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MARCH 06, 2018 / 3:25PM, WMT - Walmart Inc at Raymond James Institutional Investors Conference

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**Beryl Bugatch** *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

## PRESENTATION

**Beryl Bugatch** - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

Good morning. I'm Budd Bugatch with Raymond James. It's my privilege and pleasure to welcome you today to the Walmart presentation here, our 39th Annual Institutional Investors Conference here in Orlando. With us today from Walmart, we've got Brett Biggs, EVP and CFO; Steve Schmitt, Vice President of IR and soon to be CFO of Walmart -- of Sam's Club. Also with us from the company, we've got Stefano Rosso, CFO of Chile; Kary Brunner from the IR team; and Melanie Belford, who's with Sam's Club in Finance. Brett, without further ado, I'm going to let you start and then we'll get the presentation.

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**Brett M. Biggs** - *Walmart Inc. - CFO and EVP*

Great. Thanks, Budd. Appreciate you having me here in the first (inaudible) March (inaudible) and everybody will agree with that as well. So thanks for having us. This is always one of the best conferences, we really appreciate you having us here. I'm going to start this morning -- we always start with this slide, which is our (inaudible) to make sure that we let you know that I may make forward-looking statements this morning, so please review all the materials we have on our website for (inaudible).

This is a slide I'd like to start with. And if I think about us on a stage, this is us on a stage. And everything that we do and everything we talk about goes from -- so as you think about us as a company, this is how we think about ourselves. It starts with who we are, what's our DNA, who we are as a company, taking care of associates, taking care of our customers -- everything we do, doing the best we can, striving to be excellent -- thank you for getting the volume adjusted. And the bottom, it's why we do what we do. Who do we do this for? So it's for customers, for our associates, for our communities and, more importantly, for our shareholders and our investors that have been great investors for our company. And in the middle, what is it that we do and how we do it? So you've heard Doug talk a lot about making every day easier for busy families. And as we talk about an executive team, decisions that we make, that's where we start, how do we make lives easier for our customers, and I'll go through a few things that we're doing in that regard.

We're continuing to change how this company works. We're becoming a much more digital company, using technology more than we ever have, both on the customer side as well as on the back side. I like the discipline that we have today. I'll talk a little bit more about it. We've always been a fairly disciplined company but we're getting better and better from that standpoint. It's going to continue to fuel the business and our ability to grow long term. And then we want to be the most trusted retailer. This is very important for us from a community standpoint, from an investor standpoint and with our customers as well.

Here we go. It's a little bit of a slow feed on the slide change. As we make decisions as a company, the financial framework is really important. We laid this out a little over a year ago for investors to help you think about how you should think about us as a company. We've always talked about -- we started with growth, which is really important for us as a company, and strong growth but we added the word efficient. And I'll talk in a minute how we are growing in a more efficient way than we were in the past. So we're growing sales more on comp and with e-commerce versus building new stores, and you'll see that in the graph that I'll show in just a minute. From a discipline standpoint, I said I like where we're going from a cost standpoint. I'll talk about that a little more in a minute. Working capital has been a huge improvement over the last couple of years for the company and it's fueling our ability to grow more efficiently. And as we spend capital, we want to spend every dollar strategically in the right way and putting that against the things that are most important for our company, as you would have expect.



MARCH 06, 2018 / 3:25PM, WMT - Walmart Inc at Raymond James Institutional Investors Conference

There we go. So start the year, we're coming in with really good momentum. We had a nice year in FY '18, made good progress overall, a lot of progress on a number of fronts and the momentum's good coming into the year. For the first time this year, revenue surpassed in FY '18 \$500 billion. So we're starting to become a pretty big company, which is helpful. You're able to do a lot of good things as you become a big company. From a comp standpoint, U.S. comps at 2.1%. If you see on the right, the Walmart U.S. comps, really progressing as we went throughout the year, a 2.6% comp in the fourth quarter. Some of it's e-commerce, some of that's in stores, but we like that number. It's a really important number. And also, the traffic increases that you're seeing are really important. So a 1.6% traffic increase in the fourth quarter.

U.S. e-commerce sales are 44%. I'll talk about that a bit more in a minute. Our comp, as you know, was lower in the fourth quarter and I'll speak to that a bit. Sam's Club continues to have really good momentum. Actually, we have our year beginning meeting right now here in Orlando, where all our team is together and good momentum at Sam's Club. I like what John and team are doing there.

International continues to be a good story. Ten of 11 markets with positive comps. We have our CFO from Chile here. Chile had a great year this last year. EPS increased 2.3%. If you pull out all the adjustments that we had in the last year -- in last year and the year before that, we did leverage expenses for the year and we leveraged more in the last half of the year as we did in the first half of the year. So I like the progress we're making on expenses. And I never want to go away without talking about that operating cash flow number of \$28.3 billion this last year. And so if you look at the last 2 years, almost \$60 billion of operating cash flow, and as a company, it just gives us a ton of options about how we win long term.

So let's go through each one of the things in the financial framework and I talk first about strong, efficient growth. And from a total sales perspective, if you look at FY '18, way more than half of our growth is coming from comps and e-commerce growth. If you have had gone back 2 or 3 years ago, you would've seen much more than half of our sales coming from new store growth. So this allows us to be much more efficient as a company going forward from a return and an expense standpoint. So we're really proud of the progress we've made with this.

From an operating discipline standpoint, we've talked about a number of times on the left, SG&A as a percent of sales is not where we want it to be. We've made intentional investments in e-commerce and wages and other things that have taken our SG&A from 19% to 21%, and these are reported numbers that you see here on the left. But we started to bend the curve in this last year and it's what we said we wanted to do and we've been able to start bending that curve and you can see we expect that to continue. So we've made good progress, particularly in Walmart U.S. stores and in international from a leverage perspective when we leverage for the year. Walmart's never lost its EDLC culture but it hasn't been as intense as it has been in the past. And if you're in the company now versus a year ago, you would feel that intensity again versus EDLC. And so I really am proud of what we're doing. And we're making progress on things like goods not for resale, shared services and places where, with our scale, we can make a big impact as we go forward.

Now we did take some of that, as you would have seen, and we made some conscious decisions to invest further in FY '19, and that's going to offset some of the savings that you would've seen from a leverage standpoint.

As tax reform started developing at the end of last year, we stepped back to the team and said, are there things that we think we should do to accelerate investments, some initiatives that we had underway, pricing, wages, technology, e-commerce, supply chain? And we decided, yes, this was an opportunity for us to go ahead and continue to accelerate some initiatives and continue to put our foot down on the pedal as it relates to our aggressiveness as we continue to compete and want to win longer term. And so you would've seen the associate investment that we announced in January. We're going to continue to be thoughtful but aggressive from a pricing standpoint. That's a big part of our DNA and we're going to continue to win from a price standpoint. And we're going to continue to invest in the future whether it's technology, e-commerce. There are so many things going on now in supply chain that we're going to take advantage of technology and what we can do there as well. But we are going to focus on investing to win in the long term. We understand short-term and long-term expectations for shareholders, but we want to win long term. And as we've been giving guidance over the last year or 2, we've said there may be periods of time where we decide to invest, and this is a period of time where we said we want to invest further in our business.

So from a capital allocation standpoint, obviously, we get a lot of questions. You have a lot of interest in how we allocate capital. Nothing has changed in how we think about capital. So we start with we want to invest in the business. And so we start in that upper right-hand corner with CapEx. And this last year, CapEx was about \$10 billion. That's one of the lowest amounts we've had in quite a while. And so I think we're doing a



MARCH 06, 2018 / 3:25PM, WMT - Walmart Inc at Raymond James Institutional Investors Conference

better job of being really thoughtful with every dollar of capital. Again, we've always been disciplined but I think our discipline continues to improve around capital.

Dividends, you would've seen that we just increased it for the 45th consecutive year. We're very committed to our dividend and continuing to increase that in the future. On share repurchases, we announced a \$20 billion share repurchase program last year, last October, that we said we would utilize over about a couple of years. We still believe that'll be the case, and so we're committed to our company and we believe our company continues to be a good value from a share repurchase standpoint. And we continue to make choices. We've made a lot more of these in the last couple of years, and even this last quarter, you saw us rightsize the Sam's Club fleet. We decided to close the first part of e-commerce business in Brazil. Earlier in the year, we sold Suburbia, which is a great business, and Walmex, but not part of our core. We've been talking about realigning the U.S. pipeline. So there's a number of things that we continue to do as a company and take decisions that allow us to continue to be focused where we need to focus long term.

So I'll spend a couple of minutes on Walmart U.S. e-commerce. This is a chart that we would have showed in October where we said we'd end up with about \$11.5 billion of sales for the year, which is pretty close to where we ended up -- actually almost right on where we ended up for the year and where we reiterated a couple of weeks ago our expectation of 40% growth for this current year. And we expect that -- the growth rate to go from their levels it was in the fourth quarter and move up as the year goes along. We'll be comping things like 2-day free shipping in the first quarter. But we expect that to move up through the year and be about 40% for the full year.

So how do we do that? We talked about the fourth quarter and we were at 23% in the fourth quarter. And there were a number of things related to that. We did plan down our quarter, and we did that from the standpoint that we did some things in the fourth quarter the prior year that were more promotional than we thought we needed to be in this year's fourth quarter, and so we made some decisions around that. We still came in a little lower than we wanted to and had planned to, but we did plan for that to be down. But there's a number of things, as we go into the year, that are still very true about this business and I'll start in the upper right -- actually in the center with nailing the fundamentals. We're still fairly new. As an e-commerce company, there's things that we're always continually doing better. And you've heard Marc Lore talk about our customer value index or CVI, and it's really those 5 things in the upper right-hand corner of have it, find it, display it, price it and deliver it, just be really good at the fundamentals of e-commerce. And we're getting better and better at that every day and we track it meticulously. So there -- part of our growth is going to come from just continuing to get better at what we do on a day-to-day basis. We continue to expand the brand. Jet.com was an important part of that extension of the brand. If you've seen our advertising lately, if you saw it during the Oscars, much more about omni-channel. That omni-customer is incredibly important to our business. And so we're continuing to focus on e-commerce, the stores, but more importantly, how do we get that shopper to shop both.

Store No. 8 is helping us think about the future and we have a group of people that, for the most part, they're thinking 3 years out, 5 years out, 10 years out. What are the things that we can do in the future to make the customer experience better? And what can we do from a partnership standpoint, things like we did with Google, that can accelerate some of the things that we want to do longer term? And on the left, so play offense, that's really -- that's who we are. That's how we win long term is these things right here. So when we acquired Jet, smart cart was a really interesting part of that business, and that's something that we'll continue to use Jet, of course. But you'll see pieces of that work its way into walmart.com over time.

On the experience side, Online Grocery has been a tremendous success. We had 1,100 stores this last year and we expect to have about a little over 2,000 as we come out of this current year. The really important part of what we do, our customers love this and it continues to get us more top of mind with that customer. We're going to continue to look for ways to utilize our stores and our e-commerce teams together and our businesses together because we believe long term that's where we win as a company, is getting those 2 things in sync. We talked about in our release that we've been testing grocery delivery. There are some things that we want to accelerate as we go throughout the year with grocery delivery that we think can be another leg of growth for the company.

So let me go and talk just a little bit about our guidance. You would've seen all of this, but make just a couple of comments. So net sales growth of 1.5% to 2%, of course, that compares to what we said in last October of around 3%. The major difference there is Sam's Club and the club closures and the decision to pull out of tobacco in some of our clubs, and that's the difference, but a comparative number, the 3% we said earlier.



MARCH 06, 2018 / 3:25PM, WMT - Walmart Inc at Raymond James Institutional Investors Conference

U.S. comp sales of at least 2%. You've seen those kind of growth rates in the third and the fourth quarter, and we expect that to continue as we go throughout the year. Really good momentum at Sam's Club. Walmart International, 3% on that large of a base. Obviously, within the country, there's a wide range of how you get to that 3% but a good healthy number. And operating income, we have gotten a lot of questions on operating income. And so when we talked about, it was a range of 4.3% to 4.4%, again driven by the catalyst of tax reform. So it's down a little bit from where we'd be last year. And we said versus operating income, down a low single-digit percentage in dollars from where we were last year. But again, tax reform is a catalyst of why we decided to continue to invest in the business, and so that's the decision we made and why operating income, we wanted to give you that guidance, so you can have a sense of where we think we'll be for the year.

But from an EPS perspective, projecting to grow 7% to 13%, which is an incredibly healthy number given all the things that we're doing, the investment that we're trying to make. But still be able to grow earnings at a rate of 7% to 13%, we feel really good about as a company.

So let me close out and almost close out where I started, which is I like how we exited '18. I like how we're entering '19. There's a lot of things that we can still do to drive more growth, to continue to be more efficient from a cost standpoint. There's initiatives going all the time and we're working on this every day. There's trade-offs we need to make as a business. And as an executive team, you would imagine we spend a lot of time thinking about what those trade-offs are, where do we put our dollars, what are things that we decide to stop doing. But we want to win long term and I said earlier we understand the expectations, both short term, midterm, long term, of our investors and we have the same expectations of ourselves. There are times where we're going to make -- take opportunities to invest. We felt like this was a time to do that, but I am every bit as optimistic as I've ever been about this company. And when you look at the assets that we have in place, both financially as well as the businesses that we have and the levers that we have to pull, pulling all this together in a way that wins with that omni-channel is critical and I believe we're one of the few companies that has the chance to do that.

So Budd, I'll turn it over to questions.

## QUESTIONS AND ANSWERS

**Beryl Bugatch** - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

A couple of things the investors are, obviously, very, very mindful of, is the improvement in Walmart U.S. and the supercenters over the last couple of years. Can you maybe go and give us a little bit more color of what some of the initiatives that have really been driving that? And how did that momentum really continue over the next couple of years?

**Brett M. Biggs** - *Walmart Inc. - CFO and EVP*

Yes. The supercenter business continues to be really strong. You've seen it with the traffic and with the comp. And Greg Foran and that team just continue to do a great job. They had their year beginning meeting just a couple of weeks ago that I was able to attend. And as you would expect, it's a combination of so many things and things that they've been doing, some of which just get better. So inventory, down almost 3 years in a row now and the stocks are better. That makes the store more efficient. Some of that's driven by technology. More and more use of self-checkout on the front end, our customers love that. So as we remodel stores, we have more and more self-checkout. Customers like that, makes the store more efficient at the same time. Major focus on fresh. Over the past 3 or 4 years, we've put a lot of time and energy into the fresh supply chain. We've taken almost 3 days out of that fresh supply chain, which is a big deal in your home when that produce is still good 3 days later than it was before. But the way we're merchandising, the way we're training, a lot of good changes in the fresh business. And the last one I mentioned is private label, continue to make great strides in private level. You saw some recent announcements about some private label apparel brands. One of the things that's hit me the last 2 years at the year beginning meeting is the amount of work that's going on around private label. The packaging is better, the pricing is sharp, really good products, good feedback from customers. We're going to continue to be a house of brands, we always have been, always will. But that private label in the future is going to play a really important part of what we're doing, so I'm excited to see the growth in that.



MARCH 06, 2018 / 3:25PM, WMT - Walmart Inc at Raymond James Institutional Investors Conference

**Beryl Bugatch** - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

And one of the other critical factors that's been involved and certainly important for the share price performance has been, in fact, the growth of e-commerce. It's been great. It was great for the first couple of quarters of 2017 and then in [2000]. And then in the fourth quarter was a bit less than what we were expecting and what I think The Street was expecting and less than the 40%, the 23%. Talk about some of the operational issues that may have impacted that. I know you talked about being a little bit less promotional. Maybe you can give us some color as to where that was. And then how do we get some comfort that you will get back to that 40%? And when will you get back to the 40% growth in e-comm?

**Brett M. Biggs** - *Walmart Inc. - CFO and EVP*

Yes. So the operational challenges that I mentioned were more around fulfillment. And so as you start -- you always have this challenge. As you start pulling more seasonal inventory into a fulfillment center, where you have everyday goods, you can have some challenges with that. We had a few more challenges in the fourth quarter than we would have expected. And that really were -- those were the operational challenges in the fourth quarter. So even though we planned down, we ended up a bit below where we wanted to be from a plan standpoint. Where we want to go this year, it's really what I talked about just a minute ago is part of it is just getting better every day, nailing the fundamentals. We have room to go to be where we want to be just from a fundamental standpoint. The site redesign, the site redesign that you'll start seeing pieces of it throughout the year. You saw a piece of it just a couple of weeks ago with what we're doing with home. We're getting really good reviews from customers on what we did around home. So a vertical piece of the site. But we continue to make the site more usable, more appealing to customers. Some of the acquisitions we've done over the past year or so continue to elevate that Walmart brand. So we'll never lose a core customer but continue to elevate the brand. When you elevate the brand, you get more brands. And so continuing to elevate that experience, all of that is part of why we get comfortable with the guidance we've given. Now in the first quarter, I'd say we're up against 2-day free shipping. So we anticipate that the number, being above where we were in the fourth quarter but continuing to grow as we go throughout the year, we're not going to give quarter-to-quarter guidance, but for the year, it will be about 40%.

**Beryl Bugatch** - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

There's been a lot of commentary in the media and the investment about the tight trucking market and Walmart's a major force in the trucking market. Can you talk a little bit about that sizable fleet that you operate, how that's being impacted by what we're hearing?

**Brett M. Biggs** - *Walmart Inc. - CFO and EVP*

It's a good time to have your own fleet for a lot of reasons. To have the drivers that we have and the long-tenured associates in that area is so important. Transportation costs were up a little bit we talked about in the fourth quarter. Some of that was fuel prices are a little bit higher than they were last year, 10% to 12% higher than they were last year. As you sell more, you move more. And so your transportation costs can go up a little bit from that perspective as well. We do use some third parties, but the price pressure that you're reading about and seeing would have less of an impact on us than it would, I think, some others.

**Beryl Bugatch** - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

Okay, okay. And the site redesign, we've seen a little bit of that so far. When will that be complete? Will it be complete all this year?

**Brett M. Biggs** - *Walmart Inc. - CFO and EVP*

Probably site redesign will never be complete. We're always going to be working on the site, but there'll be noticeable things that you see throughout the year.



MARCH 06, 2018 / 3:25PM, WMT - Walmart Inc at Raymond James Institutional Investors Conference

**Beryl Bugatch** - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

Okay. Another thing that's been in the media pretty much recently was the actions taken at Sam's Club and the strategic resizing of that fleet. Can you talk a little bit about what John's done there, what the prospects are for Sam's Club and maybe even the move to have totally Member's Mark as a -- as your private brand?

**Brett M. Biggs** - *Walmart Inc. - CFO and EVP*

Yes. John and team and there was work already underway, but John and team really accelerated a number of things around Sam's. And they've gotten more clear about who that member is that they want to service. It's a broad range. But giving that member an elevated experience, both from a membership standpoint, getting membership simpler, so getting the 2 types of memberships is really important. The merchandising -- I was at a Sam's Club last yesterday, the merchandising was great. Great pricing on home security and mesh networks and all the things that you want, right, when you walk in the club. So I think the merchandising has gotten better, membership's gotten simpler, plus memberships now with free shipping on e-commerce orders. So they've elevated what you should expect from that membership. As they looked at the clubs that they wanted to shut, some of that was around financial performance, it always is, but also around ensuring that we have clubs in the locations that we want to ensure that we serve that member that we're wanting to serve. Member's Mark now just having, for the most part, one private label. You'll remember a time, Budd, when it was 10, 12 different types of private label really getting that narrowed in to that one is also an important point for our member there.

**Beryl Bugatch** - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

Okay. Financially, one of the areas of really good performance has been working capital performance, particularly payables as a percentage of inventory and looking at days payables. Where are we on that cycle? Is there any room to go further on that?

**Brett M. Biggs** - *Walmart Inc. - CFO and EVP*

I think there's always room on working capital. If Greg Foran was here, he would tell you he goes in stores and he still see places to get inventory in better shape, even keeping stocks where they should be. And we've made a lot of progress, Budd, in the last 3 years. Where we see that kind of improvement that we've seen in the last 3 years, hard to say, but we're continuing to work on it. When you're driving the kind of comps that we are in the U.S., you -- we're driving a lot of growth for suppliers. And so we want to ensure that we're getting the best deal that we can given the volume that we're driving.

**Beryl Bugatch** - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

Okay. And I guess the last question I'll ask before the breakout is operating margin. You've given some sort of guidance this -- for now of this year. How do we look at that going forward over the next couple of years? Where do we get -- do we see operating margin growth over the next several years?

**Brett M. Biggs** - *Walmart Inc. - CFO and EVP*

So we've only given guidance for the 1 year because of the investments that we wanted to make this year. We understand returns. There's different ways to get to improved returns. Obviously, operating income going up is one of those. So we're aware of that and always want to balance that, along with how we win long term. And I think there's going to be years where it moves a little bit this way, it moves a little bit this way. But on balance kind of being where we've -- in a range kind of where we've been, we said that in October and we decided to take it down a little bit more because of the investments we're making. So we're not going to give guidance out more than a year, but understand the challenge that creates from a returns perspective for investors.





MARCH 06, 2018 / 3:25PM, WMT - Walmart Inc at Raymond James Institutional Investors Conference

**Beryl Bugatch** - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

Okay. Well, thank you very much, and we'll continue this at the breakout.

**Brett M. Biggs** - *Walmart Inc. - CFO and EVP*

Okay. Thanks, Budd. Thank you.

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