Operator

Welcome to the Walmart earnings call for the second quarter of fiscal year. [Operator instructions.]

This call will contain statements that Walmart 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 statements provided by that Act. Please note that a cautionary statement regarding the forward-looking statements will be made following Charles Holley's remarks in this call.

Carol Schumacher

Hi, this is Carol Schumacher, vice president of investor relations for Wal-Mart Stores, Inc. Thanks for joining us today for our earnings call to review the second quarter of fiscal year 2014. Our press release and transcript of this call are available on our website; that's www.stock.walmart.com.

Here's today's agenda. Mike Duke, president and CEO of Wal-Mart Stores, Inc., will provide his thoughts about the quarter and the challenging retail environment we face in all of our markets. Jeff Davis, EVP of finance and treasurer, will cover the consolidated financial results.

Then, we'll cover the operating segments. First up, Bill Simon, president and CEO of Walmart U.S. Bill will be followed by Doug McMillon, president and CEO of Walmart International, and then we'll complete our operating segment discussion with Rosalind Brewer, president and CEO of Sam's Club.

Given the level of e-commerce activity in many areas of the company, we've invited Neil Ashe, president and CEO of Global eCommerce, to join us today for a progress report on our strategies to integrate e-commerce sales within our stores. Neil will follow the operating segment reports. Then, Charles Holley, our CFO, will wrap up the call with an analysis of our financial priorities, as well as EPS guidance for the third quarter and the full year.

We continue to receive questions from you about our comp sales reporting calendar for this fiscal year for our U.S. operating segments. This fiscal year, we will report comp store sales on a 53-week basis, with 4-5-5 reporting in Q4. As a reminder, our comp week begins on Saturday and ends on Friday. Our Q4 reporting period begins Oct. 26 and runs through Jan. 31. Therefore, week 53 will be compared to week one of the current fiscal year 2014.

Additional information regarding some of the terms we use at Walmart, including constant currency, gross profit and gross profit rate are available on our website. Please note that year to date, we no longer have discontinued operations. But, we do have one term we'd like to remind you about. We started with this term last quarter. "Corporate and support" is now what we call our corporate areas, including core corporate, such as finance and legal, as well as Global eCommerce support and global leverage services. Previously, we referred to this as "other unallocated."

Our annual analyst meeting is Tuesday, October 15 in Northwest Arkansas. Registration is open, and we invite you to join us for a full day of presentations and updates on our global business. The meeting also is available via webcast through our website, again, that's www.stock.walmart.com, if you can't join us in person.

We have a lot to cover today. Mike will start us off with the highlights and a report card on our business at the halfway mark of the year.

Mike?

Mike Duke

Thanks, Carol, and good morning everyone.

Today, we reported a 5.1 percent increase in diluted earnings per share to $1.24 for the second quarter, which is within our guidance. Sales for the quarter were below expectations, but improved from the first quarter. We are executing plans to strengthen our top line performance for the rest of the year and expect sequential improvement in the back half.

We're pleased that Walmart U.S. and Sam's Club leveraged expenses for the first half of the year. But, we didn't leverage expenses in the second quarter as a company. While it will be difficult, we believe the steps we're taking to control costs, especially in International, will bring us closer to our full-year leverage goal. We will continue to invest in leverage initiatives, compliance and e-commerce as we focus on future growth.

So, let's take a closer look at how our businesses performed in the second quarter. Consolidated net sales and our Walmart U.S. comp were below expectations for the quarter. While the retail environment was challenging across all of our markets, the Walmart U.S. and Sam's Club businesses improved comp sales from the first quarter, and reported sales in International remained consistent. We expect to see improvement in all of our segments in the back half of the year.

Walmart U.S. comp sales declined 0.3 percent in the 13-week period ended July 26. Traffic improved from the first quarter, and we gained market share in key categories. We continue to invest in price and we are focused on delivering positive comps during the next two quarters.

Sam's Club comp sales, without fuel, increased 1.7 percent for the 13-week period. The improved merchandise assortment and Instant Savings program drove membership growth. Business member traffic also improved. I'm pleased that Sam's new membership enhancements and fee structure contributed to bottom line improvement.

Walmart International's constant currency net sales were up 4.4 percent. Operating income was substantially better in the second quarter than our first quarter, and increased 40 basis points year-over-year. We achieved expense reduction in some countries, but as we said in the first quarter on our earnings call, we didn't leverage expenses this quarter given that sales were below expectations.

In February, I outlined six key areas that are critical to Walmart's long-term success. So, let's look at our report card at the halfway mark this year. First, I said we need to deliver a strong Walmart U.S. business. The underlying business strategy is solid, but year-to-date sales were below our expectations.

Traffic trends improved throughout the second quarter as weather normalized and customers responded favorably to the improved quality in our fresh offerings, especially produce. Our apparel and home categories rebounded this quarter, delivering very good comp sales. The team's cost discipline delivered leverage and strong operating income in the first half of the year and I expect this will continue.

We're also making it more convenient for customers to access Walmart on their shopping terms. Our mobile and online technology investments increased customer engagement and drove double-digit sales growth for walmart.com. This fiscal year, we're on track to increase our Neighborhood Market fleet by more than 40 percent, reaching new markets and filling in grocery offerings around supercenters.

To improve International returns, our second key priority, we must drive expense leverage and lower our cost structure to align with a more challenging retail environment. In the first half, our sales growth was less than we expected. International's ability to leverage is important to the company's overall leverage goal and we are committed to improving through productivity and expense savings.

Effective cost management is vital to improving returns in International during this low-growth cycle, and we're taking steps to accomplish this. For example, our China and our global leverage teams partnered to launch a new productivity initiative that is yielding positive results in China. In Mexico, we're implementing an on-shelf availability application to target and improve in-stock opportunities. And across many of our markets, we're utilizing workforce management tools to better align associate schedules with customer traffic. These actions, among others, will contribute to International's leverage goal.

On our third priority, I said we must increase capital discipline. I'm pleased with the stronger performance of our new stores, and a number of recent grand openings delivered sales ahead of expectations. We're making better real estate decisions and driving greater efficiency in our construction of new stores and remodels. Our real estate review meetings are focused on improving returns by reducing costs and increasing sales per square foot.

Next is our focus on leverage initiatives. Our leverage teams are partnering with the operating segments to drive greater expense savings. Increased direct import volumes are lowering cost of goods sold. These are savings that we pass along to our customers. In our stores, we're improving customer experience and reducing costs through enhancements to hybrid and self-checkout register technology. And, we just finished the migration of eight countries in Latin America to our Costa Rican Shared Services Center, which we expect to lower back office costs and improve service levels.

The fifth priority that I outlined is winning in e-commerce, and I'm pleased with our progress. Sales globally grew more than 30 percent in the first two quarters, led by the strong performance from our acquisition of Yihaodian. I'm confident that these are the right investments to position the business for long-term success, despite the short-term headwind that they create on financial results. We have ambitious goals, and you'll hear more from Neil shortly.

Last, I told you in February that we would continue to strengthen Walmart's compliance organization. We've enhanced processes and procedures, associate training and organizational leadership. We now have chief compliance officers in substantially all markets and regions, and anti-corruption directors in almost all markets. Together, they are continuing to implement compliance systems, conduct regular risk assessments and increase training for our associates.

Walmart continues to focus on areas that help our customers and our associates live better. Bill and I recently visited stores in Tennessee, West Virginia and Georgia. I saw how our associates appreciated the focus on opportunity in our recent Shareholders Meeting and the programs we have in place to help them achieve their personal objectives.

When Doug and I went to stores in Brazil, Japan, Argentina and Chile, it was gratifying to see how our focus on the customer translates globally. In every market, we have the most committed associates who display a passion for helping our customers to save money and live better. I'm really looking forward to visiting more of our stores again this quarter.

Before I close my remarks, let me reiterate that I'm encouraged by our position to execute in the second half of the year, particularly with the steps we're taking to improve performance. There are areas of our business where we can do a better job, and we will. I'm confident in our associates' ability to deliver for our customers with EDLP and for shareholders with improved sales and expense savings. Now, I'll turn it over to Jeff for more financial details. Jeff?

Jeff Davis

Thank you Mike. For the second quarter of fiscal 14, Walmart reported diluted earnings per share of $1.24 versus $1.18 last year, a 5.1 percent increase. As we told you, we expect to invest an incremental $0.09 per share in ecommerce for the full year. This investment for Q2 was approximately $0.03 per share. In addition, EPS was impacted by approximately $0.01 due to a charge for a certain non-income tax matter recorded in operating expenses within Walmart International.

Now, let's turn our attention to the detailed financial results for the second quarter. Consolidated net sales increased 2.4 percent or $2.7 billion, to $116.2 billion. The quarter included $216 million from acquisitions, which was offset by a negative impact of approximately $680 million from currency exchange rate fluctuations. Therefore, on a constant currency basis, net sales would have increased 2.8 percent.

With respect to our comp sales, total U.S. comps, without fuel, were flat for the 13-week period ended July 26. You will hear more details on our separate Walmart U.S. and Sam's Club comps from Bill and Roz.

While Sam's Club delivered positive gains in membership, consolidated membership and other income decreased 4.3 percent, compared to the second quarter of last year due to Walmart U.S. and International. Total revenue was $116.9 billion, a 2.3 percent increase over last year. Our gross profit rate for Q2 was 24.8 percent, an increase of 19 basis points compared to last year.

The increase was primarily driven by our Walmart U.S. and International segments. You'll hear more from Bill and Doug on the specific drivers. Now turning to expenses, operating expenses as a percentage of sales were 19.5 percent, which represents a 20 basis point increase versus last year.

As always, let's take a closer look at Corporate and support expenses, which increased 31 percent and is comprised of 3 areas: Core corporate, Global eCommerce support, and Global leverage services.

Our core corporate expenses increased 12.2 percent. Expenses related to FCPA and compliance matters were approximately $82 million, which was above our forecasted range of $65 to $70 million. Approximately $48 million of these expenses represented costs incurred for the ongoing inquiries and investigations. Approximately $34 million is related to global compliance programs and organizational enhancements. It is important to note that excluding these FCPA and compliance matters, core corporate expenses would have decreased approximately 2.2 percent.

The remainder of Corporate and support expense growth is associated with our ongoing initiatives within global leverage services and Global eCommerce support. These expenses reflect investments for the future and remain a headwind for the remainder of the year. Neil will provide additional insights into recent developments and investments within eCommerce.

This leads us to consolidated operating income, which grew 1.4 percent to $6.8 billion. Net interest expense increased 9.5 percent to $553 million. The increase was primarily the result of a prior year release of interest accruals on tax-related matters and higher debt balances. That brings us to consolidated net income. Consolidated net income attributable to Walmart was $4.1 billion, an increase of approximately 1.3 percent.

Our effective tax rate for the quarter was approximately 32.5 percent. As a reminder, we may experience quarterly fluctuations in our effective tax rate as it may be impacted by a number of factors, including changes in our assessment of certain tax contingencies, valuation allowances, tax law changes, audit results, discrete items and a mix of earnings among our U.S. and International operations. A little later, Charles will provide an update for our projected tax rate for the fiscal year.

From a balance sheet perspective, consolidated inventory increased 5.5 percent, primarily driven by softer than expected sales within our operating segments and timing of receipts of merchandise. You'll hear more from the segment CEOs regarding inventory levels.

Payables as a percentage of inventory was 85.8 percent, which compares to 88.9 percent last year. The decrease was primarily attributable to increased levels of inventory within our Walmart U.S. and International segments and the timing of payments.

Our debt to total capitalization was 44.4 percent at the end of the quarter, compared to 43.7 percent last year. Free cash flow was $5.2 billion for the six months ended July 31, 2013 compared to $6.1 billion last year. The timing of tax payments and growth of capital expenditures were the primary drivers of the decline.

Clearly one of our financial priorities is to return value to our shareholders through dividends and share repurchases. In Q2, we paid $1.5 billion in dividends. In addition, we repurchased approximately $1.9 billion of shares, representing approximately 24.2 million shares. This leaves us with approximately $13.9 billion remaining under our $15 billion share repurchase authorization announced in June of 2013.

Return on investment, or ROI, for the trailing 12 months ended July 31, 2013 was 17.9 percent, compared to 18.1 percent for the prior year. The reduction was primarily the result of acquisitions and an increase in fixed assets within the base business. Now, let’s move on to the discussion of our operating segments. We’ll start with Walmart U.S.

Bill?

Bill Simon

Thank you Jeff. I’m proud of the great work the team did, leading us to a solid quarter in profit in a disappointing sales environment.

Net sales grew 2.1 percent to $68.7 billion, with about $1.4 billion added in sales year over year. For the quarter, we delivered a negative 0.3 percent sales comp. Traffic decreased 0.5 percent and ticket increased 0.2 percent. The lack of meaningful inflation and the 2 percent increase in payroll taxes impacted our results; however our performance reflects more than a 100 basis point improvement over Q1.

Nevertheless, I was encouraged by the improvement we saw, as traffic and comp sales increased throughout the quarter. We also saw some slight increases in inflation towards the end of the quarter. In addition, there were some key parts of the business, like produce, home and apparel, that were very successful. We’ll talk about these in a bit.

We also continued to gain market share across several categories. According to The Nielsen Company, we gained 14 basis points of market share in the measured category of “food, consumables and health & wellness/OTC” during the 13 weeks ending July 20th.

Year to date, we’ve grown sales by $1.6 billion versus last year to $135.3 billion, leading to almost $570 million in operating income growth, and putting us at $10.9 billion in operating income for the first half of the year.

Now, let's cover additional financial details. During the quarter, we continued working with our suppliers to drive cost of goods savings. These initiatives, along with more favorable merchandise mix and logistics productivity, benefited gross profit rate.

Overall, our gross profit rate was up 23 basis points, leading to an increase of 2.9 percent in gross profit dollars. We continue to monitor the pricing environment in each market to ensure price leadership, which is the cornerstone of our business strategy.

Our stores and operations team did a great job managing expenses, delivering solid operating income growth in a challenging sales environment. Operating expenses grew by only 1.7 percent to $13.8 billion, providing 7 basis points of expense leverage. This leverage helped us deliver a strong bottom line for the quarter, with operating income growing at 5.2 percent, twice the rate of sales growth. Year to date, operating expenses were only up 0.25 percent versus last year.

Inventory was up 6.9 percent, primarily driven by softer than anticipated sales trends, the delay in summer weather and timing shifts in the receipt of merchandise for back to school and the upcoming holiday season. While we're not concerned about the quality of the inventory, it will continue to be an area of focus in the coming months, as we get ready for the key holiday season and continue to balance in-stock and an expanded assortment.

Now, let's turn to some of our savings initiatives. We continued to fuel the productivity loop in the second quarter, maintaining competitive price gaps while delivering strong profit results. Merchants, operators and our logistics team continued to work together on key leverage opportunities.

The logistics team reduced cost per case shipped year over year for the eighth consecutive quarter. Continuous improvement in trailer loading efficiency, as well as alignment and routing optimization, helped the transportation fleet produce another quarter of solid savings, with an increase of 3.7 percent in cases transported per mile driven.

Our store operations team continued to leverage technology and innovation to drive productivity across all areas of the store. The investments we've made in self-service checkouts are increasing the flexibility of our front-end processes and at the same time reducing operating costs.

We expanded self-service checkouts across the chain, with 1,400 more lanes added during the second quarter. Our customers appreciate the added flexibility, and we experienced a 4 percent increase in the utilization rate year-over-year. We'll continue our planned installations of self-service checkouts across the country during the third quarter.

Our associates work hard to serve our customers, and we continue to emphasize the overall customer experience, even as we achieve productivity improvements within the box. I'm pleased to say that, during the second quarter, customer experience scores improved versus the previous quarter.

We're also exceptionally focused on in-stock, and we're pleased that this metric continues to improve. Our goal is always to have the right product on the shelf when the customer wants it. During the second quarter, we placed additional emphasis on select, core items most relevant to our customers, and experienced in-stock improvements. Our operations management teams continue to focus on the bottom performing stores to drive better on-shelf availability. As we gear up for the back half of the year, we'll continue to monitor these key measures, maintaining a healthy balance between our expense leverage goals and customer experience.

Now let's look at the performance of our merchandise areas in more detail. I'm encouraged by the strong performance in such key areas as produce, home and apparel, where our focus on quality and value fueled growth.

For the quarter, grocery sales, which includes food and consumables, grew by nearly $1 billion. We delivered delivered a slightly negative comp for the retail period. Our results were influenced by lower than anticipated inflation, even deflation in some areas, including dry grocery, frozen and snacks and beverages. Softer performance among these larger categories impacted our overall comp by more than 50 basis points. Adult beverages continued a solid trend of results, delivering a high single-digit comp.

Our produce business also continued to gain momentum, delivering a strong mid single-digit comp. We're getting more efficient at transporting the product from farm to shelf. We're executing weekly store audits and equipping associates with additional skills and tools to ensure quality and freshness.

We're also letting our customers know about it through our "fresh over" marketing campaign and our new "100 percent money back guarantee." What's even more encouraging was that we saw consistently improving comps in produce throughout the quarter, with a high single-digit comp in July.

We also gained market share across our consumables business. However, similar to last quarter, our overall performance was somewhat soft as customers traded down, particularly in the categories where product loyalty is not the primary factor in a purchase decision.

As the quarter progressed, our seasonal categories improved, but not enough to offset the early declines. Pets delivered another quarter of low single-digit positive comps and close to 30 basis points of market share gains, for the 13 weeks ending July 20th, according to Nielsen. We expect our grocery performance to improve in the third quarter, driven by new and exclusive products and innovation.

Health and wellness reported relatively flat comps, while improving significantly versus the prior quarter. The improvement was led by our prescription business, which lapped major generic launches last year and saw an increase in overall script count. Our over-the-counter business continued its positive trend, driven by a strong assortment in active nutrition and weight control.

An area that I'm particularly excited about is our diabetics offering. The team has worked diligently to provide high quality products for our customers in both over-the-counter and prescription, driving a double-digit comp in diabetics for the quarter.

Hardlines, including seasonal, had a low single-digit negative comp. When average temperatures improved in the back half of the quarter, sales picked up significantly in sporting goods, which delivered a low single-digit comp. Sales in sporting goods partly offset softer sales in other weather related categories. In our stationery and crafts department, we overlapped the re-introduction of fabrics last year.

Overall, we gained close to 60 basis points of market share in the stationery category for the three-month period ending in June, according to The NPD Group. The seasonal business also saw moderate sales growth during the quarter, driven by Mother's Day, Father's Day and Fourth of July.

Entertainment, including toys, posted a mid single-digit negative comp. Our performance was pressured by soft results in both electronics and media and gaming. Mid single-digit industry deflation and softer discretionary spending continued to be significant headwinds for these categories, while the anticipation of new video game consoles caused further delays in spending for gaming.

Within electronics, we're disappointed at the performance of the TV category, as we lost market share for the 3 months ending June 30, according to NPD. Wireless again showed sales strength, gaining over 350 basis points in unit share over an already large base, allowing us to remain the number one handset retailer in unit share for the 3 months ending June 30, according to NPD.

In toys, summer seasonal categories, including water toys and pools, improved consistently over the quarter. However, the progress was not enough to offset the declines we experienced earlier in the quarter when the weather was cooler. While warm-weather categories were challenged, the team delivered strong growth in bicycles and indoor categories.

Apparel delivered a low single-digit positive comp, on top of a solid comp last year. I'm really proud of the team. We've raised the quality of our offering through improved fabrics and fit and introduced quality brands, driving traffic and sales.

For the quarter, children's delivered a mid single-digit positive comp, driven by strong performance in active wear, shorts and knit tops. Men's posted a mid single-digit positive comp over a strong comp last year. The addition of brands like "Ben Hogan" and "And1" is driving excitement and momentum in the men's department. Shoes and intimate apparel also reported strong growth. We expect the progress we've made in our apparel business to continue through the second half of the year, as value, innovation and increased quality fuel results.

Home also reported a low single-digit positive comp. Outdoor living had a slower start, but the business quickly picked up helping us deliver a high single-digit comp. The team was ready to capitalize on the warmer weather with new and expanded brands like Snapper mowers and Weber grills. I'm also pleased with our progress in live plants.

We're making great strides to ensure the freshness of our plants and our customers are noticing, evident by our double-digit positive comp during the second quarter. In indoor living, cooking and dining continued on its positive trend, driven by small electric appliances. Our bath and bedding category also improved consistently throughout the quarter, finishing the period with a low single-digit positive comp. Our relative success in the softlines business helped contribute to our favorable gross margin mix I spoke of earlier.

The back-to-school season is well under way, and we're committed to helping customers save money in time for school this year. We'll have consistently low prices all season long, both online and in stores, helping parents and students shop however they want to shop. This year, we're carrying more than 250 different school supplies for less than $1 each. Our price gap on back-to-school supplies is evident when you read various news reports that name Walmart the price leader for the season.

Now, let me now change gears and talk about the growth opportunity we have with our small formats. We continue to be excited about both the Neighborhood Markets and the Express stores, as we enter several new markets, optimize the assortment and improve the convenience.

I'm particularly pleased with the performance of Neighborhood Markets. We continue to roll out this format aggressively throughout the country, opening more sites in the second quarter than in any other quarter in our history. In fact, we opened 12 stores in just one day this quarter.

The format continued on a solid trend of results, delivering more than 30 percent top line growth and consistent solid comp growth. Our comp growth was driven by strong traffic trends, as customers respond to our expanded assortment and focus on fresh foods, with produce, adult beverages and consumables setting the pace, and driving customers' intentions for return trips. What's also encouraging is that we're running these smaller stores the Walmart way, fueling the productivity loop, leveraging expenses and driving operating income growth in our comp stores.

Our Express format also delivered strong results and continued to provide important insights into small format operations. During the quarter, stores opened more than a year achieved another quarter of strong double-digit comp sales growth.

We continue to integrate our e-commerce platform with our stores to create a unique shopping experience. During the quarter, we launched the locker test for site-to-store in the Washington, D.C. area. While this test is still in the early stages, the initial read on customer satisfaction and acceptance is very encouraging, with 90 percent of the customers who have used the service providing positive feedback. On the mobile front, we continued testing our "Scan and Go" pilot, improving the experience and expanding it to Android devices.

You've heard us talk about how our physical presence represents a significant competitive advantage for our walmart.com business. Last time we spoke, we announced the expansion of our Ship from Store program, and I'm proud to say the momentum continued. A steadily increasing percentage of all items shipped to customers' homes are now fulfilled through the Ship from Store program. The majority of orders are delivered in two days or less and at a lower cost.

In the second quarter, our real estate team added 49 net new units, or 4.1 million incremental square feet, including new stores, expansions, relocations and conversions. The new units were composed of 29 supercenters and 35 small formats, most of which were Neighborhood Markets. Our growth over the first half of the year puts us at 7.7 million incremental square feet.

In the third quarter, we're planning to open approximately 90 units, representing 7 million additional square feet. On Memorial Day, we launched the veterans initiative and received an impressive response from the veteran community. In a little over 2 months, we hired more than 3,200 new Walmart veteran associates and continue to process applications.

Given the current economic environment, we expect our comps to be relatively flat in the coming quarter. We remain confident about the back half of the year, as we continue to execute on initiatives to drive our business, and in particular, our top line. The customer remains challenged, but I'm confident in our position and in the ability of our teams to execute. Our strategy is sound, our pricing position is solid and our ability to leverage is strong, all of which bodes well as our comps continue to improve.

Now, I'll turn it over to Doug for an International update. Doug

Doug McMillon

Thanks Bill. Across our International markets, growth in consumer spending is under pressure. During the first half of the year, we saw consumers in both mature and emerging markets curb their spending, and we believe these trends will persist through the remainder of the year.

While this creates a challenging sales environment, we are the best equipped retailer to address the needs of our customers and help them save money. We clearly have plenty of opportunities to drive further improvement going forward, though we have made improvements in some markets.

We're focused on three key areas: First, as we focus on growth, we are delivering price leadership. We track the savings we offer customers on a basket of goods across our markets and invest where necessary to ensure value for them. We continue to move toward more of an EDLP approach across the entire division, because this is the most effective way to deliver value to our customers. Delivering on our core merchandising and pricing strengths is foundational.

In addition to that foundation, we are expanding our capabilities to serve customers through e-commerce, home delivery and relevant store formats. Driving sales growth, regardless of the market environment, is a top priority.

Second, we're focused on driving the productivity loop. The work we started over a year ago to transfer our best operational practices into several of our key markets is helping us. The softer than expected sales growth and wage inflation in some markets masked the improvements we've made operationally, but I'm thankful we've made them, or our expense position would be more difficult. We need to continue down this path and improve sales to show the benefits more clearly.

As Mike mentioned earlier, our leadership teams in International are collaborating with our Global Business Process team to improve productivity through a focus on process. I'll give you some specific examples in a few minutes that show you how we are getting stronger at the basics. It's obvious that we should spread our best operational practices to situations where it makes sense, and I'm encouraged that we're finally learning how to do that more effectively. I believe this is an important part of our future and, ultimately, a key lever for us to improve returns in this division.

And third, we're focused on efficient use of capital. We're investing significant time and energy into our new store program to make sure that each approved project delivers against our forecast and that we use our capital dollars efficiently as the buildings are designed and constructed. We're finding new approaches to lighting and refrigeration, for example, that help us create stronger returns and reduce the impact on the environment. In addition, inventory management is a priority. I'll cover the numbers in just a second, but given our softness in sales, you'll see that many of our markets have reacted fairly well.

Net sales grew 2.9 percent over last year to $33.0 billion. On a constant currency basis, sales were $33.4 billion, up 4.4 percent as currency exchange rates negatively impacted reported sales by $680 million in the quarter. Acquisitions added $216 million.

Gross profit rate, on a reported basis, rose 29 basis points, and on a constant currency basis, increased 44 basis points. This was driven by rate improvements on a constant currency basis in Mexico, Central America, Brazil, Canada, the U.K., and Africa. We will cover some of the drivers of this change later in the country highlights.

Operating income declined 1.3 percent on a reported basis and improved 40 basis points compared to last year on a constant currency basis. As Jeff mentioned, these results were impacted due to a charge for a certain non-income tax matter of $52 million on a reported basis. Without this charge, our operating income results for the quarter would have been up 2.2 percent on a reported basis and 3.9 percent on constant currency basis.

As expected, operating expenses grew faster than sales. Expenses deleveraged by 40 basis points on a reported basis and 54 basis points on a constant currency basis. These results include the charge for a certain non-income tax matter mentioned previously. Without this charge, International operating expenses deleveraged by 24 basis points on a reported basis and by 38 basis points on a constant currency basis.

While operating expenses grew, these results don't tell the whole story. The Asia region leveraged expenses during the quarter, along with Chile, Central America and Africa. Mexico also achieved substantial savings in key areas, but it wasn't enough to offset the weaker than expected sales.

Like the first quarter, several factors contributed to us not leveraging expenses -- weaker sales, wage inflation, higher indirect taxes, and strategic investments, including e-commerce. In many of our International markets, labor laws and employment contracts mean it takes more time and is more complicated to introduce and implement productivity improvements that can help us adjust labor costs to sales trends. While our core expense story has improved, we expect third quarter expenses to be under pressure, also due to the same factors I just mentioned.

We are working hard to leverage expenses in the back half of the year, and our Global Business Processes team is part of the answer to our expense challenge as we drive productivity in key markets. The China team's efforts resulted in productivity gains, enabling us to reduce store labor hours by 12.4 percent during the second quarter. Those improvements helped us offset wage growth of 11.2 percent over the same period, driven mainly by China's wage inflation.

This, in a nutshell, serves as an example of what we have to get done across most of our markets. Beyond China, the Global On-Shelf Availability application is being rolled out in Mexico, improving in-stock and the ability to target and address issues with product availability for the customer. And finally, Brazil is rolling out best practices in fresh operations, ordering, and inventory flow to reduce throwaways and improve quality for the customer.

We also are rolling out the workforce management system across many of our markets to better match work shift needs and personal schedules. Inventory grew 3.7 percent on a reported basis and 7.0 percent on a constant currency basis. And, on a constant currency basis, inventory grew slower than sales in Brazil, Chile, China, Canada and India.

Now, let's move on and discuss the results by market. The following discussion is on a constant currency basis and, unless otherwise stated, total sales and comp sales are presented on an unadjusted nominal, calendar basis. In all of our countries except Brazil and China, our stores and e-commerce businesses are integrated and led by the same management teams. Therefore, our discussion of results is about the total operation. For Brazil and China, we will provide insights on the stores and e-commerce separately.

In the U.K., we continued to grow both sales and operating income in the second quarter of the year. Net sales rose 1.6 percent, and sales excluding fuel, increased 1.1 percent. Operating income grew 7.5 percent, and we did not leverage operating expenses.

Comparable sales declined by 0.4 percent, excluding fuel. Average comp traffic increased by 1.0 percent, but was offset by a decline in average ticket of 1.4 percent. Overall market share declined by 30 basis points for the 12 weeks ended July 7 according to the Kantar Worldpanel Total Till Roll.

Our operating income performance in the U.K. this quarter was driven by three key themes: first, a significant price investment which is moderating comp growth; second, investment in and growth of convenient channels and formats; and third, cost savings delivered via the "We operate for less" program to help offset some of the headwinds we're experiencing.

The U.K. is an example of where we are leading with a core strength: investing in price on essential food items. The British consumer remains under pressure, with market inflation growing 2.8 percent, outpacing wage growth of 0.9 percent. Market product inflation is up, but our Asda basket is below market inflation. In addition, the UK is a market with unique competitive vouchering activity.

Some of our competition provides a voucher for a discount on a future purchase. During the quarter, according to Kantar Worldpanel, the grocery market grew by 3.5 percent -- driven by inflation of 3.9 percent, meaning grocery volume declined in the market.

Our price investment in key food essentials continued, especially in fresh produce, a key traffic driver. As a result, we grew market share in this category. The result was lower inflation across the overall basket for our customers. We continue to drive the "we operate for less" program, achieving savings within both operating expenses and cost of goods sold.

Our improvement of 67 basis points in gross profit rate helped operating income grow faster than sales despite the continued price investment and inflationary pressures in areas such as property taxes, insurance and energy. Our gross profit rate in Asda improved largely because we didn't repeat promotional activity from last year's Queen's jubilee event and the Olympic Games.

Our Asda online grocery business is well developed and remains a model for us to leverage into other markets. Online sales, which are included in our net sales and comps, were strong in the quarter, growing over 16 percent. We continue to deliver an increasingly convenient, multichannel shopping experience for customers. In the second quarter, our first "Drive Through Click & Collect" site opened in York.

We also connected our smart phone app to stores through a new shopping list feature that can search for products using voice recognition or barcode scanning technology. In addition, given the shift in online traffic from desktop to mobile, we're the first major U.K. retailer to launch a dedicated tablet website for non-food business.

The quarter rounded off with some great awards showcasing our continued commitment to EDLP. Asda was recognized by *The Grocer* magazine in June, when we were named "Britain's Lowest Priced Supermarket" for the sixteenth year running and "Britain's Favourite Supermarket" for the third year in a row.

Asda continues to make a difference in our local communities. During the quarter, we launched a market leading supply chain initiative delivering the equivalent of 3.5 million meals to local charities across the U.K. We partnered with the charity FareShare and more than 300 chilled food suppliers. This initiative alone will save more than 900 local charities 4.7 million British pounds, or $7.1 million, per year.

As we look at Canada, we were challenged by unseasonably cooler weather that continued from the previous quarter, as well as flooding in Alberta. Despite these challenges, net sales grew 6.2 percent, supported by new store growth and expansion of existing stores. Operating income grew slower than sales at 2.3 percent as we invested in new stores and e-commerce.

Comparable sales declined by 0.4 percent, with comp ticket up 0.2 percent and comp traffic declining 0.6 percent. We had strong comp sales in food, consumables and apparel, but continued to see softer sales in entertainment as industry-specific challenges persist. The colder weather negatively impacted sales in hardlines.

On the positive side, we drove market share gains by investing in price on the items that matter most. In The Nielsen Company measured categories of food and consumables, Walmart Canada gained 110 basis points of share. We also drove a further 60 basis points in health and wellness.

Gross profit rate increased 29 basis points due, in part, to cost savings from increased direct importing. Operating expenses grew faster than sales, primarily due to negative comp store sales and costs related to year-over-year growth in our new store base, including the 39 Zellers stores we acquired last year. However, through EDLC initiatives, Walmart Canada has been able to offset some of the expense growth with various productivity initiatives.

During the quarter, we opened one new supercentre, expanded four stores to supercentres and relocated one store. This includes our first supercentre in Atlantic Canada and provided us with a truly nationwide presence for our supercentre program.

We responded to the floods in southern Alberta and the devastating explosion in Quebec through fundraising campaigns in partnership with the Red Cross. Cash and in-kind donations to support these victims exceeded $900,000.

Turning to Africa, as you know, Massmart is a publicly-held company in South Africa and announces their results every six months. Massmart's next earnings release is August 22nd. For the 26 weeks ended June 23rd, net sales increased by 8.9 percent, and comp store sales increased by 5.5 percent. We remain optimistic about the opportunity ahead of us within Africa, and we're working to position ourselves for success in the future.

Now, let's cover Latin America. As a reminder, the following summary includes the consolidated results of Mexico and Central America and is on a U.S. GAAP basis. Walmex separately reported its earnings on July 25th, under IFRS, so some numbers are different from the Walmex-reported numbers.

Walmex results were solid in Central America, but growth slowed in Mexico, and this impacted overall performance. For the quarter, net sales grew 3.2 percent. Gross profit rate increased by 58 basis points versus last year, driven by increases in both Mexico and Central America.

In Central America, the gross margin improvement was driven by both EDLC and EDLP execution and better inventory management made possible by the recent integration of Walmart systems. Operating expenses grew faster than sales in Walmex. Operating income for the quarter grew 4.2 percent, faster than sales, primarily due to strong gross profit margins.

For the second quarter, Mexico's sales increased 3.1 percent over last year and comparable store sales decreased 1.6 percent, as they were negatively impacted by the Easter flip. Self-service and Sam's Club second quarter comparable growth was negative 1.8 percent, which is similar to ANTAD's comparable store sales reported for the rest of the industry at negative 1.6 percent excluding Walmex. Average comp ticket increased 1.4 percent, and comp traffic decreased 3.0 percent over last year. Traffic was impacted by the Easter calendar shift and a general market slowdown in consumption.

In Mexico, gross margin was up 19 basis points. However, operating expenses grew faster than sales. As I mentioned earlier, we improved expense management, but it wasn't quite enough to offset the sales miss. Wages and utilities remain headwinds. Operating income decreased 0.7 percent, below our expectations. We are working hard to bring expenses more in line with sales.

Central America increased net sales from the previous year by 4.2 percent. Comparable store sales decreased 0.1 percent. Gross profit rate increased 2.8 percent versus last year, as a result of better merchandising and EDLP execution. The transition to EDLP in our Central American countries is complete, and these results reflect the opportunity for growth through that strategy. Expenses grew slower than sales. Operating income increased 246 percent.

Moving on to Brazil … second quarter net sales in Brazil grew 2.8 percent from last year, with comparable sales up 1.1 percent. Average ticket grew 6.6 percent, and comp traffic declined 5.5 percent when compared to last year. Sales were impacted by the Easter flip, a holiday which represents one of the biggest seasons for food sales in Brazil. Despite this impact, the retail formats showed positive comps, with good performance in consumables, food and perishables. Our results in the wholesale formats were below expectations.

Gross profit rate increased 50 basis points, but we did not leverage operating expenses due in part to the lower comp sales growth and wage inflation. Operating expenses grew faster than sales during the quarter. The net effect of the sales shortfall and our expense performance was an operating loss for the quarter. We continue to focus on the productivity loop in order to invest savings back into price to further drive sales. Brazil is now taking steps to align expenses more closely to the volume of sales.

We're pleased with the growth of e-commerce sales in Brazil. In fact, we grew from the #8 most visited site last October to the #1 spot now, according to comScore. Customers have responded well to the enhancements on the site, and sales are up more than 50 percent versus last year. 25

Like Walmex and Massmart, Walmart Chile is also a publicly held company and will release second quarter earnings on August 30th. Earlier this year, we completed a merchandise training program in Chile focused on modular and buying strategies.

Since that training, we have reduced the number of modular changes by 40 percent and reduced the number of price labels by 20 percent, while still maintaining strong price impression. This program is saving labor hours at the store level, but more importantly, it's improving trust with the customer through a more consistent set of modulars. This is another good example of where global experience can benefit a local market.

Moving to Asia, in the second quarter, without the acquisition of Yihaodian, Walmart China' s net sales grew 6.3 percent over last year and comparable store sales growth was 2.5 percent. As we've discussed in the past, customers continue to shift from traditional daily shopping to larger consolidated shopping trips. Average comp ticket grew 9.3 percent in China, while traffic declined 6.8 percent.

Our EDLP journey in China continues to move forward. We're building trust with the Chinese customer through our "worry free" program. Worry free pricing was launched last fall and continues to gain traction. The team in China continues to improve operations by focusing on optimizing the buying organization, investing in logistics and food safety and simplifying the supply chain. Gross profit rate declined 56 basis points compared to last year. We leveraged operating expenses despite wage inflation.

As I mentioned earlier, Walmart China reduced store labor hours through various productivity initiatives and improved scheduling. Last year, we discussed our decision to moderate our growth in China and focus more on our store opening process and opening stores in more productive locations, an example of our commitment to simplifying and prioritizing.

Our team in China is making progress with the customer and as a retail operator. I'm really encouraged by the recent results in China and thankful for the strong leadership we're seeing from Greg Foran, Sean Clarke and the rest of the leadership team.

And, a final comment on e-commerce in China. We're pleased with the acquisition of Yihaodian, with sales continuing to grow well in the double digits. The site continues to be one of the fastest-growing e-commerce businesses in the country.

In Japan, consumer spending continued to be soft during the quarter. Walmart Japan's net sales growth remained flat and comp sales decreased 0.6 percent. During the quarter, we posted our first positive monthly comp since May of 2012. Our stores continue to create a better price impression for customers as they are shopping.

Second quarter comp traffic decreased 1.1 percent, and average ticket increased 0.5 percent. According to statistics released by the Japanese Ministry of the Economy, Trade and Industry, overall supermarket comparable sales for the second quarter declined 1.3 percent from last year, so we outperformed the market.

Gross profit rate in Japan decreased 13 basis points, due to our investment in lower prices. Compared to last year, Walmart Japan had higher operating income and increased operating margin 13 basis points. Walmart Japan also leveraged operating expenses versus last year due to tight cost control efforts.

In Japan, we continue to leverage Walmart's global scale to improve customer assortment and deliver better value to our customers. Examples are beef imported from the United States, and cherries, wine and beer from the U.K., and we had great results from introducing "Golden Ale" beer in Japan. In just one month, it became Japan's second best-selling beer in the 500 ml beer category and the most profitable in the entire beer category.

As you are aware, we have a significant effort and investment under way to enhance compliance. We're committed to compliance and integrity everywhere we operate. These investments are building a stronger, better Walmart for our customers, our associates and communities, and will provide a more solid foundation for future growth.

Although I only mentioned a couple of examples today, we remain committed globally to improving the communities where we live and operate. In addition to responding to disasters and helping those in need, other programs create a better Walmart and a better shopping experience for our customers -- like developing local farmers and supporting the growth of women-owned businesses.

We appreciate all the hard work of our international associates. The third quarter is well under way for our markets. In a global macroeconomic environment where the rate of growth is less than expected, we are well positioned to meet the needs of our consumers through our EDLC-EDLP approach. EDLP improves our ability to deliver against our purpose and better serve our customers who count on us to meet their family's needs.

We expect the third and fourth quarters to be better than our results in the first half, and we're working hard to deliver operating expense leverage for Walmart International. Now I'll hand it over to Roz for a look at our Sam's U.S. business. Roz?

Rosalind Brewer

Thanks Doug. Before I start, I'd like to compliment both our management teams and our Sam's Club associates. They are so energized by the changes taking place in our clubs and remain aligned on driving member value through price leadership, differentiated merchandise and a compelling experience. We still have work to do, but I'm pleased to report that Q2 comp sales were within our guidance, and traffic improved. We are delivering solid membership income growth, and our recent membership enhancements, including the Instant Savings Book (ISB), continue to receive a favorable response.

Let me take a moment to provide more background on our Instant Savings program, now a cornerstone of Sam's Club membership. In fact, we have renamed our Advantage members to Savings members because of our mission to deliver savings made simple for all of our members.

The second quarter marked the launch of our Instant Savings program. Members received two Instant Savings Books during the quarter. Each book runs for about three weeks and includes special savings from our top suppliers beyond our normal member-only prices.

We were pleased to see over half of the members who shopped during the events purchased at least one Instant Savings Book item. The book not only drove traffic to our clubs, but also broader awareness of our extensive merchandise offering available at samsclub.com. For example, during the first few days of the May event, we sold more of the office chairs online included in the ISB than we had year-to-date!

We believe that the investment we're making in price, both through core reductions and programs like Instant Savings, are key to sales growth, and this strategy will continue throughout the year.

Now back to the results. Sam's Club generated a comp of 1.7 percent, without fuel, for the 13-week retail sales period. Our investment in the ISB program decreased our overall average selling price, resulting in a comp ticket decline of 1.0 percent. This was countered by comp traffic growth of 2.7 percent, driven by positive traffic for both our Savings and business members. We were pleased with our improvement in business member traffic, reversing the first quarter's decrease in business member traffic.

Small business owners report through our monthly Small Business Owner study, that they are more optimistic about the upcoming months and perceive that the current economic climate is gradually improving. We believe their businesses are beginning to show signs of recovery, as evidenced by the improved traffic trends. As part of our commitment to this portion of our member base, Sam's Club recently launched the 25-city "Grow Your Business Boot Camp" series. It's a program that allows leaders at Sam's to support small business owners and entrepreneurs in their local communities.

Now on to our core financial news … Net sales, including fuel, were $14.5 billion, up 2.6 percent over last year. Fuel prices increased 1.6 percent compared to last year and gallons sold were up 2.6 percent, thus creating a boost to overall sales of 22 basis points. Sam's gross profit rate declined by 15 basis points, and we leveraged expenses, improving operating expenses as a percentage of net sales by 3 basis points. Operating income increased 3 percent to $551 million.

Our goal remains to grow inventory at half the rate of sales, and we are pleased at the progress compared to the first quarter. At the end of the second quarter, inventory, including fuel, was up just 2 percent.

Volatility in fuel prices can influence our financial results, especially profitability. Therefore, the remainder of our discussion today is focused on our core business, excluding fuel for comparative purposes.

Net sales for the quarter were $12.8 billion, up 2.4 percent from last year. All geographic divisions had positive comps. Inflation, excluding fuel, was about 30 basis points. Inflation in fresh meat and dairy was coupled with continued deflation in electronics. Last year, retail inflation was between 175 and 225 basis points, primarily in food.

Fresh posted a low single-digit comp, driven by strength in breads and produce. Lingering effects of unseasonably cold weather affected produce availability in some of our key summer fruit items, such as strawberries and watermelons.

We overcame this headwind with exceptional quality in other seasonal produce items such as blueberries and apples, resulting in a mid single-digit produce comp. Unit sales of fresh meat remain strong; however, we have seen some trade-down from steaks to lower price point items, such as chicken and pork. "Better for you" items continue to resonate with our members who are searching for healthier options.

Our grocery and beverage category generated a low single-digit comp. Members responded positively to our dry grocery Instant Savings Book items. However, the growth was not enough to offset seasonal softness in beverages, as Q2 this year was cooler than last year. We continue to execute our strategy of bringing newness and differentiation to these categories, particularly in areas such as craft beers.

Our efforts to reach families with babies continued to pay off, with market share gains in the baby category for the 13-week period ending July 6, 2013, according to Nielsen. Additionally, the ISB events contributed to the growth in consumables, resulting in a low single-digit comp for the quarter.

Technology and entertainment posted a low single-digit negative comp. Positive Instant Savings Book event performance and continued strength in wireless was tempered by softness in the overall consumer electronics market, as shoppers continue to shift spending from TVs and laptops to mobile devices.

In home and apparel, we were pleased that sales rebounded from the prior quarter, delivering a high single-digit comp in Q2. As the weather warmed, our offerings in apparel and seasonal categories resonated with members and generated low double-digit comps and mid single-digits, respectively. Home continues to be strong, as price leadership in domestics drove double-digit comp and unit growth.

Health and wellness, including pharmacy, reported a mid single-digit comp, propelled by sustained strength in the over-the-counter products and growth in optical. During Q2, we lapped the branded-to-generic status change of several popular prescriptions, which should serve as a tailwind to pharmacy sales during the back half of the year.

Tobacco sales growth was essentially flat. A nationwide price increase in June drove business members to accelerate tobacco purchases, providing a moderate benefit to the beginning of the quarter.

Sam's Club online business continues to grow, driven by solid traffic and improved conversion rates. Merchandise strength came from outdoor living, portable electronics, baby care, and mattresses that offset some of the general softness in other electronics categories. Recently, the team has made enhancements to our mobile app, helping to increase the number of mobile orders, compared to the prior quarter.

Now, let's continue with the results. Gross profit rate grew 6 basis points compared to the second quarter last year. Operating expenses as a percentage of sales declined by 2 basis points.

Membership and other income grew 9.2 percent. On May 15, we took our first nationwide membership fee increase in 6 years. During the quarter, net membership income increased 4 percent. Our primary base continues to grow year-over-year, driven by Savings member sign-ups. Plus sign-ups and upgrades also showed strength, partially offset by softness in business member sign-ups. Remember, we recognize the full benefit of the fee increase over the 12-month membership period.

Looking at the bottom line, our second quarter operating income grew to $552 million, a substantial increase of 8 percent over last year. As I mentioned earlier, the level of engagement among our club associates is very strong. In our annual engagement survey conducted this past spring, Sam's Club associate engagement scores rose 600 basis points over last year, with gains in each geographic division across the country. Over the past quarter, I've visited several recently remodeled clubs. I've been pleased with the disciplined progress the team has made to increase the consistency of our remodels.

Next quarter, we will open 13 new and relocated clubs, the greatest number of clubs opened during one quarter within the past several years. The team is ready to continue growing the Sam's footprint, serving even more members in more communities.

Last quarter, I mentioned that you will begin to see a change in our merchandise strategy. We've begun this transformation, specifically in areas such as home and apparel. Our members look to us for great values on the best quality items, and we will continue working hard to deliver, striving to be a house of brands for our members. This transformation will continue, especially as we enter the holiday season.

I'm excited to invite you to our upcoming VIP event. Please join me, on August 18, as we open our doors exclusively to Plus members, appreciating them with exceptional values on an array of back-to-school items and unique, one-time buys. VIP events such as these are just one of the ways we have worked to strengthen our value proposition for Plus members. We will continue to stress seasonal offerings throughout the third quarter.

We expect comp sales, without fuel, for the 13-week period from July 27 to October 25 to range between flat and 2 percent. Last year's comp, without fuel, for the period was 2.7 percent.

The core business at Sam's Club is strong. I'm confident that the things we're doing today to strengthen our value proposition will benefit Sam's over the long term. Now, I'll turn the program over to Neil for e-commerce. Neil?

Neil Ashe

Thanks Roz. In eCommerce, we've continued to deliver key capabilities, and we are growing sales, including acquisitions, at over 30 percent globally. Bill, Roz and Doug touched on some of the accomplishments from around the world, and I'll put those in the context of our overall eCommerce strategies.

As a reminder, the four strategies we are executing are: Excelling in the fundamentals of e-commerce; innovating in new areas like big data, social and mobile; we're growing in key markets, namely the U.S., U.K., Brazil and China; and we're providing the tie to unite and expand the Walmart customer experience to do what no one else can do.

We’re building best-in-class e-commerce capabilities, and only we can combine those with the assets of the world’s largest retailer. The result is a new approach to commerce that lets customers shop when, where and how they want across online, mobile and stores. To support the strategies, we’re investing in three key areas: further developing our global technology platform; growing services and capabilities in our four key markets; and developing our next-generation fulfillment network that integrates dedicated online assets with Walmart’s transportation fleet, distribution centers and stores.

Before I jump into each of these, let me cover our progress in building talent density. We’ve continued to bring on great people organically and through acquisitions. During the second quarter, we had a hiring blitz which ramped up our visibility in the Bay area and added nearly 200 associates. We saw an offer acceptance rate well over 90 percent. People in Silicon Valley are excited to come to Walmart.

We also closed four acquisitions -- Tasty Labs, OneOps, Inkiru and Torbit. They brought us some proven innovators in Silicon Valley, and technical capabilities and expertise to contribute to the development of our global technology platform. We continue to develop and release elements of our technology platform, like search and the walmart.com home page. We’re pleased with the progress to date and excited the experience for our customers is already improving as a result.

The platform is also at the core of expanding our product assortment, especially in the U.S. We doubled the number of products on walmart.com in the first half of the year through our own inventory and through new marketplace sellers. We expect to double it again in the second half of the fiscal year.

On the fulfillment front, we are optimizing how we use online fulfillment centers in conjunction with Walmart’s shipping network, DCs and stores. Bill touched on how we are activating supercenters as part of our work to deliver a better customer experience, and we’re seeing great results on that front. We are now using 35 stores as additional nodes in our online fulfillment network.

As Bill mentioned, those stores now handle a double-digit percentage of walmart.com orders, and the majority of those are delivered in two days or less at a significantly lower cost. As you know, the Pick Up Today option gives customers the ability to buy an item online and pick it up in a store that same day.

We have more than tripled the items available for Pick Up Today since the beginning of the year. And, we have developed a new capability that automatically searches our broader inventory for an item if that item isn't available in a customer's primary store. That has significantly improved our fill rate.

We've also talked about our plans to test lockers as another option for customers picking up online orders in stores. The test is successful so far, showing 90 percent customer satisfaction ratings.

On the grocery delivery front, Asda is a leader in online grocery delivery, and we've leveraged that experience in the U.S. pilot program. In the San Francisco/San Jose test, we've proven we can successfully use a supercenter for online grocery delivery, and we're getting high marks from customers. Many of these are new customers. 75 percent of the customers say they would have purchased through another retailer other than Walmart. And, 83 percent would recommend Walmart grocery delivery.

Roz talked about the e-commerce growth at Sam's Club, and we've been working together to enhance the customer experience across online, mobile and clubs. We built a new mobile app for Sam's Club that helped increase the average basket by almost 25 percent over the last quarter. We also made enhancements on the mobile site that helped double the number of orders from the last quarter.

As Doug discussed, we had several global successes as well. Continuing on the mobile theme, we're making great progress in China. Yihaodian saw 10 times growth in mobile sales in the first half over last year and won a Cannes Media Lions award for its boundless Yihaodian 2.0 app. Yihaodian overall continues to grow quickly. We are pleased that we have more than doubled the number of active site users in the past year, meaning those customers who made at least one purchase in the last 12 months.

In the U.K., we just completed a major relaunch of the Asda site. In addition to a new experience, we made some foundational changes that allow us to enhance the site much more quickly and easily. Major redesigns like this one take a bit of time for customers to get used to the enhancements, so we're pleased to see initial site satisfaction is up 9 percent versus the previous site.

Finally, we are excited about the opportunity we have in Brazil and the world-class leadership team we've built there. During the quarter, we made several site enhancements to walmart.com.br, including streamlined navigation and check-out flow. We are the largest traffic consumer e-commerce site in Brazil and our revenue growth – led by electronics and appliances – is more than double the rate of the total Brazilian e-commerce market according to eMarketer. And, we were recognized by eBit as the top e-commerce site over 4,000 other sites.

To wrap up … we are making great progress on our core strategies. We are continuing to invest for the long-term and are building the talent base, the technology platform and the fulfillment networks we need to serve customers around the globe seamlessly across online, mobile and stores in a way that only Walmart can.

Now, I'll turn things over to Charles for the close. Charles?

Charles Holley

Thanks Neil. Normally on our earnings call, I begin by talking about growth, leverage and returns and then conclude with our guidance. Today, I'd like to start by providing our expectations for sales and earnings for the third quarter and the full year.

Economic conditions in many of our markets around the world remain difficult. The U.S. retail environment remains challenging, with virtually no inflation in food and the higher payroll tax instituted earlier in the year. High fuel prices can impact spending as well. Our expectations for the back half of the year are through a lens of cautious consumer spending.

Our mission to save people money so they can live better remains critical to customers and to our ability to drive stronger sales. Our plans are aggressive. We are going after sales and investing in price. And, we continue to focus on leveraging expenses. As Mike said, we are taking steps to increase our leverage potential for the full year.

We are revising our consolidated net sales growth to range between 2 and 3 percent for the full year, versus our previous range of 5 to 6 percent. This revision reflects softer sales performance in the first half and our view of current global business trends, including a challenging retail environment, and significant ongoing headwinds from anticipated currency rate fluctuations. In fact, approximately one-third of the net sales revision is due to currency impact.

We believe expenses for FCPA matters and for the work on enhancing our compliance program will be higher than originally anticipated for the rest of the year. Year to date, we have spent approximately $155 million. We're forecasting the run rate for the combined work on the compliance programs and the ongoing investigations to be between $75 and $80 million each in the third and fourth quarters.

E-commerce is important to our customers and our company's future. Our forecasts also take into account that we will continue to invest in technology, talent and infrastructure, including fulfillment centers. Year to date, the incremental impact from e-commerce investments is approximately $0.05 per share. We anticipate the incremental impact to third quarter earnings per share will be about $0.02 per share.

Taking all of these factors into account, we are forecasting earnings per share for the third quarter of fiscal year 2014 to range between $1.11 and $1.16. This compares to $1.08 per share last year.

For the full year, we are updating our prior earnings per share guidance to $5.10 and $5.30 per share. This guidance takes into account the challenging sales and operating environments. As we've seen in the past, discrete tax items have had a meaningful impact on our effective tax rate and on our reported results in the back half of our fiscal years. We anticipate that a wider range of between 31 and 33 percent is now possible for our full year effective tax rate versus our previous range of 32 to 33 percent.

What isn't changing is our continued focus on Walmart's financial priorities -- growth, leverage and returns. The company's growth during the second quarter included 98 net new stores and clubs, comprising 5.9 million new square feet of selling space.

Now, let's talk about leverage. We told you during the first quarter call that achieving operating expense leverage during the second quarter would be challenging – and that proved to be true. The productivity loop is top of mind across the organization, and we remain focused on delivering leverage for the company by year-end.

Long-term strategic investments by our leverage services area pressured operating expense leverage during the past quarter, but we believe the benefits of these investments to our customers and shareholders outweigh the near-term impact on expenses. Earlier, Mike covered a few examples of our leverage progress.

We are piloting new programs in logistics to lower the cost of delivery and improve profitability for e-commerce orders. The modular excellence program for Walmart U.S. is helping to maximize holding power for key items in food and consumables. Modular planning processes created by the Global Business Processes team are helping to reduce labor hours in China and Brazil while improving associate productivity.

Moving on to returns, we feel good about our earnings per share growth, especially in light of the retail environment. The company returned $3.4 billion to shareholders through the combination of dividends and share repurchases during the quarter. We also generated solid cash flows from operations, and our free cash flow is now at $5.2 billion for the year. The company continues to deliver strong, consistent returns to shareholders.

As I wrap-up the call today, let me leave you with a few key takeaways. First, we know we have to improve the top line. With our expense leverage, stronger sales will flow through our results. Second, our updated guidance reflects the current view of the business and difficult retail environment, but also considers the significant impact from currency, along with the ongoing investments in leverage, e-commerce and compliance initiatives. And, last, we continue to build on our long history of returning value to our shareholders.

Thank you for your support and interest in our company. Have a great day!

Detailed Cautionary Statement Regarding Forward-Looking Statements The forward-looking statements in this call that are intended to enjoy the safe harbor protections of the Private Securities Litigation Reform Act of 1995, as amended, generally are identified by the use of the words or 39 phrases “anticipate,” “are forecasting,” “expect,” “forecast,” “goal,” “guidance,” “plan,” “will be,” “will continue,” “will contribute,” “will drive,” “will grow,” “will have,” “will open,” “will remain,” or a variation of one of those words or phrases in those statements, or by the use of words and phrases of similar import.

Similarly, descriptions of Walmart’s objectives, plans, goals, targets or expectations are forward-looking statements. The forward-looking statements in this call included statements relating to management’s forecasts and expectations for: diluted earnings per share attributable to Walmart for the third quarter of Walmart’s fiscal 2014 and all of fiscal 2014; the comparable store sales of the Walmart U.S. operating segment and the comparable club sales, excluding fuel, of the Sam’s Club operating segment for the 13-week period ending October 25, 2013; consolidated net sales growth in fiscal 2014; expenses for FCPA matters and compliance programs during the last six months of fiscal 2014; improvements in top line performance and improvement in all of Walmart’s operating segments’ performance in the second half of fiscal 2014; certain steps being taken to be effective to bring Walmart closer to its goal of leveraging expenses for the whole of fiscal 2014; continued investments in leverage initiatives, compliance and e-commerce; continuing leverage of operating expenses and strong operating income in the Walmart U.S. operating segment as a result of cost discipline; the impact of investments in Global eCommerce on Walmart’s earnings per share for the third quarter of fiscal 2014 and all of fiscal 2014; the impact of our Corporate and support expense growth related to global leverage services and Global eCommerce support; and the possible range for Walmart's effective tax rate for fiscal 2014 and the possibility of quarterly fluctuations in such rate.

Such forward-looking statements also include management's expectations for: the effect of effective cost management actions on the Walmart International operating segment's leverage goal; the effect of the recent migration of operations in certain Latin American countries to the Costa Rican Shared Services Center on back office costs and service levels; continued investments related to Global eCommerce, particularly in technology, talent and infrastructure, including fulfillment centers; and the expansion of the number of product offerings on walmart.com in the second half of fiscal 2014.

Those statements also include statements relating to management's expectations and plans for the Walmart U.S. operating segment regarding: improvements in that segment's grocery business performance in the third quarter of fiscal 2014; consistently low prices in that segment's stores during the back-to-school season; continued progress in that segment's apparel business in the second half of fiscal 40 2014; openings of new units by that segment, which includes new stores, expansions, relocations and conversions, in the third quarter of fiscal 2014; and strong profit growth for that segment in the third quarter of fiscal 2014.

Such forward-looking statements include management's expectations and plans for the Walmart International operating segment regarding: the operating segment's expenses being under pressure in the third quarter of 2014; leveraging operating expenses in Mexico by the end of fiscal 2014; and improved results in the third and fourth quarters of fiscal 2014, as compared to results for the first half of fiscal 2014.

Such forward-looking statements include management's expectations and plans for the Sam's Club operating segment regarding: the operating segment's price investment strategy continuing throughout fiscal 2014; opening a certain number of new and relocated clubs during the third quarter of fiscal 2014; to have the segment continued goal be growing inventory at half the rate of the growth of net sales; continued changes in the operating segment's merchandise strategy; and continued stress on seasonal product offerings by that segment.

The forward-looking statements also discuss other goals and objectives of Walmart and the anticipation and expectations of Walmart and its management as to other future occurrences, trends, and results and include statements of assumptions upon which certain of such forward-looking statements identified above are based.

All of these forward-looking statements are subject to risks, uncertainties and other factors, domestically and internationally, including: general economic conditions; business trends in our markets; economic conditions affecting specific markets in which we operate; competitive pressures; the amount of inflation or deflation that occurs, both generally and in certain product categories; consumer confidence, disposable income, credit availability, spending patterns and debt levels; customer traffic in Walmart's stores and clubs and average ticket size; consumer acceptance of Walmart's product offerings; the seasonality of Walmart's business and seasonal buying patterns in the United States and other markets; geo-political conditions and events; weather conditions and events and their effects; catastrophic events and natural disasters and their effects on Walmart's business; public health emergencies; civil unrest and disturbances and terrorist attacks; commodity prices; the cost of goods Walmart sells; transportation costs; the cost of diesel fuel, gasoline, natural gas and electricity; the selling prices of gasoline; disruption of Walmart's supply chain, including transport of goods from foreign suppliers; delays in construction of new, expanded or relocated units planned to be opened by certain dates; information security costs; trade restrictions; changes in tariff and freight rates; labor costs; the 41 availability of qualified labor pools in Walmart's markets; changes in employment laws and regulations; the cost of health care and other benefits; casualty and other insurance costs; accident-related costs; the availability of investment opportunities and talent relating to Walmart's Global eCommerce initiatives; the cost of construction materials; the availability of acceptable building sites for new stores, clubs and facilities; zoning, land use and other regulatory restrictions; adoption of or changes in tax and other laws and regulations that affect Walmart's business, including changes in corporate tax rates; developments in and the outcome of legal and regulatory proceedings to which Walmart is a party or is subject and the costs associated therewith; requirements for expenditures in connection with FCPA matters and compliance programs; currency exchange rate fluctuations; changes in market interest rates; conditions and events affecting domestic and global financial and capital markets; the unanticipated need to change Walmart's objectives and plans; and other risks.

Factors that may affect Walmart's effective tax rate include changes in Walmart's assessment of certain tax contingencies, valuation allowances, changes in law, outcomes of administrative audits, the impact of discrete items, and the mix of earnings among Walmart's U.S. and international operations. Walmart discusses certain of these matters more fully in its filings with the SEC, including its most recent Annual Report on Form 10-K (in which Walmart also discusses certain risk factors that may affect its operations, its results of operations and comparable store and club sales), and the information on this call should be read in conjunction with that Annual Report on Form 10-K, and together with all of Walmart's other filings made with the SEC through the date of this call, including its Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

We urge you to consider all of these risks, uncertainties and other factors carefully in evaluating the forward-looking statements made in this call. Because of these factors, changes in facts, assumptions not being realized or other circumstances, Walmart's actual results may differ materially from anticipated results expressed or implied in these forward-looking statements. Forward-looking statements made in this call are made on and as of the date of this call, and Walmart undertakes no obligation to update these forward-looking statements to reflect subsequent events or circumstances.

The comparable store sales for our total U.S. operations and comparable club sales for our Sam's Club operating segment and certain other financial measures discussed on this call exclude the effect of the fuel sales of our 42 Sam's Club operating segment. Those measures, as well as our return on investment, free cash flow, amounts stated on a constant currency basis and certain other financial measures discussed in this call may be considered non-GAAP financial measures. Reconciliations of certain non- GAAP financial measures to the most directly comparable GAAP measures are available for review on the Investor Relations portion of our corporate website at www.stock.walmart.com and in the information included in our Current Report on Form 8-K that we furnished to the SEC on August 15, 2013.