3Q FY19 Earnings Call with Media

Randy Hargrove

Good morning everyone. Thanks for joining us for today's call as we're talking about our third quarter financial results. Brett Biggs is going to again lead the call to discuss the company's business results and he's again being joined by Greg Foran, Walmart U.S. President and CEO, and Marc Lore, President and CEO of Walmart eCommerce U.S. We have a number of media joining us today. We'll have 30 minutes for the call. We'll hear some brief comments from Brett, Greg and Marc, and then we'll open it up to answering your questions. If you would limit those to one or two so we can try to get through as many as possible, that would be great. If you need to fact check anything afterwards, please reach out to me and we'll try to help you. And with that I'll turn the call over to Brett.

Brett Biggs

Thank you, Randy. Appreciate everybody's interest in the company as always.

Our Q3 results again reflect our ability to continue building for the long-term, winning with the customer, but also providing results for the near-term. Both top and bottom line results were very solid and we increased our full-year guidance for Walmart U.S. comps as well as EPS. The pace of change inside the company continues to accelerate, which is very exciting for us as well as our customers.

So from a numbers perspective, Adjusted EPS was up about 8% to $1.08. Total revenue increased almost $3 billion on a constant currency basis, this is over $126.1 billion for the quarter. You're going to hear more from Greg shortly, but momentum in Walmart U.S. business continues. Q3 comps were 3.4% and 6.1% on a two-year stack – and it's been over 10 years since we've had back-to-back quarters with two-year stacked comps above 6%. So really good momentum with Greg and his team.

Marc will discuss eCommerce in a second, but we had really good topline performance. Net sales grew approximately 43%, which keeps us on track to achieve about 40% growth for the year.

International had another solid quarter – 9 of 10 markets reported positive comps, led by Mexico, which continues to perform very well.

Sam's Club had comps excluding fuel and tobacco of 5.7% and their eCommerce growth continued to be strong, up 32%. So good momentum at Sam's, and, as you can tell, good momentum across the business.

Our cash flow remains strong. Through nine months, we've had approximately $17 billion of operating cash flow, and that's consistent with last year.

From a guidance perspective, we're pleased that our momentum allows us to continue increasing our guidance. So, from a Walmart U.S. comp sales perspective, we increased our guidance from around 3% to at least 3% growth for the year.

And adjusted EPS guidance, which was $4.65 to $4.80 previously, we increased $4.75 to $4.85, currently.

We feel good about the business. We feel very good about our position going into the holiday season. We're moving faster. We have momentum and our customers are responding to investments we're making.

So with that, I'll turn call over to Greg Foran.

Greg Foran

Thanks, Brett. Good morning everyone.

We had another solid quarter for Walmart U.S., and we continue to see steady improvement across our omnichannel offerings.

Comp sales growth of 3.4%, that's the 16th consecutive quarter of positive comp store sales. Store traffic and ticket up 1.2% and 2.2%, respectively. We started the quarter off strong with a solid back-to-school season and finished strong with solid sales performance of fall seasonal goods. Key categories such as fresh food, apparel and toys performed well, along with health and wellness. And we continue to take market share in these categories and others, according to Nielsen and The NPD Group. Our inventory is in good position and we like our favorable price position versus the market as we head into the all-important holiday season. We're particularly pleased that our stores team leveraged expenses for the 7th consecutive quarter.

We remain excited about the opportunity in grocery pickup and delivery and have nearly 2,100 grocery pickup locations. We're also on track to offer same-day grocery delivery from approximately 800 stores by year-end. We're on target to have about 700 automated pickup towers for general merchandise by the end of this fiscal year.

Pleased with preparations for the holiday season and we've added new tools for customers and associates to improve speed and efficiency. Things like customized store maps to the Walmart app so customers can quickly and easily find items on their list. We introduced a new checkout experience called Check Out with Me that lets customers bypass checkout lines and pay for items in areas where they're shopping. And just last week, we rolled out a new Dotcom Store App to our in-store devices, which lets associates assist customers with item reviews, locate products in our stores, and even place orders right from the sales floor if an item is out of stock or a customer is looking for a specific color or size that's online. Customers then can choose to pick up or have it sent to their home. Toys will also be a focus as we've recently expanded the assortment by 30 percent in stores and 40 percent online, including many exclusive items.

Overall, we're going to ensure we have the best prices on a broader assortment delivered through a seamless shopping experience.

As Brett mentioned, we're increasing our guidance for full-year comp sales growth to at least 3%. We have good momentum in the business and we continue to execute our strategy well. This is having the desired effect of creating a more seamless experience for customers no matter how they want to shop us.

With that, I'll turn the call over to you, Marc for more on eCommerce.

Marc Lore

Thanks, Greg, and good morning everyone.

As Brett mentioned, eCommerce grew at 43 percent in Q3 and, we're still on target for approximately 40 percent growth this year. We're continuing to make good progress on the three parts of our strategy. The first is nailing the fundamentals, which is our biggest focus. That includes having the items customers want, making products easy to find with the lowest price, and delivering them to customers in two days or less.

In the quarter, we launched a new line of clothing with Ellen DeGeneres, and announced a partnership with Advance Auto Parts.

We also acquired Bare Necessities to help quickly expand our assortment in intimates. The acquisition of these specialty retailers is helping us grow our assortment faster in higher-margin categories like fashion.

In delivery, we've seen our shipping times getting faster while our costs come down. We are also expanding two-day free shipping to millions more items on our marketplace, and we are beginning to offer marketplace returns in stores.

The net of all of this work is that our Customer Value Index (CVI) score is already ahead of where we were targeting for the end of the year, and our Net Promoter Score has gone from 43 to 53 in the past 12 months. The second part of our strategy is leveraging our unique assets to play offense, and I'm really excited about what we're doing with online grocery pickup and delivery.

As Greg mentioned we now have nearly 2,100 grocery pickup locations. And, we'll have grocery delivery to 40 percent of the population by the end of this year and 60 percent of the population by the end of next year.

Also, Jet continues to create a unique experience for city customers to complement Walmart. This quarter we launched a new personalized and localized customer experience on Jet. And, Jet continued adding new premium brands including Nike, Bonobos, and Blue Apron meal kit delivery.

We also acquired Eloquii, which like Bonobos and Modcloth, and Allswell are helping us to offer differentiated items.

The third part of the strategy is innovating for the future. Just last week, we shared plans for a new store where we're testing technologies like AI and machine learning, and applying that to physical retail. This is a fully operational grocery store with 50,000 square feet and more than 30,000 items, which unlike others in the market, we'll test operational improvements and new shopping experiences at scale.

To close, it was another strong quarter and I'm excited about the progress we're making. We've put a lot of work into creating a great holiday experience across stores, the app and Walmart.com and am excited to share it with our customers.

Thank you.

Randy Hargrove

Thank you. And with that, we would like to turn it over for the Q&A portion of the call.

QUESTIONS & ANSWERS SESSION

Brian Sozzi, Yahoo! Finance: Good morning everyone. Thanks for taking the question. Maybe this one is for you Brett – how did the trade tensions with China impact Walmart's businesses in the third quarter and I'm curious what actions you're preparing to take in January should those higher rates go into effect?

Brett Biggs: Hey Brian. Thanks. As I mentioned in October, and I'll say the same thing again today, our merchants are all over this. They're working on any kind of eventuality we might face next year. As we always do, we're working with suppliers and how they think about costs. So a lot of different things that we'll be planning for and we'll manage through it. Walmart, no matter the environment, manages through situations like this. If we have the kind of tariffs that are being discussed, it's not positive, I think, for the economy. We certainly would like to see everybody to continue to discuss this and find a resolution as prices will go up if we have the kind of tariffs that are being discussed today. So, I don't know Greg if you have anything else? We're working through it and will continue to work through it as we continue to manager through into next year.

Greg Foran: Our teams are hard at it. Steve and Andy, who were actually working on this almost exclusively, were overseas and there are some actions underway and we'll continue to work through those.

Brian Sozzi, Yahoo! Finance: Thanks, guys. Good luck with the holiday season.

Anne D'Innocenzio, Associated Press: Thanks for having the call. Can you talk to us about the big holiday merchandise trends, and surprises? And also, can you give us an update on layaway?

Greg Foran: Good morning, Anne. Let's just being with layaway. So, layaway continues to be a great addition to our business. I like that we offer that and I'm sure as you can appreciate it's a different offer depending on what store you're in, what part of the country you're in, and we continue to be pleased by what we're seeing in terms of results in layaway. In terms of toys, there's a few things that come to mind as I get around the place and listen to what's selling for the merchants. We're doing well with Ryan's World toys and we've taken that and exploded that online as well. We're got a number of influencers out there that are helping drive that. L.O.L. is another brand which is captured the hearts and minds of our shoppers. And we've got a great assortment of that. So that's flying off the shelves pretty well. A third one that comes to mind in this Barbie vehicle dream car/camper/kitchen all in one SUV, which is in hot demand, so feel good about what we've got. We've got good brands, we've expanded space we needed, it's a good tie up with Marc's business. We're ready to do business in toys.

Anne D'Innocenzio, Associated Press: Just a quick follow up. Are you saying with the economy much better, even than last year, are you seeing people spending a little more, splurging on the bigger items?

Greg Foran: I think its too early to call that at this stage. We've got Black Friday, so we'll get through that and see how we trend.

Sarah Nassauer, Wall Street Journal: Morning everyone. I was hoping you could give us a sense of what you expect from what is a very, very strong US economy. Basically, how long do you expect that to last? There are some signs the global economy is slowing down, according to us this morning, so I'm wondering what you are planning for and how long for the economy to stay robust at current levels?

Brett Biggs: Hey Sarah, it's Brett. We haven't seen a big change in the consumer over the last several quarters and I think consumers have remained in good shape. A lot of the metrics that we look at, you look at, which is unemployment is low, wages are good, interest rates are in pretty good shape, fuel prices are in pretty good shape, so all that would lead you to conclude that there's still some room for consumers to feel good. The thing about our business is we can perform in any kind of environment, and certainly this kind of environment, everybody likes. But we can win in any kind of environment that we face. And the fact that we're getting costs in better shape than they were a year ago helps us to be in better shape than some, and prepared for anything we might see. But right now, the consumer feels like they're in good shape and hasn't changed a lot from what we can see.

Sarah Nassauer, Wall Street Journal: Any sense how long you think that will last?

Brett Biggs: I think your prediction would be as good as mine. It's good right now and we'll continue to monitor it as we normally would.

Matthew Boyle, Bloomberg: Hey guys, thanks for taking my questions. As you guys rollout curbside grocery and also home delivery now can you talk a little about the economics of those two offerings? I know it probably depends on the region or which third party logistics provider you're using but broadly speaking, what are you guys seeing thus far and maybe what changes are you considering as you continue to roll those two things out?

Greg Foran: I'll handle that one Matt. First of all, we really like this as an offer for our customers. And we like it because our customers really like it. They score us pretty high in terms of net promoter score, and we feel that we get a good halo effect on it to be honest, so we're able to pick up some business from people who are ordering and picking up or ordering and getting it delivered, but it actually improves the general performance across the store because you now effectively have a person shopper whose picking your grapes or your strawberries or your meat and that drives up, I believe, the execution of great quality and good in stock within the box. We like it. Customers like it. We've still got a reasonably lengthy roadway in front of us to roll this out. We're in 2,100 locations, we've got another 1,000 to do next year. We're only in 800 delivery stores by the end of this year. Clearly that's going to start to narrow how many online grocery locations we have because we want customers to have the ability to do that. And we mix this out across the entire business. That's the way we operate because that's how the customer is shopping. They're completely seamless – sometimes they want to come into the store and sometimes they want to stay at home and order and have it picked up and then sometimes they want to have it delivered. It's always a few that will take a particular route and that's the one they want to follow. But a lot of our customers toggle between all those options and that's the offer.

Matthew Boyle, Bloomberg: In terms of the margins though Greg, you mentioned NPS scores and halo effect and all that is great, but can you talk about the comparison on the margin on curbside grocery versus home delivery plus the fee?

Greg Foran: We mix it out across the customer. We look at how many visits we get. We look at how many transactions in just the same way that I don't make the same margin on milk as what I do on selling Ryan's World Giant Mystery Egg in the toy department. My job with my team is to make sure that we mix out the box and that's the way we operate.

Michael Corkery, New York Times: Hi guys. Question on the sales growth – can you comment on where a lot of it is coming from, is it customers shopping at Walmart for the first time in many cases? Or is it Walmart customers spending more with all these great initiatives? In other words, how is it going in attracting new markets to Walmart – all the investments and efforts that you're making?

Greg Foran: I'll take that one up first, Michael and then Marc, you might want to comment. But we pulled together a plan a few years ago and we have focused on the foundation to the business. You know, getting the stores cleaned up, getting stock and freshness, drop the prices, look after our associates – train them, get them the tools to do their job. So initially as we've gone on this journey the increase that we've seen in sales have primarily come from existing customers. As you start to offer some more services like delivery and pickup, and you introduce more brands, including private brands, I think you start to pick up some new customers to Walmart or maybe customers that only shopped with us for 50% of their purchases and maybe the other 50% was going somewhere else. My experience has been when you start to get all of these things starting to work, so your stores are in better condition, your in-stock is better, your pricing is better, your service is better, the virtuous wheel of Walmart starts to turn and you get an extra item in the basket from some current shoppers and you attract some new ones – some of who shopped with you intermittently and maybe you get someone whose never shopped with you before. A combination of all those things is what makes it work within the box. Marc?

Marc Lore: On the eCommerce side, definitely a combination of both as well. Many new customers as well as customers shopping more with us I think in large part due to the focus on nailing down the fundamentals, so our CBI index is ahead of where we wanted to be by the end of the year, so we're seeing more assortment for customers. Much faster delivery times. We just launched the ability to add millions of items to two-day shipping on marketplace as well as marketplace returns in the store. We've done some partnerships, we've, as you know, launched the new website and we continue to make acquisitions to help augment the assortment. So, feeling good about the value prop and its reflected in the growth rates.

Lauren Thomas, CNBC: Hey guys, thanks for taking this call today. Question is probably more for Marc – wanted to know if you had any updates or anything you could share around your strategy to acquire more of these digitally native brands, I know I think that your recent update you said one day Walmart could own as many as 40 of them or more, so didn't know if you were looking at specific categories today, like apparel, where you want to add more of those or how you're thinking about that. Thanks.

Marc Lore: Sure, we definitely have got a two pronged M&A strategy, one focused on specialty retailers, to really help augment the assortment and accelerate in long tail categories online on Walmart.com and Jet, and then this is more of long return; but yeah building a portfolio of digitally native vertical brands to really give us a differentiated assortment; they come with pretty high contributed profit margins and allow us to mix out. The reference to building a portfolio one day of 40 or more really is a combination of both buy and build – so we launched Allswell, which is a proprietary digitally native brand, and we are working on launching other brands as well, so it will be a combination of the two. As far as what categories, we're focused on busy families, and brands that could really resonate with that group of customers, and we continue to evaluate lots of different opportunities.

Lauren Thomas, CNBC: And as a follow up to that, I wonder if you'd be able to break down how much of your e-commerce growth stems from those owned brands or the digitally native ones; I know only a few of them you are integrating into Walmart and Jet, but any color around how much they actually are contributing to overall e-comm growth?

Marc Lore: Today, very, very small for the growth contribution, certainly helps us mix out on margin and definitely helps give us unique proprietary items for customers, but in terms of sales growth, very little.

Lauren Thomas, CNBC: Okay cool, thanks.

Phil Wahba, Fortune: Thank you, good morning – just a quick question, when you talk about market gains, I wanted to get a little bit more granular to follow up on Michael's question from the New York Times, but are you getting winning market share from department stores? I know two of them are having a really hard time right now in particular, so just wondering is this gain from other retailers that are not in malls or are you gaining from some of these department stores, what is your sense of where market shares are coming to power in let's say home goods?

Greg Foran: It's much harder for us to measure to be honest with you when you start to get into home goods; if you're talking about food and consumer goods, you obviously have Nielson, right because shared data, but the reality is that also excludes some pretty important players out there like high discounters, clubs and obviously Amazon, so it's much more difficult for us to tell what's happening in general direction wise, and whether or not we're specifically picking share up from anyone, so I couldn't accurately answer it to be honest with you. I can say that I like some of the things that we've done in terms of assortment and pricing, but I think we have got more to do and I know the team is working hard on that at the moment.

Phil Wahba, Fortune: Thank you.

Brett Biggs: Well we'll have time for maybe a couple more, to try to squeeze in.

Nandita Bose, Reuters: Hi, thanks for taking my question. I just have a follow up as you are looking at a lot of these smaller e-commerce companies and smaller online retailers you've been buying a lot of them, I wonder if you're seeing as more millennials who have sort of typically stayed away, transact more; just hoping to get a sense of demographics online given the number of changes you're making.

Marc Lore: Definitely with respect to the brands we're buying, they are resonating with millennial shoppers for sure, these brands are modern, they have a soul, typically have a real purpose and mission, and I think that really resonates with millennial shoppers, so I think that is definitely part of the strategy is picking brands that could help us win the future, so we feel good about the strategy.

Nandita Bose, Reuters: And, you know, given kind of the change of online grocery, and Brett mentioned earlier that that is obviously doing really, really well, are the demographics there still the same, certain section of women, certain age, or are we seeing new kinds of customers transact on Walmart.com? And this is a follow up to Michael's question as well.

Greg Foran: I guess particularly in terms of online grocery, I would say nothing because you have to get those changed from the previous narrative that we shared with you, but tends to appeal to busy families, you know, if you have young children, it also appeals to people who may have some sort of disability and find it difficult to get to the store, people who are time pressed, so it's broadly that group, but I would say it's not exclusively that group; there are many reasons why people will see this as an addition to the way they shop or an alternative and as people become more familiar with being able to use their phone to order and that's really the primary device for these sort of things I think we will see more of that, we can expect.

Brett Biggs: I think we'll have time for one more question as we're almost up against the o'clock hour.

Sam Meyerson, CNN: Great guys, this is probably for Greg or Marc, so how much of the e-commerce growth is coming from expanding curb side pick up and delivery to new locations versus people actually continuing to do it? Why do you not break out the grocery chunk of e-commerce growth?

Greg Foran: I'll pick that one up, it's because the customer is becoming increasingly the same, and that is the way that we want to think about it within our business. We don't mind how they want to shop and where they want to shop, our job is to provide that and some people might see it as going to use the store, if you want to get the fulfillment seeder because we don't carry that assortment within in the store, are going to use a more truer fulfillment seeder, we see it as being an engaged experience, that's the way that we want to think about it and the way we operate the business, and so we don't want to get caught up on distinguishing channels because the customer doesn't.

Sam Meyerson, CNN: Thank you.

Brett Biggs: We appreciate everyone's time on the call today, and if you have any follow up questions just please feel free to reach out to me, thank you.