



**Walmart's Fiscal Year 2017 Q1 Earnings Results
Media Call Transcript
May 19, 2016**

Randy Hargrove: Good morning everyone, and thanks for joining us for today's call. As you can see we announced our first quarter financial results this morning, we have got Brett Biggs on the line this morning to start our call with you, and we've got Greg Foran, the president and CEO of Walmart U.S. We've got several of you on the line today. We are going to have about 30 minutes as usual to go over everything on today's call. Brett and Greg will give some brief comments, and then we are going to focus on getting to your questions. Please try to limit your questions to one or two so we can try to get through as many as possible in our allotted time. If you need to fact check anything after the call please reach out to me. With that, I will turn the call over to Brett.

Brett Biggs, CFO, Wal-Mart Stores Inc: All right, thank you, Randy. We appreciate everyone being on this morning and joining us. I'll kick off comments, and then Greg will have some comments as well. Overall it was a pretty strong quarter for the company. We always have things we can improve on, certainly, but overall we are pleased with how things came out. Particularly if you look at the topline, Walmart U.S. and International sales increases are an indication that we are winning with customers and overall the strategy is gaining traction.

We will start with revenue and work our way down the P&L. On a constant currency basis, and every number we talk about this morning will be on a constant currency basis, Q1 revenue was up \$4.6 billion dollars or a 4 percent increase to over \$119 billion dollars. Due to a currency impact of about \$3.5 billion dollars, reported revenue increased a little less than 1 percent, which was positive but still a fairly hefty headwind. As you would have seen by now, our first quarter EPS was 98 cents a share which was a little bit higher than we provided. There was some favorability in quarter, with some utility and maintenance expenses, but the tone overall was positive for the company.

As expected operating income was down about 7 percent. That's primarily due to wage investments that we have now been discussing for over a year, so consolidated operating expenses was about \$3 billion dollars, down 8.8 percent on a constant currency basis, so obviously better than anticipated from the guidance we gave in the previous quarter.

Cash flow remains very solid with over \$4 billion dollars of free cash flow compared to \$2.2 billion in the same quarter last year. The increase was driven by operating capital management particularly in the U.S., which Greg will go over with you in a moment. In addition, we returned \$4.3 billion to our shareholders during the quarter, including a \$2.7 billion share repurchase. And I think again it goes to the unique nature of Walmart and the strengths that we have, which allows us to transform the company but also to be able to continue to give very good returns to our shareholders.

Just a couple more comments, and then I will turn it over to Greg. Comp sales increased by 1 percent, which was ahead of guidance, and we had positive traffic of 1.5 percent, due to better expense management. We talked about the wage increases but outside of that the team did a more disciplined job this quarter in managing costs and staying inside the vertical.

Inventory management was very strong, comp inventory was down about 5 percent. Again, Greg will discuss that, but we decided to move into our next round of price investments given momentum we continue to see in the Walmart U.S. business.

International had a very strong start to the year, though we still continue to see coming challenges in some of our markets. Canada and Mexico specifically had great sales with comp sales positive for 8 consecutive quarters. On a constant currency basis, 10 out of 11 markets posted positive comps. So net sales reached \$31.6 billion, a constant currency basis of 4.3 percent, operating income increased 22 percent so we are pleased with our International start to the year.

E-commerce, on a constant currency basis, sales increased 7 percent, and GMV increased 7.5 percent. The growth isn't what we wanted, but we do continue to make progress against many of our initiatives, such as expanding our online grocery markets, which you will see that we added another nine markets to date, and we will turn out another nine markets by the end of the month. We continue to expand Walmart Pay, which you would have seen more about this week, and also our fulfillment capabilities.

The U.S. is performing better than we are internationally but we still would like to see growth out of both parts of the business and we continue to face the challenges of our key markets like the U.K., Brazil and China.

From a guidance standpoint we expect second quarter EPS to range between 95 cents and \$1.08 on the currency rate of today where we are at, versus \$1.08 in the prior periods where our guidance would encompass our results from last year. We have a U.S. comp guidance of around 1 percent.

So I will close out my comments and hand it off to Greg. I think it's a very exciting time for the company. As I mentioned, our financial strength positions us to make investments in the business and to drive performance results in both the short and the long term. Greg, over to you.

Greg Foran, President & CEO, Walmart U.S.: Thanks, Brett. We had a good first quarter. We are making solid progress with our agenda items. Our customer experience scores continue to rise, and our investments in wages, training and store improvements are beginning to pay off. Our associates are providing better service, and our customers are finding the products they want and getting them home in a way that meets their needs.

We've got five points that sort of make up Q1, but I'll start off with we grew sales on the top line more than \$3 billion, an increase of 4.3 percent, and comp sales were up 1 percent with a two year stack of 2.1 percent. During the period, deflation and food affected the total box comp by about 60 basis points. We increased traffic by about 1.5 percent and this was the sixth consecutive quarter of positive comps.

For Neighborhood Markets we increased comps by 7 percent and it's the 21st consecutive quarter of positive comps. We have been working on managing inventory; there was a decline of 3.5 percent in the first quarter, which includes 5.7 percent decline in comp in stores due to better in-stocks, more efficient process for our associates and better Clean, Fast and Friendly performance in stores.

I have three business updates to share with you now: for store experience we continue to see the positive impact of what we call clean, fast, and friendly, and we continue to see the positive impact

of this focus. Customer experience scores rose again this quarter compared to same quarter last year; satisfaction scores for online grocery shopping and pickup continue to run in the 90s.

Last year we began a price investment in first quarter 2016, and we have lowered prices of items in key markets. It is too early to give any updates, but we feel pretty confident in the direction we are heading.

Grocery pickup continues to receive high marks from customers. Today we announced nine new markets, bringing our total number of markets to nearly 40 by the end of the month. We've continued to activate more stores within the markets that already offer the service and in some markets we will double the number of stores that offer the service locally.

The results show we are on the right course moving into the quarter and beyond, and for the second quarter we expect a comp sales increase of around 1 percent, on top of 1.5 percent last year. Randy?

Randy Hargrove: Ok and we are ready to start getting the queues ready for questions.

Courtney Reagan, CNBC: Good morning. I do have one question. Thank you again for holding this call; you guys provided some good information. Walmart has been investing in wages and so that affects one side of the equation for all, but are you seeing evidence that your employees are then using these increased wages to buy more at your stores?

Greg Foran: Hi Courtney, I think that the simple answer is yes. I think they are coming in to purchase more, and I do think it's a replenishable phenomenon. I think they are moving from the restaurants to the fresh food, and I think associates are probably feeling a little more engaged with the wages and the training is helping, and I've got no doubt that what we are doing is on the right track to have them spend more in the stores.

Courtney Reagan: All right, thank you very much and congratulations.

Anne D'Innocenzio, Associated Press: Can you talk more about why the e-commerce growth has slowed to 7 percent? I know you talked about China, Brazil and the UK, but I know you weren't pleased, is it something that is going with Amazon getting more competitive?

Brett Biggs: We talked about that the number that we is not what we like to see, it's been better in the U.S than it's been internationally, and we haven't talked about the two separately at this point. If you look over the past few years, we made a lot of investment in what I call foundational investments in GeC, and that's around systems. If you look around the last few years, a number of fulfillment centers that have been closer to customers so things like shipping paths have been improved. A lot of different initiatives that we have had that have taken time to come to fruition, we do expect as a company to see more growth in this business and we see investments that we've made will improve that number.

Anne D'Innocenzio: Do you know when you will see that start happening?

Brett Biggs: If you think about how we are approaching the customer, we believe that we can do so much uniquely to create a seamless experience, and the investments that we are building show that we want people shopping at Walmart. We want customers shopping at Walmart, whether that's in stores, whether that's in pick-up, whether that's getting things delivered to their homes – we see the different ways that we allow the customer to do that so we look at it more holistically than that.

Anne D’Innocenzio: Thank you very much.

Phil Wahba, Fortune: Good morning, thank you, quick question for Greg in terms of customer scores - can you quantify that at all? If you could give it as a data point, and maybe give some examples of what customers are liking, help from staff, ease of navigating, if you could be a bit more granular?

Greg Foran: Sure; it’s generally not one thing, we talk about Clean, Fast, Friendly, but even Clean, Fast, Friendly you can’t separate the customer improvement scores by those, across a whole measure of things. There is an amalgamation of things that go into the scores, it’s a whole series of things – parking lots are a bit cleaner, doing some remodels, food is fresher, leafy greens to the front, department managers are doing some things – generally in retail business, what happens is as you start to improve and the customers come to visit you more and ... very incremental, literally a store at a time, day at a time, associate at a time

Phil Wahba: Last year you talked about stores, what is that, is it 75 percent?

Greg Foran: What we did last year, because we are in a game of continuous improvement, we rebased everything, and we did at end of last year, and now we do it quarterly. We should never rest, even if we end up being ahead of competitors.

Phil Wahba: Great, thank you, and see everyone in two weeks

Sarah Nassauer, The Wall Street Journal: Morning, I am wondering if Greg you can tell us what is going on with private label growth and how those plans have developed and what’s coming down the pipe.

Greg Foran: Yes, we think private labels are really important as part of our brand and our stores, in a few weeks we will be able to show you a new innovation center as part of the campus. We are clear on how to position each product price and we are getting on with it. There is no dramatic shift in direction, it’s really steady as she goes. We know where want to be in terms of penetration, so we are where we expect it to be at this point.

Sarah Nassauer: Thank you.

Nathan Layne, Reuters: The fact that customer experience is improving, I’m wondering if you could put that in context of U.S. comp up 1 percent, I’m wondering how big a factor that played relative to the biggest factor, I think you were factoring about 0.5 increase. Obviously you beat that, and you beat the market expectations, so was it certain product categories or was it the customer service?

Greg Foran: Customer experience is a bit of a catch all. They are going to turn up, and if your have things in stock, and pricing is good and low, and check outs are running properly, scores will be high. It’s a bit of a catch all we use to how we are looking in the eyes of the customer, it’s not one thing, it’s many things, and as I said previously, you can generally see when you walk into a store if we are on track or if we are not on track.

Nathan Layne: But do you think the improvement in service and experience is the biggest factor in increased sales for the quarter?

Greg Foran: I think that what we are starting to see is customers are starting to become bigger advocates for our stores, and it plays a part of that.

Nathan Layne: Thank you.

Lindsay Whipp, Financial Times: A couple of questions. About the ticket, I wanted to see if it's an indication and what that's telling you about the U.S. consumer. And I wanted to check up on whether the overtime laws that are coming might affect you over and above what you've announced for wages.

Greg Foran: The ticket is a reflection of 60 basis points, and we've been seeing that now for a few quarters, with food, particularly in dairy and some of the meat are part of that deflation. For the Department of Labor regulation, we are still going to take a thoughtful way of how we apply the new regulation to our associates. We have made a number of changes to our associate wages in the last 18 months, so we are going to be very thoughtful in our approach and we are working through it.

Lindsay Whipp: You can't say if it will be an extra cost at this point?

Greg Foran: We are still working through it.

Tonya Garcia, MarketWatch: I want to go back to the e-commerce and online, in the pre-recorded comments there were comments about some areas that you are still working on, and I am wondering what you are still working on and where do you see the progress being made?

Brett Biggs: Yeah, sure, I'll go back to what I said earlier about how we are trying to reach the customer, such as online grocery. As you look at how we are trying to service the customer and how those needs are being met, we are still working that out and our customers are responding very well, and we are looking forward to where that's going in the future. Things like Walmart Pay and our other ways to have more options for customers, and all these foundational investments allow us to serve our customers in a differentiated way.

Tonya Garcia: How do you see e-commerce growing, what areas will you be focusing on and what comes after that?

Brett Biggs: We will continue to add assortment online, we continue to add more items, and that's something you will continue to see, and I think our customers still getting a sense of how big our assortment is online, and we want to change the perception of that so that you do understand how big your assortment is. Those are the kind of things you will continue to see.

Tonya Garcia: OK, thank you.

Hadley Malcolm, USA Today: Greg, could you expand a bit on the Neighborhood Market success and talk specifically about what's going on at those stores and what drove that up more than 7 percent? What are people buying there?

Greg Foran: This is actually pretty consistent, so we continue to see solid results out of Neighborhood Markets. Similar to the Supercenters we are just seeing improved in-stock, fresh, grocery and pharmacy is really important to us, the business is just operating really as we expect it to operate. I am pleased with developments in some of the new stores and you will continue to see some of these new stores, such as the new one opening in Fayetteville, have some of these improvements.

Hadley Malcolm: Thank you.

Sarah Halzack, The Washington Post: Many of us have been covering a number of retail earnings in the past weeks. It seems as though February and March were strong and April fell off of a cliff. Your competitor up in Minneapolis yesterday said they have some choppiness and volatility across different geographies and I'm wondering if you could speak to some of those.

Brett Biggs: We don't talk about month by month. I would say that the progress and performance we saw was pretty consistent, not a lot of variability throughout the quarter.

Randy Hargrove: Time for one more question.

Shannon Pettypiece, Bloomberg: Hi, I was wondering if you could speak to the consumer in general, where you see the consumer at, where they are spending their money. Obviously competitors mentioned they see consumers pulling back or shifting spending a bit so hoping you could give some perspective, and given the momentum you had in first quarter that you are hoping to continue to second quarter, why didn't you raise the full year guidance?

Brett Biggs: From consumer standpoint, there was not a lot about the quarter that was different, but there are some things from a macroperspective and numbers we would say are benefiting consumers. There is still a little bit of an air of uncertainty as they think about where to spend their money, and the savings rate is still pretty strong, I'm sure you've seen that data. And so traffic was positive and comps were positive so we felt good about the quarter. We are not updating any full year guidance today, which is typical for us.

Shannon Pettypiece: Thank you.

Brett Biggs: Thanks everyone, we appreciate your participation in the call and coverage of our earnings and we will talk to you next quarter.

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