



**Walmart Q3FY17 Earnings Results  
Media Call Transcript  
November 17, 2016**

**Randy Hargrove, Senior Director, Corporate Communications:** Thank you. Good morning everyone, and thank you for joining us for today's call. As you know, we announced our third quarter financial results and we have Brett Biggs here today who's going to be leading our media call to talk about the company's results. Brett is being joined by Greg Foran, Walmart U.S. President and CEO. We have a number of media on the line with us this morning and we'll have about 30 minutes to move through and try and get to as many questions as we can. Greg and Brett will give you a few brief comments and again, we'll spend the bulk of the time getting to your questions. Please try and limit those questions to one or two so we can try and get to as many as possible. If you need to fact check anything afterwards, please reach out to me and I'll be around all day to try and help. So with that, I'll turn it over to Brett.

**Brett Biggs, Executive Vice President, Chief Financial Officer:** Thanks, Randy. Good morning everybody. We appreciate your interest in Walmart. I'm going to make a few comments and then I'll hand it over to Greg. This was another solid quarter. We're pleased with the momentum we continue to see across the business and I'll hit a few highlights. As you would have seen, diluted earnings per share was \$0.98, which was near the top-end of our guidance. Total revenue on a constant currency basis was just over \$120 billion, an increase of 2.5%. Currency continues to be a bit of a headwind, particularly with the peso and the pound. Really strong free cash flow of \$12.2 billion over the first nine months; almost \$20 billion of operating cash flow. That compares very favorably to last year. We were able to return nearly \$3 billion in the quarter in dividends and share repurchase, so as we continue to transform the business, we are doing it certainly from a position of great financial strength.

I'll start with e-commerce. For several quarters now we've talked about the foundational investments we've been making whether that's in logistics or systems or in people and we're starting to see the results of that. You saw it in our results today. Sales have continued to improve sequentially throughout the year. You would have seen our sales increase 20.6% for the quarter on a constant currency basis, with the U.S. being a little stronger than international. The Jet.com integration is going well. We're enjoying getting the insights from Marc and his team and they're working with our team in San Bruno so we're excited about that. Online grocery, we're now in 100 markets. That's up 40 markets from last quarter and we added eight million SKUs online versus just three months ago so there's a lot of things going on in e-commerce and we're excited about what we're seeing there.

I won't say much about Walmart U.S. because Greg will do that, but again, another solid quarter. Good comp sales up 1.2% and that's with the continued deflation that we see there. Great work on inventory and the stores are ready for the holidays.

International had another solid quarter. Every market, except for the U.K., had positive comp sales. Seven markets grew by more than 4%. The U.K. continues to be challenging but we're making progress there and great performance from Walmex.

Sam's Club comp sales were better than expected at 1.4%. Membership income was up 2.3% so some progress with Sam's.

From a guidance standpoint, as you have seen, we raised the bottom end of our EPS guidance to \$4.20 a share. Walmart U.S. comp up 1-1.5% for the fourth quarter. So, we're still seeing good momentum in the business. It was a good, solid quarter and we are ready for the holidays. With that, I'll turn it over to Greg.

**Greg Foran, President and CEO, Walmart U.S.:** Thanks, Brett. As he mentioned, Walmart U.S. delivered a solid third quarter and we continue to see momentum in the business. Positive sales and traffic and we continue to work hard on improving the customer experience and we're seeing the results of that. E-commerce, as Brett mentioned, also improved. We've got some deflation in food that we're cycling through and as well as that, warmer weather so just a couple of headwinds there but I'm really pleased with the work the team is doing in managing the flow of inventory in the quarter. As Brett mentioned, Q3 performance saw an improvement in comp sales of 1.2% and the 2-year stack basis was 2.7%. I'm pleased with the 5.2% comp that we had in the Neighborhood Markets. Traffic increased 0.7% on a 2-year stack; that's actually up 2.4% and ticket increased 0.5%. So, total net sales were up \$1.8 billion or 2.5%.

Inventory, as I mentioned, came down 2% in total and pleasingly, down about 6% in the comp stores. What that does is gets us in a decent position for the holiday season and even improving the customer experience further. Across some of the business sections, general merchandise and health & wellness all performed well - home, toys, sporting goods, automotive, and OTC. Grocery comps were actually pretty flat and as I mentioned, a bit of that is deflation coming through.

We continue to work on our multi-year strategy of incremental price investment and we continue to be pleased with what we're seeing there. Online grocery is also getting rolled out and we're now in 100 markets, nearly 600 locations, so that's up from 400 locations in Q2.

In terms of the holiday, we're feeling in good shape. We're ready and willing and as always, we expect it to be competitive. We've got holiday helpers out there for the first time to help customers get through checkout lines even faster and we continue to work closely with Marc and the team to expand the online assortment that's available for pick-up. So in closing, I'm pretty happy with where we're going, sticking to our plan and getting on and executing with that. We're seeing a better shopping experience for our customers day by day. I'm pleased with the underlying momentum that we've got in the business and feel good about what we're seeing as we get into the holiday and the fourth quarter. With that, we'd expect comp sales to be between 1% and 1.5%. Thank you.

**Randy Hargrove:** Great, thank you. With that, we'd like to open the lines up for questions.

**Anne D'Innocenzio, The Associated Press:** Thanks for having the call. The traffic was slower from the quarter before and also sales, so how much was it because of the distraction from the

election? What was going on with the quarter? Can you also describe the mood of the shopper right now after the election? Thank you.

**Greg Foran:** We're seeing a pretty consistent performance through the year – Q1, Q2, Q3 – any changes I guess that I'm seeing or feeling in the business are pretty marginal and smaller, whether it's weather in the southeast, or whatever. So, it's only been a week since the election and we don't have a lot of data, no real change that I'm seeing in terms of what we've got out there. I feel the third quarter was pretty solid and about where we expected and we've given guidance on the fourth quarter. So, we're executing to a plan and comfortable with where we are. On a 2-year stack basis, it's about where I'd expect to be, which is reasonably solid with the third quarter last year. So, business as usual would be my summation.

**Anne D'Innocenzio:** Thank you.

**Luc Olinga, AFP:** Good morning. My question has to do with e-commerce, do you guys still plan to make investments in e-commerce in places like India, for example?

**Brett Biggs:** E-commerce is obviously important for us as a business. We haven't talked specifically, really, about particular countries. India is a market, as you know, that we have a few, around 21 wholesale clubs there today. It's a market that we think can be good for us in the future, certainly with the number of people there and the potential economy in India. We still think that's a good market for us in the future and it's possible that e-commerce could be a part of that as it would be with the rest of our business.

**Luc Olinga:** Ok. My last question – can you give an update on the impact of Brexit now on your position in U.K.? We saw that the net sales are down 5.8% - does this have to do with Brexit or is it just Asda's continuing difficulties?

**Brett Biggs:** As you know, the U.K. is a challenging market right now from a retail perspective with discounters and the big four – it's a competitive environment. Our new team over there, our new CEO Sean Clarke and the team, I think are doing a nice job of taking a really good look at our customer value proposition and making sure that Asda is Asda and doing the things they're known to do. So, I think it's a challenging market and we're certainly addressing it with urgency. I think it's going to take some time. That market will continue to be challenging for a little while but we're addressing it with urgency.

**Luc Olinga:** So there was no Brexit issue then?

**Brett Biggs:** I don't think there's any way to assess that.

**Luc Olinga:** Thank you.

**Sarah Nassauer, The Wall Street Journal:** Good morning. I'm hoping you guys can give us a little bit more information on how people are using the grocery pick-up and Greg, maybe you can speak a little bit to how you're managing that operationally in stores and what you've learned about what you need to do as it expands to a pretty significant number.

**Greg Foran:** Sarah, as we mentioned, we do continue to roll this out and are actually rolling it out pretty quickly. Having worked in New Zealand and Australia before, I've done this before. We've got a reasonable amount of experience. Judith, as you know, works with me and she's out of Asda where they've been doing it for 20 years. So we've got our foot to the floor and we're moving quickly – another 200 stores, basically, from where we were in Q2, to now 600

locations. As you can imagine, when you're doing that many in sort of a 13-week period, you've got to make sure you get your real estate teams lined up and your permitting and licensing lined up, your in-store training, your equipment. So, you can imagine we've got a playbook, a one-best way, if you like, of doing this so the team can go in and make sure we're getting the stores organized to hit a time, if we're building anything on the outside to make it easy for the customer to handle a drive-thru, then that's getting done. Refrigeration gets put in place, obviously, the standards in the store shift to make sure we're up and we get on with it. We're getting better and better at it as we do it, as you would expect, the muscle grows. What I can tell you is we're getting customer experience scores here, actually higher than I have ever seen, even before I came to Walmart. It's really well-accepted and we think it's a pretty important part of our offer to our customers.

**Sarah Nassauer:** Do you have any read on how many of the folks using these new grocery pick-up locations? Are new Walmart customers or lapsed Walmart customers? What's the incremental customer growth?

**Greg Foran:** We do, but that's not data that we share. We're pretty happy with how we're going with it. Thanks.

**Sarah Nassauer:** Thanks.

**Sarah Halzack, The Washington Post:** Good morning and thanks for doing the call. I wanted to ask a little bit more about e-commerce growth. Are you able to quantify or even talk in broad brush strokes about how much of that growth is related to Jet and how much is related to the legacy business?

**Brett Biggs:** If you look at the way we discussed numbers this morning, if you look at e-commerce sales on a constant currency basis it was 20.6% - that's the growth and that includes a few weeks of Jet that was in the quarter but it also includes Yihaodian. That's our China business that we're winding down or transferring to JD.com, so it's winding down on our books. One of the ways that we tried to make it a little more understandable was if you look at the GMV numbers and if you exclude Yihaodian, GMV was up 28.6% and that's a reflection of the marketplace and growth we're seeing there. If you back out Jet, that amount would still be above 20% so we're trying to give investors a read or a sense of how Jet sits in the financials. Jet is not something we're going to break out on its own, we're going to be talking about the e-commerce business in total because that's how we look at it, but hopefully that gives you and the investors a little bit of insight into that.

**Sarah Halzack:** Ok, thanks. That's helpful.

**Brian Sozzi, TheStreet.com:** Good morning guys. Two questions –one Brett for you, we've seen a pretty big rise in the dollar lately. Is Walmart looking to take any specific actions this quarter and looking at next year to mitigate that? Greg, we've also seen, conversely, a pretty dramatic rise in stock prices over the past week. Do you think that has any influence on how the Walmart shopper shops this holiday season?

**Brett Biggs:** I'll start with the currency question. The dollar has been strong all year and has gotten even stronger in the last couple of weeks. There are some things we do on kind of a regular basis in how we procure merchandise where we certainly are aware of currencies and look to mitigate that. On a longer term basis, currencies are going to move up and they're going

to move down and certainly we're aware of it and we do things that we think would make sense in that context. But there's nothing on a broad basis that we would change based on what's going on today.

**Brian Sozzi:** You're not looking at closures overseas or raising prices?

**Brett Biggs:** No. If you think about even how we deal with our countries, our countries are incented as well on their local currency so we want them operating, we judge their performance on that local currency. For the most part, we reinvest back into these markets so it's not like we're taking all the profit and trying to repatriate it back to U.S. dollars. We're reinvesting back into those markets so it doesn't have an impact from that standpoint.

**Greg Foran:** I'll follow-up on your question, Brian. I don't think there's any correlation between how the Walmart shopper is behaving and what we're seeing in terms of stock markets, etc. I think there's 1,000 other things that influence what happens on a day to day and week to week basis in our business and I don't think there's any correlation.

**Brian Sozzi:** Got it, thanks guys. Have a happy Thanksgiving.

**Phil Wahba, Fortune:** Good morning gentlemen and happy week before Thanksgiving. It's one week from now so I wanted to ask about inventory. I think you said comp inventories were down 6% and other retailers this earnings season have also talked about leaner inventories. How are you mitigating the risk of losing out on sales? It sounds like a pretty big number so operationally, how will you make sure you're not depriving yourself of sales?

**Greg Foran:** I'm happy to take that one, Brett. In simple terms, we measure our stocks literally by the hour, by SKU, by store. So at any point in time, I know exactly what the in-stock position is and not just me, but obviously 1.3 million other associates right across the company. What we're actually doing is using predicative analytics to help us sort that out. I'm not going to get into the details of that, but we're improving the in-stock position. We saw comp inventory come down by 6% and as I said to Brett and Doug the other day, we've got more to go. So, when I visit stores, I still see too much inventory in back rooms, I still see stores having to have trailers out the back. I can tell you we carry too much inventory and when you carry too much and you're having to move cartons more than once, you're not productive. You don't get accuracy where you want, you create more slips, trips, and falls in your store, your shrinkage goes up. When you actually can get all those things sorted out, actually you not only reduce the cost of running your business but you improve the in-stock performance for your customers. So, we track it, we've only just begun and we've got a lot more still to do to get that right.

**Phil Wahba:** Great, thank you and happy holidays.

**Shannon Pettypiece, Bloomberg:** I wanted to see if you could give us any update on how the stores are doing on their progress on their clean, fast, and friendly scores. I think it was around this time a year ago where you told us you were around 67 or 70% of stores were meeting those goals. So I was wondering where are they at now? I know you were planning to move the bar - are there new goals, and what's the progress been like in that area?

**Greg Foran:** I'll handle that one. We've actually probably moved the bar three times I think this year. So basically, at the end of each quarter, Judith and the team ratchet it up even higher. So, where we finished last year is not where we're actually sitting this year even though we're ahead of where we were last year. So, the stores are actually incented around the part of the MyShare

payment that they receive that's based around this. I can tell you that we continue to see improvement week over week. We're not happy that we're even close to getting where we need to get to on this, but we've made significant improvement over the last two years and that's how it's tracking at this point.

**Shannon Pettypiece:** Ok, thanks.

**Lindsay Whipp, Financial Times:** Good morning, thanks for taking the call. I have a couple of questions – first, is on the election. How do you anticipate policies that President-elect Trump has promised to introduce whether it's labor, trade or tax-related and how do you anticipate that impacting Walmart? Secondly, if there's one issue you absolutely want to make sure you do better at this year over the holiday season, what would that be?

**Brett Biggs:** I'll take the first one; Greg can take the second one. Certainly, it's way too early to speculate anything that might happen with the president-elect. As always the case, this company has gone through all kinds of transitions and as policies change or shift, we'll be ready to respond to those and make sure we do what's right for the company. But for the most part, we're focused on your second question which is ensuring we're ready for the holidays so I'll turn it over to Greg.

**Greg Foran:** In simple terms, I would say a fantastic customer experience. Our customers to actually feel that by the time they've finished transacting with us, whether it's in store or online, it's a very good experience and it ticks all the boxes that they have - whether the prices were right, whether we were in-stock, whether the fresh food was fresh, whether the checkouts were fast and efficient and friendly. I want that customer experience to be good, so that's our focus.

**Lindsay Whipp:** Thank you.

**Suzanne O'Halloran, Fox Business:** Hi everybody. I actually have two questions. Since we were just talking about the consumer experience, you mentioned you're having holiday helpers for the first time so I'm looking for a little more color on that and how it's different from a year ago? And my second question is around the election, more so with the election over, how do you think the Walmart customer feels? Are they going to be more comfortable spending? Some of your competitors have indicated that the election hangover is actually gone and they're optimistic about what's ahead.

**Greg Foran:** In terms of the holiday helpers, let me give you a little more color around that. If you went into our stores, effectively what you're going to see is at the front end of our stores we're going to have associates wearing yellow vests, easily identified, probably got a Santa hat on, probably carrying a satchel and in the satchel will be some lollies or sweets or candy that they will give out. And effectively what they're doing is organizing the flow of the front end to be fast and efficient. You can imagine when you're in a large supercenter or even a Neighborhood Market by the time you get to the checkout, you're looking to get out at that point, you've invested your time and your energy in filling up your shopping cart, so how do I get out of this place quickly and effectively and efficiently and with a smile? We know that our front end, particularly in our really big trading stores can get a bit clogged, so we're going to take the effort to invest this year in that experience for the customer. So we've trained people, they've got tools to do the job and we're going to see if we can make a real difference at that critical part of the shopping experience. So that's what we're doing there. In relation to the mood of the customer post-election, it's only been a week so I don't really have a lot of data on that. I can tell that for

the last three quarters, as I mentioned at the beginning, we haven't really seen any noticeable change in sentiment in our customers. Frankly, we've got so much to do in our own business that that's where I focus my attention and my team's attentions. We had a solid third quarter, we grew traffic and comp sales again. So this year, we know what we've got to do going into the holiday season and what the plan is and that's what we're going to execute to.

**Nandita Bose, Reuters:** Greg, my question is about what you just mentioned a while ago. You said that in terms of what you're witnessing in the business are marginal, keeping that in mind, I'm wondering if there are any particular headwinds you are keeping an eye on for Q4. Are you saying that you're in a really comfortable position and Q4 is expected to be very strong?

**Greg Foran:** Nandita, if you knew me, you'd know that I was never comfortable. My entire objective every day is to make as many people in Walmart U.S. as uncomfortable as I can by pushing people, getting them out of their comfort zone. Look, we manage many moving parts every day whether it's deliveries to stores – as you can imagine how much freight we're moving at this time of year. Whether it's turnover of associates, hiring of holiday helpers, what the price competitiveness is like of items that we've got for Black Friday, what the price competitiveness is like after Black Friday. There are many internal factors that we deal with. You also get a few external ones – deflation is an interesting one and we saw that move from 100 basis points in Q2 to 150 basis points in Q3 in food. So you manage all of those moving parts and when I say we're running the plan and I'm comfortable with the plan, that would be separated from the way that I manage the business which is to keep raising the bar because, quite honestly, I'm not satisfied that we're doing as well as what we can and I know there's plenty of upside still for us.

**Randy Hargrove:** Alright, I think that puts us at time. We appreciate everyone's interest in reaching out to us today through this call and we will see you for the next quarter in February.

**Brett Biggs:** Thanks very much. Happy holidays.