things arise. But there's really not a lot more to say at this point on it.

<**Q - Gregory Scott Melich**>: And just to confirm is the follow-up, a majority of sourcing in each country including the U.S. is in the U.S. but that's – it's fair to say that even if most of your sourcing that is imported is indirect, that 30% or 40% could be imported. That wouldn't be unreasonable given that majority statement in the recorded call?

<**A - Dan Binder**>: We don't break out specifically where we're sourcing or how much. But as [ph] Brett (00:38:31) mentioned, there is a majority that is being done locally. Remember, we're in the food business and that's a huge part of our business. So that's certainly a big part of it. I'm not really sure there's much more I can say than that at this point.

<**Q - Justin E. Kleber**>: We wanted to ask one on online grocery; just what are you seeing in terms of the performance in those stores that have had this service for, let's say a year or two? Does that business continue to ramp up? And then maybe as a part of that, if you could talk about the progression of Net Promoter Scores as you continue to learn and get better from an execution standpoint?

<**A - Dan Binder**>: Online grocery is doing well overall; it's also doing well in stores that have had it for a while, and we continue to get incremental customers' that is helping us to take market share. Net Promoter Scores are extremely strong and we're going to continue to roll that out. Obviously, you learn with each store you do, but we feel good about the execution, customer response has been great. And like I said earlier, we are pretty uniquely positioned to capitalize on that opportunity.

<Q - Justin E. Kleber>: And then just to follow up on the Walmart U.S. gross margin. The declines in Q2 accelerated a bit from Q1. Should we view that delta primarily driven by the transportation cost pressures or were you guys leaning even more into price during Q2 vs. earlier in the year? Thanks.

<A - Dan Binder>: We highlighted that that decline was related to both price and transportation. We obviously – as you know, we rank order the impact on gross margin. The majority was price. We all know that transportation has been pressuring a lot of retailers and will likely continue in the coming quarters based on the shortage of drivers and fuel costs, et cetera. We don't comment specifically on price investment by quarter or dollar amount or category, region, et cetera, so I'm not going to be able to help you on that front, but hopefully that color gives you a little bit of a sense of how it played out.

<Q - Rupesh Parikh>: So first on grocery, you called out particular strength in the fresh food category. So I was curious, what factors are contributing to that improvement and also whether you're also seeing improvements on your online grocery in the fresh category?

<A - Dan Binder>: We've done a lot of work on fresh; taking days out of the supply chain, overall quality is up, in stock's strong, pricing is strong, presentation has been getting better. So I think all of those things are contributing to the strong fresh business. We don't distinguish between in-store vs. online, but it's – overall it's strong and we're pleased with the momentum in the business there.

<Q - Rupesh Parikh>: And then a follow-up question. On your expansion into grocery delivery, I was curious how the early reads are on the delivery part of the grocery offering? And also, whether you've seen any consumer pushback in paying the delivery fees?

<A - Dan Binder>: I mentioned earlier that the – it's still early, it's still ramping, but we are pleased with the results and the customer feedback has been strong. We've not commented on the fees or customer feedback on that. I think it's fair to say it's still early, but the ramp is good. So I think the customer is responding. It's really by giving the customer choice, right; they can choose pick-up, they can choose delivery. They want delivery, they have to pay a fee for that. But we're offering customers' choice; they can shop in our stores, do pick-up or delivery. It's really all about meeting the needs of the customer.

<Q - David A. Schick>: My question is really around either a 30,000-foot view or any details on categories. Could you talk about how much of your business is being driven by existing customers doing more with you and new folks coming in to shop at Walmart? Any breakdown, especially between – in the grocery category would be helpful. Thank you.

<A - Dan Binder>: We had a great comp store sales gain, not just in the quarter but in H1. You're seeing a big traffic component to that. We don't break out existing vs. new customers specifically. We know we're getting traffic from both. Grocery has been strong, as I mentioned; best grocery comp we've had in nine years, so clear progress. There's been market share gains. I would say all indications are we're doing a good job there.

<Q - David A. Schick>: Is there an increasing pace of new customers' contribution to the comp vs. a year or two ago?

<A - Dan Binder>: We haven't broken that out specifically.

<Q - Christopher Mandeville>: With respect to eCommerce, would you be able to comment on the exit rate for the quarter? And then thinking more broadly, as you look to service roughly 40% of the U.S. population by year end and presumably generate profitability over the longer term, how does your latest pilot on micro-fulfillment at the store level play into this and the timing of profitability actually being realized and maybe how quick we can [indiscernible] (00:45:02) such a program once the concept has proven out, and what are your initial thoughts on the level of productivity relative to some of the more manual processes [indiscernible] (00:45:12)?

<A - Dan Binder>: A few things there. First, I would say that – I really encourage you to look at the grocery business more holistically. In terms of stores online, I can't emphasize enough the unique asset base that we have to serve the customer in the way they want to shop; it's coming through in our results. In terms of fulfillment, we are ramping this; it's accretive to – it's accretive to sales and when we look at the total business, we're gaining share of wallet, which is I think the long-term – a good long-term indicator of health of what we're doing.

And in terms of the manual processes you're talking about, you obviously saw some news recently about our Salem store and the automation that's happening there. It's a test. It's – there's been no talk of a major rollout, but we are as a company working on a lot of different innovations. As a newcomer, I've been pretty impressed by the level of innovation and testing that's going on inside this company and I think – the Street will occasionally come across something that – in one market or another and we do a lot of testing; it's not necessarily an indication we're going to roll anything out. But I think you can be pretty certain that we are looking for ways to get more efficient in how we do our business. Obviously this is an important initiative, and so we are going to be looking to get more efficient in how we pick product and deliver to the customer.

<Q - Christopher Mandeville>: And then my follow-up would be specific to grocery. As you look across to your competitors, can you comment on how they are handling certain Fresh categories that are realizing product cost inflation like proteins and produce today and are they taking this as an opportunity to hold price to realize an outside margin or are they simply passing this on? And then, philosophically, how does Walmart think about this sort of dynamic as it relates to their own pricing if in fact maybe deflation persists, especially given some of the tariff risks?

<A - Dan Binder>: We generally don't comment on competition. So, I'm not going to break that practice as the newcomer. What I would say is, we are very focused on price. As I mentioned earlier, despite cost pressures we did not see a lot of benefit from inflation. So I think that speaks to what we're doing. I think the end result is that we're taking market share and it's showing up in our numbers, so maybe that speaks to what the competition is doing.

<Q - Beryl Bugatch>: And congratulations to the Walmart team for the quarter. I guess my question – I go to both Flipkart and Asda, the transactions that are yet to happen. Can you give us what are the remaining conditions to the – to get Flipkart settled, and is there any update on the Asda-Sainsbury transaction that you could share?

<A - Dan Binder>: We're pleased to get the CCI approval. We will close – we'll close as soon as practical. And there is probably not a whole lot more I can say at this point on Flipkart. You saw Brett talk about the losses for this year still being on – in that $0.25 to $0.30 range, prorated for when we close. I think we initially told you that that was based on a half year; we're obviously about three weeks past that at this point, so you guys can do the math on that. But that's all I can really say at this point.

<Q - Beryl Bugatch>: And I guess for my follow up, you've leveraged operating expenses in the Walmart U.S. segment by 26BPS and you leveraged them in the physical stores. Can you give us any idea or color of the magnitude of the store leverage vs. the other operating expense increases?

<A - Dan Binder>: We haven't broken that detail out, but I can tell you it was more. That shouldn't be a big surprise. We had a great fixed cost leverage with the comp store sales gain that we saw. It was very good leverage at the store level.

We're seeing good productivity improvements, but we've invested in technology and process changes to make us more efficient. You've seen some of those through your store walks and all those are really contributing to our ability to become more efficient, and that's our ultimate goal.

<Q - Christopher Horvers>: On moving to [ph] Bentonville (00:50:38). I had a one quarter question and one bigger picture question. So, as it relates to Brett's comment about the weather and Doug's reference to the weather, do you think it was only May – was it only the shift of April to May or is there some – was there some underlying benefit perhaps around the apparel business in June and July with some of the heat that we got there?

<A - Dan Binder>: So you know we – we called that weather in Q1, particularly April. I don't think that was a big secret. You heard a lot of retailers talking about it. We talked about it. We felt it was appropriate to comment on it when it was good as well; and we did see an inflection in May. But I want to make sure that we're clear here that there was strength throughout the quarter. It was also a very hot quarter. So there was probably some benefit from that. We're not trying to break that out for you today, but when you look at the overall strength in the comp, it was from ticket, it was from traffic, it was from multiple categories. Importantly, it was from grocery. I think the – when you look at the cadence from Q2 – Q1 to Q2, you can look at it in sort of a one – a first-half type approach; you can look at our guidance, make some connections there I think. The overall apparel business, as I mentioned certainly benefited from weather, but we've seen strength way through back-to-school and we're about halfway through that.

<**Q - Christopher Horvers**>: And then Doug previously used UK's 6% delivery penetration as for the upper bound of what the U.S. could look like and said it was actually probably lower than that given sort of the density of UK vs. the U.S. Could you share some updated thoughts here based on what you're seeing as you've rolled out these delivery markets?

<**A - Dan Binder**>: I'll probably leave that for Doug to discuss more in October. We're still early in the delivery side, a little further along on the pickup side as you know. We're seeing good results in both and we're seeing good customer feedback and the customers evolving and accepting the offer and we're uniquely positioned as I mentioned earlier to really capitalize on that with the store base and the proximity to the customer. So, it's kind of work in progress, but the customer will ultimately tell us how deep that penetration ends up or how far that penetration ends up. It's still small though relative to the total.

<**Q - Paul Trussell**>: Just wanted to touch on a few quick questions around eCommerce. Is there any comment you can give on the early read from the Lord & Taylor partnership and also wanted to just inquire about the Jet.com business. What's going on there from a SKU standpoint and what's the trajectory of that business currently?

<**A - Dan Binder**>: We don't break out specific sales, but we are excited about the brands that we're now offering through Lord & Taylor and others that we are onboarding. We're excited about the site redesign. It's still early, but it's performing well and we're seeing positive signs like more traffic flowing to online grocery site. We're getting great feedback from the brands that we sell to and those that we are still seeking to sell. And partnerships like Lord & Taylor really allow us to add new brands more quickly. And you should really expect us to form more of those partnerships going forward. Just not going to give a lot of detail around that. When we have news to share, we will.

<**A - Dan Binder**>: Here again, we don't specifically comment on the segments, eCommerce, whether it's Jet or Walmart.com or online grocery, but as we told you earlier this year, we have made plans to reposition Jet to lower our marketing investment in that business and focus on Walmart.com. It's just a function of economics and how you acquire customers in different parts of the country. I cannot emphasize enough how pleased we are with the talent that Jet brought to the organization and we are seeing benefits across all of our eCommerce initiatives as a result. Make no mistake, there is a lot of innovation happening at Jet. We just recently opened up a new FC in the Bronx to provide same day delivery in Manhattan and parts of Brooklyn.

So we're excited about the Jet business. There's a lot of talent there, there's a lot of innovation. And I know that The Street sometimes looks at this in isolation rather than more holistically, but I would encourage you to look at it more holistically because it's really benefiting the total eCommerce business.

<**Q - Paul Trussell**>: And just lastly, Dan, you guys talk to your customer a lot through survey work and through other means. Just curious if you can share some of the details about what your customer is saying about their financial condition, confidence levels in the economy, how they are ranking your service scores et cetera?

<**A - Dan Binder**>: You and others on this call are really close to what the consumer is doing and the macro backdrop and we would reiterate that a lot of those key metrics that you look at, we look at. Job growth is great. Wages are up. Credit is expanding even despite rising gas prices y-over-y – I know they're down more recently, but you've even seen savings rates move up a little bit. So, consumer is in great shape. In the surveys that we look at, they tell us that they are feeling good about their financial condition. We haven't seen any meaningful change in their spending patterns. As gas prices have come up. I think there's a lot of offsets there and – tax reform being one of the main ones. So, overall, we feel good about the consumer going into the back half of the year.

<**Q - Scot Ciccarelli**>: Another grocery question here. And I guess we understand the impact that weather would have had on general merchandise. But with the expansion of Click & Collect and all the other investments you guys are making in grocery that you already mentioned today, pricing, [indiscernible] (00:58:06) presentation, et cetera, are there any reasons why grocery shouldn't continue to comp in that, let's call it mid-single-digit range in the back half?

<A - Dan Binder>: We don't break out comps by category, so I'm not going to break that practice. I pointed to a number of things that I thought were helping to drive our business; it's about the quality in fresh, it's about price, assortment, presentation, kind of the [ph] Retail 101 (00:58:35) things that you've been focused on for years. We're executing. There was probably some small benefit to grocery from weather – and you think about beverages for instance; when you get those really hot days, you get spikes in your beverage business. We haven't broken out exactly what that was, but I wouldn't say it was the main driver.

<Q - Scot Ciccarelli>: And then, secondly, how much of your total eCommerce business today is being picked up in the store?

<A - Dan Binder>: We have not historically broken that out and I don't think we're prepared to do that today.

<Q - Oliver Chen>: Regarding what's happening digitally, if you could give us some thoughts on the supply chain in terms of mixing physical and digital and some of the efforts that you are making there and strategies that we should think about. And we were also curious about M&A and your general thoughts on the framework around M&A. You've been really creative with alliances and also buying really interesting businesses. So, would love general thoughts about that. Thank you.

<A - Dan Binder>: I would say on supply chain, our top priority is mirroring inventory across VFCs; there's real benefits in doing that in terms of reducing delivery times to consumer, having more efficient delivery of product; rather than shipping something from California to New York, if you have the product in a warehouse that's closer, there's obviously cost implications. We recognize that. We are working on it. In terms of the M&A stuff, we don't comment on that until we actually do it. But you've seen a pattern of us make investments and buy where it makes sense instead of building. I don't think the general philosophy there has changed. I'll leave it for Brett and Doug and others to – and Marc Lore to comment on that at the October Analyst Meeting, but I suspect we're just not going to say a whole lot on specific M&A opportunities until we have something to really share with you.

<Q - Oliver Chen>: Being newer to the organization, what has surprised you, what have you enjoyed the most in your time so far? Just would love some of your insights in terms of what you think about your experience so far.

<A - Dan Binder>: I've gotten that question quite a bit from people internally, and I can tell you that my – I followed the company for probably 24 – my 25 years on Wall Street as a sell side analyst. I always had a strong appreciation for its culture. Now that I'm inside, I'm completely blown away by it. The people have amazing energy level and I had done a lot of meet-and-greets, whether I'm talking to somebody who's been here for five months, five years, 15 years, 25 years, it's amazing, the consistency and the energy level, the passion to win. I know that's kind of intangible and as a former sell side guy I can appreciate that, but it's really been quite incredible.

I'd say that the second thing has been process and thoughtfulness behind that. Just preparing for earnings is an example; incredible process, but in the bigger, more important things around strategy, incredible process, incredible thoughtfulness, incredible discussion internally. And then I think, innovation. You've heard us talk about store number eight; I got to see it. I won't share with you what I've seen obviously, but I can assure you that there is a lot of innovation going on in this company that is truly impressive and forward-thinking and I think is going to position us well for the future.

<Q - Edward J. Yruma>: First, Amazon obviously has made [ph] it big (01:03:09) to do about the advertising business. It seems like you guys have ramped up on the new [ph] format and site kind of (01:03:13) advertising. Is it a needle mover at this stage? And then I guess just on the question of ticket, as we think about ticket going forward – I know you've called out fresh – do you think that the electronic part of the business kind of continues to drive that going forward as you look at I guess the product pipeline? Thanks.

<A - Dan Binder>: I'll tackle the last question first. Ticket's a function of a lot of different things. Obviously as you know electronics is a piece of it. As you know, electronics is not a big part of the business in Q2 vs. let's say Q4. But as I said earlier, we're positioned to sell the right technology to our customers; we've got the right in-stock levels; we're competitive on price. And I'll kind of leave it at that. But in terms of your other question about advertising, it's not a major needle mover today and I'll let Kary weigh in on that a bit.

<A - Kary D. Brunner>: We see it as an opportunity, but right now is a small portion of our business.

<Q - Mark Stiefel Astrachan>: Wanted to ask first just a follow up on some of the earlier questions. Curious if you can parse out where some of the new consumers in grocery are showing up? Are they more likely to shop in-store, online, click-and-collect? Sort of what you're seeing there if anything that you could comment on?

<A - Dan Binder>: I'd say all of the above. I'm not – like I said earlier, we don't break out specifically which customers, whether they are new or old or shop – where they are shopping, but again I would encourage you to really look at the business more holistically; and when you do that, you can see we're gaining share of wallet for all the reasons I mentioned earlier that's resulting in market share gains. And Fresh is a big part of that. So, we're really pleased with what we're seeing there.

<Q - Mark Stiefel Astrachan>: And then separately or differently, I wanted to ask a bit about China. So, comp was a little bit weaker I think that we've seen in some recent history. JD's results and some other large competitors there have been a bit weaker too from a revenue standpoint. I guess I'm just curious if you could talk specifically about the business there, maybe the market more broadly, kind of what dynamics you're seeing? Any changes? That would be helpful.

<A - Dan Binder>: We had a comp store sales increase of 1.5%. And as we highlighted in the materials today, that was really coming from good underlying performance from the hypermarket and Sam's Club with particular momentum in the Fresh categories. It's a business we've continued to invest in. It's a business we have continued to add one-hour delivery to and I'm not sure there's a lot more to say than that at this point. Yeah, certainly – would Michael weigh in on that?

<A - Michael Brigance>: We made an investment – stepped up investment in our – in JD Daojia, the crowd-sourced online delivery platform there. So, eCommerce is moving very quickly in China and we're really participating in that.

Dan Binder

Closing Remarks

So in closing, we are pleased with Q2 results

We've had – we have good momentum in the business

As I mentioned earlier, we're investing in many areas of the business to win longer term

On a personal note, it's a real pleasure to be able to continue working with you all from a very different seat and where I used to compete with you

I like this seat better

I'm really pleased to join my team here at Walmart

It's been a great experience in the short time I've been here and we look forward to seeing you all in our October analyst meeting, where senior management will share more of their strategy and outlook