

## Walmart 3Q18 Earnings Media Call

November 16, 2017, 7:30 a.m. CT

**Randy Hargrove:** Good morning, everyone, thanks for joining us today for our third quarter financial results discussion. We're joined by Brett Biggs, who will lead our media call today to discuss the company's business results. Brett is being joined again by Greg Foran, Walmart U.S. President and CEO, and Marc Lore, President and CEO, Walmart eCommerce U.S. We have a number of you on the line today. We've got 30 minutes for today's call. You'll hear some brief comments from Brett, Greg and Marc, and then we're going to try to spend the rest and bulk of the time getting to your questions. Please try to limit your questions to one to two as we go through the queue, so we can try and get to as many people as possible. If you need to fact check anything after the call, please reach out to me and I'll try to help you. And with that I'll turn the call over to Brett.

**Brett Biggs:** Alright – thanks, Randy. Good morning, everybody. Appreciate your interest in Walmart. As you would have seen this morning, the momentum of our business continues. Overall Q3 results were strong and have really broad based across the company. I'll give you a few takeaways and then hand it over, as Randy says, to Greg and to Marc.

On a comp to currency basis, our net sales were up 3.8%, that's an increase of \$4.5 billion dollars.

Our adjusted EPS was \$1.00 a share, which was above the high end of our guidance and slightly above last year. We also increased our full year guidance to \$4.38 to \$4.46, versus \$4.30 to \$4.40 prior to this release. You'll hear from Greg in a minute, but the momentum in Walmart continues to be really strong. You would have seen a 2.7% comp at Walmart U.S.

We do believe that hurricanes benefited our comp in the quarter by about 30-50 basis points, but a very good result, nonetheless. Marc will talk through some results in eCommerce, but again we had good top-line performance there, GMV growing 54% and net sales growing 50%. International had good, strong top-line, as well. 10 of 11 of our markets posted positive comp sales, and one of the better quarters for Sam's Club in a while with comp sales at 2.8%. That's now the seventh straight quarter of positive comps and traffic was up 3.6% at Sam's.

One of the things I'm most proud of in the quarter is if you exclude the charge for the FCPA accrual, which you would have read, we leveraged expenses for the company in the quarter. That's the first time in about four years that we leveraged expenses as a company. I'm especially proud of that, given the hurricane expenses we had in the quarter, as well.

Our cash flow remains very strong. Through nine months, we've had \$17 billion dollars of operating cash flow, and we returned about \$3.7 billion through dividends and share repurchase in the quarter. Again, very good momentum in the business and we're excited about the holiday season.

With that, I'm going to turn it over to Greg.

**Greg Foran:** Thanks, Brett. Good morning, everyone. As Brett mentioned, we continue to see momentum in the Walmart U.S. business across all channels. Customers continue to respond well to the new initiatives, as we concentrate on saving them time and money.

Net sales were up 4.3% to \$77.7 billion. Comp sales grew 2.7 and that represents about \$2 billion of growth. eCommerce contributed about 80 basis points to the comps. The comps were driven off the back of strong traffic, we were up about 1.5%.

The grocery business continued to accelerate sales, traffic and unit growth across all categories. In fact, food delivered the strongest quarterly comp sales performance in almost six years. Inflation did not have

a meaningful impact on this comp. We are making good progress on expenses, at the same time we stay very focused on the customer experience.

We are pleased that the overall segment leveraged expenses this quarter for the first time in over four years. Really pleased with the job that's being done within inventory management. Our comp store inventory levels decreased for the seventh straight quarter, and at the same time we're doing a pretty good job with in-stock levels. Incremental price investment continues, and we're pleased with how that's progressing, and we'll continue to execute to our plan there. At the same time, we're working hard to improve the customer experience by removing friction with things like express pharmacy, express money services, automated pick-up tabs and online grocery.

We've now got grocery in more than 1,100 stores, that's online grocery, and we look forward to expanding this popular offering to another 1,000 locations next year. Really pleased with how the associates are leaning into the improved technology and apps that we are putting in place, whether it's section work or inventory management, price changes, all these things are making a meaningful difference in our store, and helping us increase productivity and at the same time improve the experience for associates and customers.

Holiday - feeling that we're in pretty good shape and we're ready to serve customers. We've been very thoughtful about the assortment, and how we are going to structure and operate it. It's going to be the first holiday season where we've got the advantage of free 2-day shipping and the Pickup Discount.

And of course, Black Friday is just around the corner, and we kick off with Walmart.com at 12:01am Eastern Time on Thanksgiving morning, and of course, the store events can get underway later on that day.

So, in closing, fourth quarter, we expect comp sales to increase between 1.5 and 2.0%. Keep in mind, that we're overlapping a more difficult figure from last year. I can tell you that we've got plenty of work still to do, and our stores will spend a lot of time getting around them, and as they do that, lots of opportunity. I'm pleased with the momentum, and pleased that the plan we have in place is being executed and we're seeing that come to life.

Marc, over to you for your comments.

**Marc Lore:** Thanks, Greg. Good morning, everyone. We're happy to see strong sales, even as we lap the anniversary of the Jet acquisition mid-quarter.

GMV increased 54% and sales growth 50%, which continue to be driven primarily by organic growth with Walmart.com, also including online grocery pickup. Customers are responding well to the value proposition, including the 2-day free shipping with no membership, as well as free pickup.

As discussed in October, we're focused on three areas: nailing the fundamentals, leveraging unique assets, and innovating for the future. With respect to nailing the fundamentals, we use five metrics to measure how we're doing: have it, find it, display it, price it and deliver it. And we've made good progress regarding have it in the quarter, adding key brands - Bose and KitchenAid - to the site.

We've also secured a deal with Lord & Taylor to bring a high-end fashion specialty experience to the stores of Walmart. And we look for more opportunities to work with companies to give customers access to more brands that they want.

Now on Jet, we've added assortment for ModCloth, as part of our continued focus on the more affluent, urban customer. We're also in the process of creating a new shopping experience on Jet to bring aboard Bonobos.

And during the quarter, we also added 133 category specialists to focus on improving the fundamentals in very specific categories. We continue to make great progress building out better merchandise to give these category specialists further leverage.

With respect to leveraging unique assets, it's super exciting to see that we're keeping our incredible NPS scores as we expand grocery pickup broadly, which is now as Greg said, in more than 1,100 stores, expanding to over 2,000 by the end of the year. We're expanding our testing of grocery delivering in over 20 stores using Uber Deliv and our own associates.

And we're working aggressively in the coming quarters to increase the number of stores that we ship from.

In New York and other major cities, our acquisition of Parcel will help enable same-day and next-day delivery. We've also leveraged Walmart's private label assets and expertise to help launch a private label brand called Uniquely J, on Jet, which targets urban millennials. And we also rolled out easy returns in stores.

As far as innovation goes, our test of August Home shows how orders can be delivered right into a customer's home. And so, a similar deal with Latch, kept customers in New York started getting unattended deliveries inside their apartment building.

Store 8 held an open call that brought forward demos that showed how VR can transform shopping. And our agreement with Google positions us really well in voice shopping, which is going to be an important part of shopping in the future.

So overall, I'm really excited about everything we're doing. Greg's team, the eCommerce team with delivering for customers and our holiday approach, it's nicely integrated. So, I'm very excited about the progress our team is making.

**Randy Hargrove:** Great, thank you. I think with that, we'll go to the Q&A portion of our call.

**Operator:** At this time, if you would like to ask a question, please press the star and one on your touchtone phone. You may withdraw your question at any time by pressing the pound key. Again, if you'd like to ask a question, please press star and one on your touch tone phone. We will pause a brief moment to allow questions to queue. And we can take our first question from Anne D'Innocenzio with The Associated Press. Please go ahead.

**Anne D'Innocenzio, The Associated Press:** Hi, Anne D'Innocenzio. Thanks for having this call. Can you talk a little bit about, more details about, what this partnership with Lord & Taylor is going to look like on the site? And can you also comment on the reports about how Walmart is raising prices on certain items online to drive people to the stores? Thank you.

**Marc Lore:** Okay, sure, so regarding Lord & Taylor, we are very excited about this deal. This is going to enable us to bring a lot more premium apparel assortment to the site. It is going to be a store within a store, so it's not going to be a disjointed experience for the customer; it's going to be seamless. You will be able to shop all the products available in the Lord & Taylor store right from your Walmart shopping experience. You can add stuff to the cart with other stuff on the site, so it will be completely seamless. We will be looking to do other deals, as well, to bring more assortment onto the website in the coming quarters.

With respect to the question about raising prices, we are committed to offering everyday low prices, whether that is online or in stores, and some items are just less expensive to sell in stores, so at times there can be price differences. If you take low-priced items that are less than \$5.00, in many cases, the profit margin on those is lower than the cost to just pick the product, never mind shipping. So, there are lots of cases where it's cheaper to sell product out of the store. Also, the reason why we show two prices there, is just really about being transparent with customers, so why don't you show them that there are

different ways to get products and there are different costs associated with that. So that is consistent with how we think about building trust with customers.

**Anne D'Innocenzio, The Associated Press:** Okay, thank you very much. Thank you.

**Operator:** And we'll take our next question from Phil Wahba with Fortune. Please go ahead.

**Phil Wahba, Fortune:** Good morning. Thank you for taking time this morning. So, a couple years ago, Doug McMillon had said at one of the investor presentations that he wanted to attract more middle-class and higher-income shoppers to the Walmart experience. I'm just wondering, are you guys seeing that yet and is the presence of Jet, the future with Lord & Taylor and the better-looking grocery areas, is that starting to translate into a different demographic coming into your store more often?

**Greg Foran:** Hi, Greg speaking. I think in terms of stores, I wouldn't say that there is a meaningful difference yet that I have seen in terms of stores. I think that the first part of our strategy, which is the really lenient fixed the foundation, is doing a good job with what was, if you like, our existing base and we're seeing those people visit us a little bit more and they're also putting another item in the basket. A lot of that has occurred initially in food. It is really hard to get down to specifics on this – you know, is that the case in 4,700 stores or are some doing something different, but my overriding comment would be in the stores I still think there is an opportunity in front of us in terms of stores and we are very aware of that. That's what you're starting to see in terms of our marketing and that is clearly one of our objectives and we got to where we got to with our stores. Marc, why don't you comment.

**Marc Lore:** Yes, I think also we're putting the foundation in place to appeal to the higher-end customers with same-day delivery out of the stores. So, we've got it in 20 stores now, but as we aggressively expand that, we know there's going to be a delivery charge that's really targeted for the affluent convenience-seeker. But it's a different customer I think and I think we have the opportunity to leverage our store assets to reach those customers in a more cost-effective way than anyone else. And also, we've got Jet now repositioned to really target, focus on, the affluent urban customer, so we're kind of coming at it from both sides, leveraging the stores, and also leveraging Jet. I do see an opportunity to make progress in the future on that front.

**Greg Foran:** Yes, and the only thing I would tack on is that I suspect online grocery is probably one of the things helping us mostly from a stores perspective in terms of attracting certain customers. Now clearly some of those customers are customers that were shopping with us. That might seem as you make it around the country and what you see and hear anecdotally and feel that there is probably getting us the customers that previously would not have shopped with us.

**Phil Wahba, Fortune:** Okay, great. Thank you very much, and Happy Holidays to everyone.

**Greg Foran:** Thanks, you too.

**Operator:** And we'll take our next question from Sarah Nassauer with the Wall Street Journal. Please go ahead.

**Sarah Nassauer, The Wall Street Journal:** Good morning, everyone. I think this is probably a question for Marc. I'm wondering if you can give us a sense of if you are making progress – you're obviously are stealing market share overall with these numbers compared to the rest of retail. Are you making progress stealing market share from Amazon in particular? And you know there were some eMarketer figures about share for the year that I've quoted in stories – you could tell me that maybe I shouldn't be – and how do you look at that internally and how are you tracking that?

**Marc Lore:** Internally, we are really focused just on improving the customer value proposition, getting the fundamentals right. We see that the things we've done are influencing or impacting top-line sales and we have good momentum, and that's what we're focused on right now. We are happy with the growth rate,

we're happy with the improvements we've made to the website and we don't really think about it much beyond that.

**Sarah Nassauer, The Wall Street Journal:** Okay, so you don't think about it much beyond that. How should I think about it? How should the reporters that are asking this question, what data do you think is good to be looking at?

**Mark Lore:** I would just continue to look at the numbers that we're putting up and the improvements we're making in the value proposition.

**Sarah Nassauer, The Wall Street Journal:** Okay. Alright, thank you.

**Operator:** And we will take our next question from Matt Boyle with Bloomberg. Please go ahead.

**Matt Boyle, Bloomberg:** Hey guys, thanks for taking my question. Looking at the numbers here, your average ticket in the U.S. is up 1.2%, which is the highest growth we've seen from you in about three years and I think a big reason the comp beat by so much outside of the hurricanes. What's behind that? What categories are people spending more money in? Greg, you mentioned a second ago that the core customer is putting something else in their basket, often it's food, but you know, it's very hard to get people to really significantly increase their food budget, so are they buying more higher priced food items, like more meat, for example? What exactly is going on here with the tickets in terms of what people are spending more on?

**Greg Foran:** Yes, just to clarify that, actually ticket is pretty flat. People are actually buying more units and that's what we're noticing in the business. As we said, the food category has been strong and fresh has been good for us and that's something that we've focused on over the last three years fruit and veg and meats have been really good for us. Rest of dry grocery, including frozen and dairy, has also been strong. And we've done reasonably well in a number of general merchandise categories, so things like women's apparel have been good for us, toys. So, what's driving it from a stores perspective is traffic is solid and we're getting people putting, effectively, another item in the basket. That's what's driving the U.S. store numbers.

**Brett Biggs:** And I think you can see, some of the impact you typically see with hurricanes would be impacting the ticket, as well.

**Matthew Boyle, Bloomberg:** And can I also ask about the economy? Brett, what's your read on the U.S. economy right now? Unemployment's at the lowest level since 2000, consumer confidence is highest in almost 17 years, but consumers are taking on more revolving debt we've noticed. Can you give us a broad, sort of, your take on the U.S. economy at the moment?

**Brett Biggs:** Yes, you just pointed out a number of things I would've pointed I out. I think the consumer is in decent shape. I wouldn't say we've seen a meaningful change quarter-over-quarter over the last year or so. There are a lot of economic numbers that are very positive, which you pointed to – job growth, unemployment, GDP – all those are pretty positive. There are some things that you mentioned with consumer debt that appear to be ticking up a little bit, so we watch all of that. Overall, I think they're in pretty decent shape. We certainly believe that they are responding to what we're offering through convenience and price, and everything that we offer.

**Matthew Boyle, Bloomberg:** Thanks a lot.

**Operator:** And we'll take our next question from Lauren Thomas with CNBC. Please go ahead.

**Lauren Thomas, CNBC:** Hi guys. Thanks for taking my question. I was hoping that you could, and I know you just hit on this a little bit, but I wanted to see if you could expand any more on food, that division, and why the comps were so strong. We're seeing the strongest numbers in almost six years. What do you

think, what was it? Just the fact that you opened up more stores to do online pickup, or more marketing toward that, or what was it that really drove that division so high this quarter?

**Greg Foran:** Thanks, Lauren. Look, it's a number of things. Does opening up more online grocery stores help with you attracting new customers? Yes, it does. Does improving what we call the mods and doing a better job with assortment help? Yes. Does doing a better job with private brands, bringing them to Great Value, Marketplace and Sam's Choice help? Yes, it does. Does giving your associates better tools to do their job and introducing some new processes such as Cap and top stock section work, price changes help? It does. Does reducing inventory, improving in-stock, that's helping. And then finally, obviously, we start to lean into price, and that is helping, as well. So, it's a combination of all of those things. I'm not smart enough to tell you which one is more important than the others. All I know is you've gotta do all of them concurrently and if you do then, generally, you'll run a better offer for your customer.

**Lauren Thomas, CNBC:** Thanks.

**Operator:** And once again, if you'd like to ask a question, it is star and one on your touchtone phone. And we'll take our next question from Nandita Bose from Reuters News. Please go ahead.

**Nandita Bose, Reuters News:** Hi, thanks for taking my question. I've got a couple of them. First, on the proposed tax reform bill, the hope of course is that a lower corporate tax rate would generate the kind of investment that would boost growth to about 3-4% percent. Recently, at a conference with several CEOs, when Gary Cohn asked if the bill would cause a spend more on growth, he got a very lukewarm response. So, I just want to understand, what is Walmart's position on the issue? Will the bill that's being proposed generate higher investment in the U.S.? And the second question that I had was on clarifying the FCPA charge. Is it fair to say that the ongoing settlement talks with the different agencies have progressed to a point where you could now reasonably estimate of probable loss? Thanks.

**Brett Biggs:** On tax reform, so obviously there is a lot going on around that. Anything related to tax, the details matter a lot. So, we're certainly monitoring it and participating where appropriate in the process. We've said before, we want tax reform. We want things to be simpler. We want things that help our associates, help our customers, help job growth. We're in favor of all of that. I think like you, we'll just have to watch and monitor as the details become more clear in the next weeks and months and how that would impact our company, but we're certainly focused on it.

On the FCPA question, basically we've said what we can say at this point that we're at a point in our discussions with the agencies that we can reasonably estimate a loss and that's why we made the accrual. But with the discussions ongoing, there is just not anything more we can say today.

**Operator:** And we'll take our next question from Tonya Garcia with MarketWatch. Please go ahead.

**Tonya Garcia, MarketWatch:** Thanks. My question is about Sam's Club. The remarks that were passed around, they describe who the Sam's Club customer, and said that there were certain hurricane-related benefits. I'm wondering if you could elaborate a little bit more on why this quarter was particularly strong. Thanks.

**Brett Biggs:** Sure, this is Brett. We've been seeing some ongoing improvement at Sam's. It's like what Greg mentioned with Walmart U.S. Anytime you start seeing performance improve, it's a number of different things: it's how we're approaching members, it's better merchandising in the Club. I think it's more of a focus around that member and that target member that we want. So, when you can get that focus, small things add up to big numbers in a company like Walmart or a place like Sam's Club, so it's just a number of different things. I think John Furner and the new team at Sam's Club are doing a great job of getting focused in the business and I think it's just all those things put together.

**Tonya Garcia, MarketWatch:** Okay, great. Thank you.

**Randy Hargrove:** I think we're running close to time, so we'll try to squeeze in maybe one more question or so.

**Operator:** Okay, we'll take our next question from Kim Souza with Talk Business. Please go ahead.

**Kim Souza with Talk Business:** Thanks for taking the question. Now that you're showing transparency on Walmart.com with the two prices, what's the possibility of Smart Basket coming to Walmart.com? And also, if you could update us on the store associate delivering online orders and anything you've learned from that test.

**Marc Lore:** Sure, with respect to Smart Cart, the plan that I mentioned in October remains the same. We expect to launch Smart Cart on Walmart next year, so we're focused on building that capability as we speak. With respect to your second question on associate delivery, we are being very careful about how we roll that out and continue to learn more every day and continue to make tweaks to the app that the associates are using, but it is working well. We've been able to deliver the majority of packages next day. So, we're very excited about the progress that we've seen. Before we roll it out, we want to make sure that we've got everything completely buttoned up.

**Randy Hargrove:** Alright, we'll take one more question.

**Operator:** We'll take our last question from Luc Olinga with AFP. Please go ahead.

**Luc Olinga:** Good morning. I was wondering about the eCommerce Marketplaces in Canada and Mexico. Can you give us – a certain portion – is it up for a good start? And my second question was about the other international markets. Do you plan to launch eCommerce Marketplace in those markets, as well? China for example or the UK?

**Brett Biggs:** Sure, this is Brett. I'll take that. Obviously, we see the emphasis that we're putting on eCommerce in the U.S. business, and we've said that the North American core is a big part of what we do, which includes Canada and Mexico. So, we'll continue to lean in in eCommerce in those markets. Some of that could be first party over time, some of that could be Marketplace. We'll assess that as we go along.

As for the other markets, in China, as you'll recall, we sold our Yihaodian business about a year ago, a little over a year ago, and now are partnered with JD.com and our eCommerce business there, so we've taken a little bit of a different route in that market. In the UK, we've had, call it click-to-collect, we've had online grocery delivery for nearly 20 years in the UK. But in each market, it goes to: how do we want to serve the customers in those markets and if eCommerce should be a part of that. Given where the world is heading in most markets, eCommerce, at some point, will be a part of what we do in most markets, but nothing set out specifically.

**Luc Olinga:** No time frame so far?

**Brett Biggs:** No, that's not something we've discussed at this point.

**Luc Olinga:** Thank you very much.

**Brett Biggs:** Thank you.

**Randy Hargrove:** Thank you everyone for joining us. We are at time and we'll do this again next February when we have our Q4 earnings.

**Brett Biggs:** Happy Holidays to everybody.

**Operator:** This does conclude today's call.

###