Randy Hargrove, Director, Corporate Communications: Good morning, everyone. Thanks for joining us for today’s call. As you’ve seen, we’ve now announced our second quarter financial results. Charles Holley is going to again be leading our call today to discuss the company’s business. Charles is being joined by Neil Ashe, the president and CEO of Global eCommerce, and he’ll provide some additional information and answer questions on that part of our business.

There are a number of media on the line today and we have about 30 minutes for today’s call. You’ll hear some brief comments from Charles and Neil and then we’ll spend the bulk of the time trying to answer your questions. Please limit your questions to one or two so we can try to get through everyone and get to as many questions as we can in our allotted time.

If you need to fact check anything afterwards, please feel free to call or email me and I’ll try to help you out. And with that, I’ll turn it over to Charles.

Charles Holley, CFO, Wal-Mart Stores, Inc.: Thanks, Randy. And thanks everybody for joining us this morning. I'll make a few comments about the second quarter and then I’ll talk about our guidance.

First of all, our sales, as you probably saw in the release, were just over $120 billion for the quarter. That included around $4.2 billion of currency effect – negative impact – not totally unexpected with the strong dollar. As a reminder, on our earnings per share [EPS] our guidance for the quarter was $1.06 to $1.18; we came in within that guidance at $1.08.

We had four items that pressured our earnings this quarter. The first is what I just mentioned, currency. And then the other three related to our Walmart U.S. business, where our shrink was a little higher than planned. Also our pharmacy margins were lower than planned. And then we had some additional investment in our store associate wages and additional hours that did affect the results of Walmart U.S. and the company.

When I break it down into the segments, and Walmart U.S., their sales were around $74 billion for the quarter. That’s near 5 percent increase and positive comp of 1.5 percent. Results were driven by traffic being up about 1.3 percent. Now we’re focused on strengthening our customer relationship and I think you’re seeing those results. In fact, it’s the fourth consecutive quarter for positive comps. It’s the third consecutive quarter for traffic being up. Neighborhood Markets continued to have a very solid performance with a 7.3 comp.

Going to e-commerce, global sales were up about 16 percent on a constant currency basis with strong U.S. performance. There are some international challenges, and you’ll hear from Neil shortly.

Sam’s Club, and the investments that we’ve been making in margin and members, I think, continue to pay off in our sales. The comp sales without fuel are up 1.3 percent. Member income was up about 5.8 percent. We had good growth in e-commerce also.
Turning to Walmart International, our net sales were $34.8 billion. That’s up about 2.8 percent excluding foreign exchange – what we would call a PEG basis. Fairly solid quarter. We had very good results in Mexico and Canada. Mexico had around a 5 percent comp and Canada had around a 4 percent comp. Both were able to grow their operating income faster than sales. Just a really good performance given the economic environments that you’re seeing out there. That performance was offset by ongoing challenges in the U.K., Brazil and China. Also during the quarter, we spent $760 million to acquire the remaining shares of Yihaodian. It’s a strategic acquisition for us and for e-commerce in China.

We paid $1.6 billion in dividends and we repurchased about $1 billion in shares. Looking forward for guidance, in February we had put out the annual EPS guidance of $4.70 to $5.05. We’ve revised that guidance today. We expect EPS to be between $4.40 and $4.70. And that includes a range of $0.93 to $1.05 per share for the third quarter. Now, impacting the results going forward, very similar to what you saw in the second quarter where we see continued investment in wages and training and additional training in our stores, that will weigh us down by about $0.24 for the year, about $0.08 in the third quarter. In February we thought initially that would be about $0.20 for the year, so we have increased that estimate. Then we have incremental investments in e-commerce, that’s going to be about $0.06 to $0.09 per share. And then the full impact of about $0.11 for those items of shrink and for the pharmacy margin items that I just mentioned. And assuming the currency exchange rates remain at the current levels for the rest of the year, we’d expect the impact to be negative of about $0.15 per share from currency rates.

With that, I’ll turn it over to Neil to make a few comments and then we’ll open up for Q&A.

Neil Ashe, president & CEO, Global eCommerce: Thanks, Charles, and good morning to all of you on the call. It’s nice to be back together with all of you. Before I talk about what’s happened in the second quarter, I thought I’d provide a little context on what we’ve done over the last few years.

We’re proud of the progress that we’ve made in e-commerce here at Walmart. We’ve re-platformed our entire e-commerce operation, both from a technology as well as a physical distribution perspective. Pangaea, our technology platform, is consistently improving the customer experience and conversion at Walmart.com and is allowing us to drive sales growth. We’ve created a U.S. grocery home shopping network which is getting great reviews from our customers. And we’ve developed e-commerce at Sam’s Club and in key markets around the world, notably in Brazil and in China.

As Charles mentioned, we had good sales growth in the second quarter, especially in the U.S. That was buffeted a little bit by some of our key international markets. To dive in a little bit on the U.S. business; at Walmart U.S. we really saw a lot of the work that we’ve done over the past few years come together at the Dare to Compare event in July. We were able to move really quickly and to deliver what customers have come to expect from us, which is, they expect us to have lower prices than our competitors. And we’re able to monitor all of our competitors and deliver on those low prices for them online. They also expect us to have a broad assortment and we had one of the broadest assortments online over that time period. Customers responded very well, both in social media and with their sales growth. And we were able to deliver what only Walmart can deliver, which is, the customer could choose exactly how they wanted to receive those items. In addition to having a strong Ship to Home day, we had our largest non-holiday day ever in Pickup Today at Walmart.com. So the bottom line for us is that the event was all about trust. The customers could trust us for low prices and to have the things that they wanted to buy. It’s also about convenience and access. They could get it from us wherever they wanted and however they wanted.
We’ve also made continued improvements in Pangaea. We’ve migrated 100 percent of our cart and checkout volume to Pangaea. The mobile experience has improved with responsive design. And all those things came together on the date.

I also want to mention, for a second, Sam’s Club. Because there’s been significant progress at Sam’s Club also, and you saw that in the sales results. A lot of investment and improvement has been made in making the Club more accessible from a Pickup perspective and from a mobile perspective. We’ve also done some new and innovative merchandising things. We launched Shocking Values, for example, which has been really well received by members.

As I mentioned, grocery home shopping is receiving great reviews in the markets that we’re operating in the U.S. We’re expanding how customers can interact with Pickup points and so far it’s going really well.

And then in China, as Charles mentioned, we bought the remaining 49 percent of Yihaodian. Yihaodian is a large e-commerce business that’s largely focused on Tier 1 cities and grocery and home goods needs. That business now has over 100 million customers in China, so it’s a thriving business and we’re excited about what we can do with that business as part of Walmart. As we go forward, we will be focused on expanding and improving the management team and we’ll be recruiting from both inside Walmart, inside Yihaodian, as well as from the China e-commerce industry. We’ll be more tightly integrating that business with Walmart so we can benefit from things like global sourcing, which will help drive that business going forward.

In closing, we feel really good about the progress that we’ve made, about the re-platforming of e-commerce. We feel like the role of e-commerce at Walmart is to both bring new customers to Walmart as well as to expand the relationship we have with the customers that we already have. And we’ve made great progress on both of those topics.

So with that, Charles, I’ll turn it over to the questions.

**Charles Holley**: Alright, let’s open it up for questions.

**Courtney Reagan, CNBC**: Hi there. Thanks for holding this call today, I really appreciate it. I do have a couple of questions, but I know we have limited time so I’m going to pick one to get started, I guess. Since Neil is with us today, Neil would you be able to talk just a little more in detail about the sale that you all began, or the promotional program that you began, in the middle of July, in basically direct counter to Amazon’s Prime Day? I know that you released some of the stats right away, but I also know that it was ongoing and it went beyond just a couple of days. Are you able to share more if you could call that a success, what it means and what you learned from it?

**Neil Ashe**: Yeah. Thanks, Courtney. Good morning. As I said in my comments earlier, we were really pleased with the results we had around the event. We called it Dare to Compare and one of the great things about e-commerce is that, as any of the participants in the industry bring attention to the opportunity to shop then it gives us the opportunity to shine. So we felt like we had a day where we offered a broad selection at low prices and with multiple pickup options. So I think we mentioned after the day that we had our largest non-holiday day this year. As I said earlier, we had our largest non-holiday pickup day ever. So customers responded well to our offer. And our operation performed exceptionally well. We were able to move fast and we were able to push through a significant amount of volume.

**Courtney Reagan**: Great, thanks. And then, if I could just have quick one follow-up? And I’m not sure if this probably goes to Charles, but I know shrink has been talked about in a number of
different ways both last quarter and this quarter. Are you able to get a little bit further into detail and talk to us about if it’s concentrated in certain stores, in certain areas of the store? I know it’s not just theft, it’s things like damaged goods or produce that can’t be sold because it’s spoiled. Are you able to talk about why that’s increasing and in what areas?

**Charles Holley:** You know that’s a good question, Courtney. Shrink – it’s difficult to pinpoint exactly where shrink comes in any one store. It is broad-based. I think some of it has to do with making sure that our people are trained properly, especially in the fresh areas. Also cleaning up the backroom so you don’t have items in the backroom that don’t get marked down and don’t get counted for markdowns. That gets counted in shrink. So there’s several items that really cause shrink. And it’s not something that gets corrected overnight. We do feel like we’re on the right track with what we’re doing. We’re training and putting additional associates in the stores and as greeters. So we do expect that to improve over the next, I’d say, 18 months.

**Anne D’Innocenzio, Associated Press:** Yes, hi. Thank you. So obviously the investments in the store have really helped perk up traffic and sales in the U.S. stores. How much of that is the investments and how much is the economy? I mean, really the economy is still tough. So maybe you can talk about the state of the consumer right now. I know gas prices, lower gas prices, are helping.

**Charles Holley:** Sure. This is Charles. Yeah, I don’t know that there’s anything dramatically different with the consumer than we’ve seen in the last six months. Or especially in the U.S. Have gas prices helped the consumer? I think absolutely. Have they contributed to some of our sales increases? I would think that they’ve contributed some, but we think that the majority of the sales increases have really occurred from the investments that we’ve made in our stores. We think that they’ve been necessary and we think they’re starting to pay off. And you’re seeing that on the comp line and the traffic line.

**Anne D’Innocenzio:** Ok, thank you. So obviously with the economy, you feel there’s not going to be a real tailwind for a while or maybe a long time and you obviously can’t count on that? It’s the investments that are really pushing that?

**Charles Holley:** Yes, that would be correct. I think the investments would be the majority of what you’ve seen in our sales results. I don’t see anything dramatically different with the customer in the next six months than we’ve seen in the last six months.

**Sarah Nassauer, The Wall Street Journal:** Hi, guys. Neil, I wanted to ask you a little bit about sales growth. It looks like, from a growth standpoint, you’re down a little bit from last quarter and the same quarter last year. Is that purely due to the international weakness you talked about or are there other areas you’re hoping to improve in the short-term?

**Neil Ashe:** Hi, Sarah. Good morning. Yeah, it really is driven by international, the year-over-year change. Obviously we’re still growing in international, but we also had, as I mentioned, strong growth on Walmart.com and on SamsClub.com and you can see those in the results. So, international sales will be there over time. We’re competing in markets like Brazil where the economy is challenged and that affects our results.

**Sarah Nassauer:** Ok, thank you.

**Sarah Halzack, Washington Post:** Good morning everyone and thanks for doing the call. I thought since we had Neil on the line, today would be a good day to ask about Shipping Pass. I’m wondering if you can just give us an update on how the pilot is going, how consumers are
responding to it and if you have any clarity about when you may decide to roll that out more broadly?

Neil Ashe: Yeah, we’d be happy to address that. So, as we’ve said, Shipping Pass is a $50 unlimited shipping for 12 months. And we are operating that in closed beta, which means that people apply to be on the list and then we invite them into the program. We’re pleased with the results we’ve had so far. All of our customer satisfaction metrics are high and we’re pleased with the performance. We’re going to continue to run this in closed beta for a while, though, so we’ll get back to you when we decide to do anything different about it. But so far, it’s performing the way we expect it to perform and the customer satisfaction scores are high.

Sarah Halzack: Ok, thank you.

Olivia Sterns, Bloomberg TV: Hi, Charles. Hi, Neil. Thanks so much for taking the time to have the call with us this morning. I wanted to ask about Shipping Pass, but I’ll also ask about – you said one of the pressure points was in healthcare, in the way you’re getting reimbursed: less cash customers and more reimbursements from insurers. Can you shed a little bit more light on how much of a drag that was and if you expect that drag to persist? What, sort of, the outlook is for healthcare?

Charles Holley: Yeah, that has to do with pharmacy reimbursements from our pharmacy benefits managers that manage various programs. And basically it’s just certain drugs – some of the main drugs – we’re getting less reimbursement than we anticipated at the beginning of the year. We do feel like that drag will continue for this year. But, as usual in the Walmart way, we’ll continue to work with our partners on how we bring costs down. But we do see that drag and it’s reflected in our guidance for the balance of the year.

Olivia Sterns: Can you say anything else about how you’re thinking about buybacks? I spoke to a couple of analysts ahead of earnings who were saying that they were sort of surprised that there’s been a relative slowdown in the pace of buybacks. I did see, obviously that you upped the buybacks to $2 billion today.

Charles Holley: Yeah, I think the buyback was about $1 billion. And that’s probably the largest buyback that we’ve had in quite a few quarters. So we were able to increase it this quarter, which I think is good news for investors.

Olivia Sterns: Ok, thanks.

Nathan Layne, Reuters: Hi, good morning. I wanted to ask about the Neighborhood Markets. I realize that it’s a small takedown, but you’ve slightly cut the forecast for store openings. And you’ve mentioned that some potential locations weren’t up to snuff. I’m hoping you could provide a little bit more detail about what was wrong with those locations; what are some of the challenges to finding good locations?

Charles Holley: You know, it’s really a combination of making sure that we have an optimal customer experience, a location customers want, and also a balance with shareholder returns. We’ve been looking at our Neighborhood Markets and making sure we optimize them since, actually at the Analyst meeting we announced we were taking a hard look at them to make sure we have them where we want them. We’ve opened more than 350 Neighborhood Markets in the past two years and we’re starting to get an understanding of what the customers value the most. And location is just one of those factors that we look at. Also size of the box and product offerings. So it’s really a case of: we want to make sure we have high quality versus just the quantity.
**Shannon Pettypiece, Bloomberg:** Hi. Thank you for taking my question. I’m kind of new here, so I’m sorry if this is a bit of a basic one. But on shrink, I was just wondering, could you break down what’s coming from theft, what’s coming from damaged good – as you mentioned things like produce or items in the back that have to be thrown out – and if you could give some specifics on what you’re doing specifically to try to reduce that. You mentioned increased training, but are there specific things that employees need to be trained on more or different things they need to be doing to help get that number down?

**Charles Holley:** Sure. This is Charles. First of all, we don’t break out the details of shrink in the areas. But it is more broad-based. I’ll give you an example of training, like in the perishable areas, making sure that we’re accounting for our throw-aways and spoilage correctly and we’re accounting for it correctly in the margins. Sometimes if the training is not there, they don’t get it in there and it comes out when you do your inventory in shrink. Another important item is when we’re taking markdowns on goods. Making sure we understand what’s in the backroom and what’s on the shelf and making sure the markdowns are counted for all the items that’s clogged up with lots of inventory, they’ll miss some of those items and you’ll miss the markdowns. That comes through in shrink. Also putting more associates on the floor, putting more department managers - we’re adding 8,000 department managers this year, which we think will help a lot. We’re also adding back greeters. So it’s a number of items and it’s really broad-based across the store.

**Shannon Pettypiece:** Ok, thanks.

**Lindsay Whipp, Financial Times:** Good morning. Thank you for taking the call. I have a couple of questions, if that’s ok. The first one is on your guidance ahead and citing the wages and additional hours and training as a buffet. I’m wondering when you expect those investments in associates to drive enough sales growth to see through to the bottom line going forward?

**Charles Holley:** As we’ve stated, it’s a long-term investment. But we know it’s the right thing to do for the customer and for the stores. And it’s not something that you see immediate payoffs on, but that’s why it’s an investment. We do believe, strongly, that it will pay off. In fact, I think you’re starting to see it pay off on the top line.

**Lindsay Whipp:** Ok, thank you. And secondly, if I could just ask a question on China and the e-commerce operations there. Is it possible to go into a bit more detail on how the 100 percent ownership of the e-commerce company that you acquired the rest of the shares in last month, some more details on how working with Walmart, integrating with Walmart, is going to help drive sales and bottom line?

**Neil Ashe:** Sure, Lindsay. It’s Neil. As I mentioned, Yihaodian is a strong e-commerce competitor in Tier 1 cities focused on everyday needs. So, fast-moving consumer goods, dry groceries and other items that mom needs. So it fits very well with Walmart and where we are strong around the world. Our desire to take full ownership is representative of our confidence in the long-term potential of China, and the desire that we have for a customer proposition that is both e-commerce as well as store operations. As we’re taking the remaining 49 percent, we’ve launched our integration plan which begins by expanding the management team there, both from inside Walmart, from inside Yihaodian and from the China e-commerce industry. So we’re excited about the team there. And then the customer proposition will evolve as we start to take advantage of our opportunities to source additional products for the company. As we bring our global sourcing capabilities back to Yihaodian that will allow us to continue to expand the assortment that’s available to them. And interestingly, one of the largest and fastest-growing categories of Yihaodian is imported items. So obviously the Chinese consumer places significant trust both in imported
items and, more specifically, items imported from Walmart. We’re excited about the opportunity to continue the growth with those products and as we’ve said, China is an important market for us. The customer proposition for Walmart in China will be a combination of e-commerce and our store operations. And we look forward to growing there.

Lindsay Whipp: Thank you.

Hadley Malcolm, USA Today: Hi. I noticed you guys called out that customer experience scores have improved over the past year and I’m wondering if you could speak in more detail about what specifically you ask customers to determine these scores and why they improved?

Charles Holley: Hi. Thanks for the question. This is Charles. All of the questions — and I don’t have the exact ones in front of me — they’re actually centered around what we would look at fast, friendly and clean stores. Also the availability of on-shelf product is important in that survey. And we have trended up. And we’ve put a real focus on investment in making sure that those scores continue to improve. We would expect that improvement to continue this year.

Hadley Malcolm: I’m sorry, what was the first? Did you say fast, friendly and clean?

Charles Holley: Fast: so that we can get the customer through the checkout in a quick manner. Friendly: making sure that our associates are very engaged with the customers. And then clean: making sure the stores are clean and appropriate.

Hadley Malcolm: Ok, thank you.

Randy Hargrove: I think we’ve got time for maybe a couple of more questions.

John Biers, AFP: Hi there. Thanks for taking the call. I just wondered if you could give us a little bit of an outlook on how you’re thinking about the holiday season and whether it’s going to be as promotional as we’ve seen in the past few years?

Charles Holley: Hi. This is Charles. And I’ll speak first. I think it’ll be every bit as competitive as it always is. It’s always an exciting time for customers. And I think that would speak both for the stores and e-commerce. But Neil, I’ll let you say a few words on what you think.

Neil Ashe: We expect this holiday season to be as competitive as the last several. We expect e-commerce to continue to grow the offering that we will put forth for customers. We’ll recognize what is Walmart’s strength. As I said with the Dare to Compare event, we can offer a wide-range of products at low prices and we can give you different opportunities for access. So you’ll see both the Ship to Home as well as the Pickup in stores improve this year.

Shelly Banjo, Quartz: So I just wanted to ask about how the change in wages are going to effect not just this year but Walmart’s plan for the future. Meaning, will the higher wages and more employees be baked into your financial plans going forward operating at higher cost or is Walmart going to look at other areas, saying automating more things like checkouts, in order to balance this out?

Charles Holley: Well, these aren’t investments that we’re going to take away, so they’re permanent investments in our operations. We will always look for more efficiencies in our stores and in our supply chain and in our costs, but we feel like it is exactly the right thing to do by investing back in our associates with more department managers and better training. And we think
that pays off in the future. But we’ll give more guidance in October at the Analyst Meeting for next year.

**Shelly Banjo:** And then, just a quick follow-up: how did it change so quickly? You know, it just kind of happened that the wage increases, how do you think it’s translated so quickly?

**Charles Holley:** Well, you mean as far as our sales?

**Shelly Banjo:** Yeah.

**Charles Holley:** Yeah, I think we have a big focus in all of our stores with all of our store managers to make sure that, one, what I mentioned before, is that the stores are known to be fast and friendly, and they’re clean and they have the right amount of inventory on shelf so that the goods are there. And then the training has started. We’re not done yet. And that’s reflected in our guidance. There’s still more investment to do as far as associates, department managers and training. So we would expect to continue to see those customer scores increase over the balance of the year.

**Shelly Banjo:** Thank you.

**Randy Hargrove:** Ok, and I think that takes us to time for this quarter. Thanks for everyone’s participation and we’ll see you again next quarter.

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