Good morning and thank you for joining us to review Wal-Mart's Second Quarter Fiscal 2017 results. This is Steve Schmitt, Vice President of Investor Relations at Wal-Mart Stores, Inc. The date of this call is August 18, 2016. On today's call you will hear from Doug McMillon, President and CEO, and Brett Biggs, CFO.

This call contains statements that Wal-Mart believes are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended and that are intended to enjoy the protection of the safe harbor for forward-looking information provided by that Act. A cautionary statement regarding forward-looking statements is at the end of this call.

As a reminder, our earnings materials include the press release, transcript and accompanying slide presentation, which are intended to be used together. All of this information, along with our store counts, square footage, earnings infographic and other materials are available on the investors portion of our corporate website; stock.walmart.com.

For fiscal year 2017, we utilize a 52-week comp reporting calendar. Our Q2 reporting period ran from Saturday, April 30th, through Friday, July 29th, of this year. And, as previously announced, our annual meeting for the investment community will be in Bentonville, Arkansas on October 5th and 6th. We plan on having facility tours on the 5th with our meeting taking place on the 6th. We look forward to seeing you here.

Now, I'd like to turn it over to Wal-Mart CEO, Doug McMillon.

Doug McMillon

Thanks, Steve, and good morning everyone. Thank you for joining us to hear more about our second quarter results. We had a strong quarter with adjusted earnings per share of $1.07. Excluding the $2.7 billion currency impact, we delivered total revenue of $123.6 billion, an increase of 2.8% over last year.

We exceeded our Walmart U.S. comp sales guidance this quarter, with Walmart U.S. delivering comp sales of 1.6%, driven by a traffic increase of 1.2%. This was our 8th consecutive quarter of positive comp sales and our 7th consecutive quarter of positive traffic.

I’m encouraged by what I'm seeing when I visit stores and pleased with how Greg Foran, our leadership team and our associates are executing our plan to win. Our customer satisfaction scores continue to improve, and the team did a great job of managing the flow of inventory again this quarter. Comp store inventory was down 6.5% and in-stock levels are up.

We’re also showing progress in e-commerce. On a constant currency basis, GMV and e-commerce sales increased 13% and 11.8% respectively. The U.S. results were stronger than those in our key international markets.

This was primarily due to growth in our marketplace offering in the U.S., the continued roll out of online grocery and growth of pick-up in stores and clubs. We continue to see proof that our customers enjoy a seamless shopping experience.

The distinctions that we talk about today between stores, apps, pick-up, delivery and sites are continuing to blur into the background for customers. For them, it’s just Walmart.

We've built a solid foundation in e-commerce under the leadership of Neil Ashe. During Neil’s tenure, we more than doubled our e-commerce GMV, became the second most trafficked e-commerce site in the U.S., re-platformed Walmart.com, opened a national fulfillment center network and most importantly, became known as a great place to work for talented technologists and e-commerce professionals in Silicon Valley. Neil also led our discussions with JD.

Neil will be with Wal-Mart through the end of our fiscal year working on our e-commerce strategies in several international markets. I’d like to thank him for his significant contributions to our company.

Building on this solid foundation, we made some strategic decisions to position ourselves for the future in the priority markets of the U.S. and China, including the announcement last week to acquire Jet.com.

Operating Walmart.com and Jet.com will allow us to reach even more customers and drive a higher level of growth more quickly. One of the things we like about the technology they've developed is that it rewards customers in real time with savings on a basket of goods and puts them more in charge of the price they pay. This empowers customers in a way that is true to the spirit of Walmart.

When customers build a basket of goods online rather than ordering one item at a time, shipping economics are in their favor and ours. Wal-Mart's advantage has always been in providing the lowest prices on a basket, and Jet has created a unique way to deliver the lowest cost basket online. It’s important to remember that customers won’t see changes immediately as we await government approval, and the necessary tech platform changes, which will take time.

Once the acquisition is complete, we look forward to welcoming Marc Lore, current President and CEO of Jet.com. He will join Wal-Mart as our new

President and CEO of e-commerce, reporting to me. He will be responsible for both the Walmart and Jet brands in the U.S. Marc is a passionate merchant and innovative thinker who will definitely add value to our business. I look forward to working with him.

In China, our recently announced transaction with, and investment in, JD.com improves our position there. JD's significant presence online, where Wal-Mart and Sam's Club will feature prominently, affords us the opportunity to extend the reach of our brands to millions of new customers.

I made a couple of visits to JD's delivery and pickup points in Shanghai when I was last in China and am excited about the potential it creates for our customers there. Richard Liu, CEO of JD.com, is a talented e-commerce merchant and we look forward to our collaborations going forward.

Additionally, we made advancements in the U.S. on our key priorities to build digital relationships with customers, scale the assortment and expand online grocery. As of June, we have rolled out Wal-Mart Pay nationwide to all stores.

Customers tell us they love the convenience of this unique service, and we've found that a majority of transactions come from repeat users. If you haven't tried Wal-Mart Pay, please do and share your feedback.

Customers also continue to enjoy our online grocery pickup service and give it high marks. We added grocery pickup to 30 more markets this quarter bringing our total to more than 60 markets and nearly 400 locations. It's gratifying to see how much this service helps our customers save time.

Next, we are growing our marketplace offering at a strong pace. Since the beginning of the year, we've added about 7 million new items to the assortment and today offer approximately 15 million SKUs.

Walmart International delivered another solid performance in the second quarter. Nine of our 11 markets posted positive comp sales and six of those grew comp sales by more than 4%. Walmex continued to lead the way, and I'm pleased with the fact that the momentum in the business is broad based across all formats and countries.

In China, in addition to expanding our reach through the strategic alliance with JD.com, we continue to grow our base of stores and clubs. In fact, we continue to gain market share in the hypermarket channel. China remains a strategic focus for us as it represents the largest retail growth opportunity globally.

In the U.K., the competitive environment and food deflation continued to challenge the market, significantly impacting traffic and comp sales. Our strategy to turn things around is focused on improving the retail basics.

We are simplifying and strengthening our offering through improved availability and assortment discipline, reducing costs and driving sales through strategic price investments. While our turn-around will take time, I'm confident in the new leadership team there and want to assure you we're addressing this with urgency.

At Sam’s Club, comp sales for the period were slightly above our expectations. Membership performance was the highlight, and there is quite a bit of innovation underway at Sam's related to the member experience.

Earlier this year we launched a test of Scan and Go, a mobile checkout and payment solution, which lets members skip the checkout line. We're pleased with the adoption of this service, and we expect to roll this out nationwide later this year.

We also saw strong growth in the quarter from both Club Pickup and direct to home e-commerce. The new platform we are using to prospect for new members and better manage their accounts will help us deliver on our priority of growing membership. These innovations are making it easy for members to shop and save time.

Finally, I've enjoyed my time this week with more than 5,000 store leaders and merchants with the U.S. team at our annual Holiday Meeting in Denver. We've got a great plan for the busiest time of year, and the mood at the meeting was deservedly upbeat.

I'd like to thank our store managers and all of our associates for the job they're doing. In summary, I'm pleased with the momentum in the business. We have a plan, and we are executing against it and customers are responding favorably.

Now, I’ll turn it over to Brett.

Brett Biggs

Thanks, Doug, and good morning everyone. We're half way through the year and we continue to be pleased with the momentum we're seeing across many parts of the business. We're executing against our strategic priorities, focusing on the customer and improving core retail fundamentals around the world.

In addition to delivering solid second quarter results, which I'll talk about in a minute, we continue to make decisions that focus the business for long term success. Just in the past few weeks we've furthered our strategy in e-commerce through the alliance with JD.com and the planned acquisition of Jet.com.

In addition, we've agreed to divest our Suburbia apparel business in Mexico, allowing for additional focus on our core business in that market. Each of these decisions aligns with our strategy and demonstrates our commitment to thoughtfully allocating capital against our long term strategy.

Now, let's get to the results. Second quarter adjusted EPS was $1.07, which was at the high end of our guidance range, while reported EPS was $1.21. Adjusted EPS excludes a non-cash gain of $0.14, net of tax, from the sale of Yihaodian in China to JD.com. We anticipate the gain for the full year will be $0.16 per share, which is within the original guidance range when we announced the transaction.

From a revenue perspective, we had another solid quarter. Excluding the $2.7 billion currency impact, total revenue increased 2.8% to $123.6 billion, while on a reported basis, total revenue was $120.9 billion. On a constant currency basis, we added net sales of $2.8 billion in the quarter and $7.2 billion in the first six months of the fiscal year.

Walmart U.S. delivered a very solid comp sales increase of 1.6% driven by a 1.2% increase in traffic. It’s now been two full years that Walmart U.S. has delivered positive comp sales – in fact, on a two-year stack basis, comp sales increased 3.1%.

As Doug mentioned earlier, we made progress in e-commerce with GMV and sales, growing 13% and 11.8%, respectively. The U.S. results were stronger than the international results, and globally we continue to make headway on expanding our assortment and enhancing the shopping experience for our customers.

Whether it’s through Online Grocery, Walmart Pay, or broadening our reach in China through the alliance with JD.com, we're making it easier for customers to access products when and how they want. Now, with the agreement to acquire Jet.com, we're building on our e-commerce foundation and creating an opportunity to accelerate e-commerce even further.

Consolidated gross profit margin increased 53 basis points, driven by improvements in all three operating segments. From an expense standpoint, as anticipated, total SG&A increased compared to the second quarter of last year, primarily due to our previously announced investments in people and technology for this fiscal year. That being said, our teams across the globe remain focused on managing expenses.

In addition to solid operating results, disciplined working capital management and the timing of payments allowed us to generate $10.3 billion of free cash flow in the first half of the year, which compares to $5.1 billion in the first half of last year.

Continuing to provide returns to shareholders in the form of dividends and share repurchases is a priority for us and we're fortunate to have such a strong business model that generates substantial distributable cash even after we've invested thoughtfully into the business.

During the quarter, we paid approximately $1.6 billion in dividends and repurchased 30.3 million shares for approximately $2.1 billion. As of the end of the second quarter, we have utilized approximately $7.3 billion of our current $20 billion share repurchase authorization.

With that, let's discuss the results for each of our operating segments, starting with Walmart U.S. We continue to see steady improvement in the Walmart U.S. business as customers respond favorably to the changes we're making in our stores and e-commerce offer. Net sales were up 3.1%, or $2.3 billion, and comp sales rose 1.6% with a 1.2% increase in customer traffic.

We believe a contributing factor to the results is our consistent improvement in customer experience. Customer surveys indicate that we’re making good progress in providing a better shopping experience with cleaner stores, faster checkout and friendlier service.

We've also broadened our e-commerce assortment, strengthened our mobile capabilities and expanded Online Grocery to more than 60 markets and nearly 400 locations. While there is still a lot of work to do in executing our multi-year plan, we're encouraged by the results we're seeing.

E-commerce contributed approximately 40 basis points to the segment comp, and all of our formats had positive comp sales, including Neighborhood Markets, which delivered approximately a 6.5% comp sales growth in the period.

Although difficult to quantify, we know overall sales included some tailwinds from external factors such as continued low gas prices and unseasonably warm weather across much of the country.

However, we also experienced sales headwinds from continued market deflation in food, which negatively impacted our food comp by around 100 basis points and our second quarter total segment comp by a similar amount as what we faced in the first quarter.

The grocery business showed improvement from the first quarter with positive comp sales and traffic, despite the ongoing deflationary impacts in food. In addition, both general merchandise and health and wellness delivered solid sales growth with strength in home, toys, sporting goods and OTC.

The back-to-school shopping season is in full swing, and we aim to be the destination of choice with low prices on a great assortment of products for parents and students preparing for the new school year.

In the second quarter, we continued to implement a multi-year strategy of incremental price investment in the U.S. business. It's still early days for this initiative, but we are pleased with the initial results. We're committed to providing Everyday Low Prices, using data and analytics to better serve our customers both through stores and e-commerce.

Gross margin increased 33 basis points in the quarter. Improved margin rates in food and consumables were a contributing factor. In addition, we had improvement in our cost of goods due to savings in procuring merchandise, lower transportation expense as a result of lower fuel costs and some improvements in shrink. These benefits are somewhat offset by the implementation of the multi-year strategy of incremental price investments.

Operating expenses increased 8.3% over last year due primarily to the previously announced associate wage rate increases and investments in technology. We remain focused on managing expenses with an EDLC mindset while elevating the shopping environment for customers.

Overall, the SG&A increase was partially offset by improved gross margins, resulting in an operating income decline of 6.2%. We're also encouraged by the progress on inventory management with inventory declining about 2.9% in the second quarter versus last year, including a 6.5% decline in comp stores.

By cleaning up our store back rooms, leveraging technology and changing certain processes, we're improving product availability and enabling associates to be on the sales floor serving customers in a more effective way.

Turning to the third quarter, for the 13-week period ending October 28, 2016, we expect a comp sales increase in the range of 1% to 1.5%. As a reminder, comp sales for last year's comparable period were 1.5%.

Now, let's move to Walmart International. Walmart International delivered another solid performance in the second quarter. Nine of 11 markets posted positive comp sales and six of those markets grew comp sales by more than 4%.

The rate of sales growth in several markets slowed versus our first quarter results, impacted by Leap Day in the first quarter and the Easter holiday shift between first and second quarters in most markets due to the one month reporting lag. Walmex continues to produce strong sales results across all formats, while the U.K. environment remains challenging.

The International team remains focused and continues to execute on key strategic priorities; to actively manage the existing portfolio, deliver balanced growth, be the lowest cost operator, and build strong foundations in talent, trust, and technology.

We continue to be aggressive in managing the portfolio, announcing last week the agreement to sell our Suburbia apparel business in Mexico. In addition, our recently announced strategic alliance with JD.com in China aligns with our growth strategy in this key market by better integrating our digital and physical retail operations.

We also continue to execute aggressive cost reduction programs in the U.K. and Canada, and are expanding cost analytics programs into other markets like Mexico and China.

We also announced market CEO moves this quarter in China, the U.K. and Canada. We are confident these moves position us well for driving improved performance in each of these markets and demonstrate the depth of our talent globally.

With that, let's discuss International's overall results. Net sales grew 2.2% on a constant currency basis, while reported net sales declined 6.6% due to a $2.7 billion currency headwind.

From a profitability standpoint, operating income increased 47.5% on a constant currency basis and 35.2% on a reported basis. This increase includes the gain from the sale of Yihaodian in China to JD.com. Excluding the impact from this gain, operating income increased 3.1% on a constant currency basis, which slightly outpaced sales growth. On a reported basis, excluding the gain, operating income decreased 6.7%.

The accompanying financial presentation includes detailed information on our five major markets. However, I would like to provide some highlights on each one. As a reminder, in all countries except Brazil and China, our financial results are inclusive of our e-commerce performance.

Walmex continues to lead the way, delivering strong results. Keep in mind, Walmex releases results under IFRS and the results discussed here are under U.S. GAAP, therefore some numbers may differ. The positive momentum in the business continued across all formats, divisions and countries.

Comp sales for Walmex increased 7.3% in the quarter, significantly outpacing the rest of the self-service market. Excluding the gain from the sale of our bank operations in Mexico last year, operating income would have increased faster than sales.

In Canada, despite increased promotional activity by competitors throughout the quarter, comp sales increased 1.1%. Comp sales have now been positive for nine consecutive quarters, and according to Nielsen we continued to gain market share in food and consumables and Health & Wellness.

Our cost analytics program made good progress, helping drive down cost of goods allowing us to invest in price. Excluding the gain from the sale of certain properties in Canada last year, operating income increased faster than sales. Additionally, we continue to decrease inventory levels and improve efficiency from a store and labor perspective.

In the U.K., fierce competition and food deflation continue to challenge the market, significantly impacting traffic and comp sales trends. During the quarter, comp sales, excluding fuel, decreased 7.5%. Our strategy remains focused on improving retail basics, simplifying and strengthening the offer through improved availability and assortment discipline, reducing costs through our cost analytics program and driving sales through strategic price investments where we remain committed to the previously announced five-year £1.5 billion price investment.

In China, despite negative comp sales of 0.5% this quarter, our business continues to grow as we expand our footprint throughout the country, and we continue to gain market share in the hypermarket channel."We Operate for Less" initiatives have delivered results, and we were able to leverage expenses. Our recently announced alliance with JD.com enables us to better serve consumers through a powerful combination of e-commerce and retail.

JD.com, the leading online direct sales company and the country's largest Internet business by revenue has a complementary offering, allowing us to deliver compelling new experiences that can reach significantly more customers. We are optimistic about our future in China.

In Brazil, despite the ongoing economic recession, we delivered comp sales growth of 4.7%. Our wholesale format continues to perform well and delivered strong growth again this quarter. In addition, we completed our store systems integration, which allows all banners to operate under a single financial system. This will provide better visibility to business outcomes, improved alignment of marketing efforts and further enhance our compliance programs. Overall, we’re pleased with another solid performance from our international business in the quarter.

Now, let's turn to Sam's Club. Net sales, without fuel, grew by 0.4%. Membership income increased 2.9%, as Plus member counts increased and Plus member penetration is near all-time highs.

Comp sales, excluding fuel, increased 0.6%, which was slightly above our guidance. Market deflation, especially in food, continued to be a headwind and negatively impacted comp sales by approximately 100 basis points versus the second quarter of last year. We're pleased with how e-commerce performed as both direct to home and Club Pickup had strong growth.

Sam's also continues to make progress on being a leader in the digital space. Our members tell us they really appreciate the convenience that innovations like Scan & Go bring to their lives. This new checkout and payment solution lets members complete the shopping experience using their own mobile device.

Turning to the third quarter, for the 13-week period ending October 28, 2016, we expect comp sales without fuel to be slightly positive. As a reminder, comp sales for last year’s comparable period increased 0.4%.

With that let’s wrap things up. There’s always more work to do, but we’re pleased with the first half performance. These results combined with our outlook for the balance of the year give us confidence in raising our full year adjusted EPS guidance to a range of $4.15 to $4.35, which includes a range of $0.90 to $1.00 in the third quarter. This compares to previous guidance of $4.00 to $4.30 for the full year.

As a reminder, the adjusted guidance excludes the $0.14, net of tax, non-cash gain from the sale of Yihaodian in China to JD.com. In addition, this guidance includes an estimated dilutive EPS impact of approximately $0.05, primarily in the fourth quarter, as a result of expected operating losses, and one-time transaction expenses related to the planned acquisition of Jet.com, assuming the transaction is closed near the beginning of the fourth quarter of FY17.

Keep in mind that this updated guidance assumes currency exchange rates remain at current levels and that our full year effective tax rate is expected to be at the low end of our previously stated range of 31.5% to 33.5%.

In closing, we continue to be pleased with momentum we are seeing across many parts of the business. We're executing against our strategic priorities and continue to focus on the customer. It's an exciting time at Walmart and we are proud of the progress we're making.

Thank you for joining our call today. And we look forward to seeing many of you here in Arkansas at our annual meeting for the investment community on October 5th and 6th.

This call included certain forward-looking statements intended to enjoy the safe harbor protections of the Private Securities Litigation Reform Act of 1995, as amended. Such forward-looking statements relate to management's guidance and forecasts as to, and expectations for, Walmart's earnings per share for the quarter ending October 31, 2016, adjusted earnings per share and effective tax rate for the year ending January 31, 2017, the impact to earnings per share related to the planned acquisition of Jet.com, comparable store sales for the Walmart U.S. segment and the comparable club sales, excluding fuel, of the Sam's Club segment for the thirteen-week period ending October 28, 2016, the impact of our alliance with JD.com, the impact of the planned divestiture of the Suburbia apparel business, the benefits of the planned acquisition of Jet.com, Sam's Club's plans to roll out Scan and Go nationwide later this year and the impact of its new platform to prospect for new members and better manage their accounts, and the benefits of our store systems integration in Brazil.

Assumptions on which any guidance or forecasts are based are considered forward-looking statements. Walmart's actual results may differ materially from the guidance provided, or the goals, expectations or forecasts discussed, in such forward-looking statements as a result of changes in facts, assumptions not being realized or other risks, uncertainties and factors, including economic and market factors.

Economic, geo-political, capital markets and business conditions, trends and events around the world and in the markets in which Walmart operates; currency exchange rate fluctuations and changes in market interest rates; unemployment levels; changes in market levels of wages; initiatives of competitors, competitors' entry into and expansion in Walmart's markets, and competitive pressures; changes in the size of various markets, including e-commerce markets; inflation or deflation, generally and in particular product categories; consumer confidence, disposable income, credit availability, spending levels, shopping patterns, debt levels and demand for certain merchandise; trends in consumer shopping habits around the world and in the markets in which Walmart operates; consumer enrollment in health and drug insurance programs and such programs' reimbursement rates and commodity prices, including the prices of oil and natural gas.

Operating factors: the amount of Walmart's net sales and operating expenses denominated in U.S. dollar and various foreign currencies; trade restrictions and tariff rates; and natural disasters, public health emergencies, civil disturbances and terrorist attacks.

Such risks, uncertainties and factors also include the risks relating to Walmart's operations and financial performance discussed in Walmart's most recent annual report on Form 10-K filed with the SEC. You should consider the forward-looking statements in this call in conjunction with that annual report on Form 10-K and Walmart's quarterly reports on Form 10-Q and current reports on Form 8-K filed with the SEC.

Walmart urges you to consider all of the risks, uncertainties and factors identified above or discussed in such reports carefully in evaluating the forward-looking statements in this call. Walmart cannot assure you that the results reflected or implied by any forward-looking statement will be realized or, even if substantially realized, that those results will have the forecasted or expected consequences and effects for, or on Walmart's operations or financial performance.

The forward-looking statements made in this call are as of the date of this call. Walmart undertakes no obligation to update these forward-looking statements to reflect subsequent events or circumstances.