Walmart's Fiscal Year 2016 Q4 Earnings Results
Media Call Transcript
February 18, 2016

Randy Hargrove, Director, Corporate Communications: Thank you. Good morning, everyone. Thanks for joining us for today's call. As you've seen for today, we've issued our fourth quarter and full-year financial results. We've got Brett Biggs here with us today, CFO, leading our call to discuss the company's business results. Brett is being joined by Greg Foran, Walmart U.S. president and CEO, and Neil Ashe, president and CEO of Global eCommerce. They'll provide some additional information and context on the business. We've got a number of media who are on the call today. We're going to have about 30 minutes. You're going to hear some brief comments from Brett, Greg and Neil and then we'll get to your questions. Please try to limit your questions to one or two so we can get through everyone and get through the cycle as quickly as we can. If you have any questions afterwards, please feel free to reach out to me. And with that, I'll turn the call over to Brett.

Brett Biggs, CFO, Wal-Mart Stores, Inc.: Great. Thanks, Randy. Good morning, everyone. Appreciate your being on the call and appreciate your interest in the company. As Randy mentioned, I'm joined by two of my great partners, Greg Foran, who is president and CEO of Walmart U.S., and Neil Ashe, who is president and CEO of Global eCommerce. I'll start with a few comments and then I'll hand it over to Greg and then Neil for some comments and then we'll open for questions.

Overall it was a good, strong finish to the year. I feel good about the direction of the business. We've made a lot of progress in the quarter, and the year, around helping our associates, improving our stores, improving capabilities around our digital relationships with customers – and Greg and Neil will go a little more into that on some specifics.

I'll start with some full-year financial highlights. I'll start with revenue. And on a constant currency basis, our full-year revenue was up almost $14 billion dollars, or 2.8 percent, to just under $500 billion: $499 billion. We had a total currency impact of $17 billion for the year. Our adjusted EPS was $1.49 and $4.59 for Q4 and the full year respectively, which was well within the guidance that we provided. We had adjustments due to store closures that we announced in January as well as some discrete tax items that were adjusted as well. As Greg will talk about in a minute, good continued momentum on sales in Walmart U.S. Six straight quarters or positive comps; five straight quarters of positive traffic; and on a two-year stack basis, one of the strongest comps we've had in three years.

Walmart International had another solid financial performance. Great strength in Canada and in Walmex, so good performance there. Q4 e-commerce sales: GMV, we're up about 8 percent, about 13 percent for the year. Some challenging markets in some of our international markets, and Neil will get into that, but we continue to make good progress towards building a solid foundation for the future.

From a cash flow perspective, we had over $27 billion of cash flow and returned over $10 billion to our shareholders. So continued strength from a balance sheet cash flow perspective, even as we transform the company. As you would have seen too, we raised our dividend from $1.96 to $2.00 a share, which is our 43rd consecutive year for dividend increase.

I'll turn to guidance before I turn it over to Greg. If you go back to October, we had said that net sales would grow 3 to 4 percent annually on a constant currency basis over the next three years. If you exclude the impact of the store closures that we've announced and the strengthening U.S. dollar, the annual sales growth guidance would have still been inside that range. When you adjust for the store closures and what we believe today could be around a $12 billion currency impact, we now expect net sales to be relatively flat. And that's using currency rates as of today in talking about that amount.

From an EPS standpoint, we guided for the year $4.00 to $4.30 versus the adjusted EPS of $4.59. That includes the incremental U.S. wage investments of around $1.5 billion. It also includes about a $0.10 impact from currency that we would anticipate, again using today's rates for the year, and a tax rate of between 31.5 percent and 33.5 percent, which can fluctuate. That guidance of $4.00 to $4.30 is in line with our guidance from October for EPS to be down 6 to 12 percent for FY17. For Q1, we guided EPS to be between $0.80 and $0.95, versus $1.03 in the prior year period. And to note there as well, due to the timing of wage investments, we expect that impact to be somewhat more in the first quarter than the other quarters and that's why you see the difference in Q1 looking a little bit more than you would see for the full year.

We're also remaining very aware of our expense management. We will invest where we need to invest to continue to grow the business for the future, but we will stay disciplined across the company as we continue to manage expenses.

So overall, good finish to the year. Very strong from a cash flow and balance sheet perspective and good momentum in different parts of the business. So with that I'll turn it over to Greg for some comments.

Greg Foran, President and CEO, Walmart U.S.: Thanks, Brett. You know, for the last 12 months we've been pretty focused on our commitment to improving all the operations across the U.S. business. Lots of work to do, but in the fourth quarter results I think we're seeing some good, clear signs that the progress that we're making is in line with what we said in terms of topline share and, importantly, improving that customer experience.

As you mentioned, Brett, comp sales were positive for the sixth consecutive quarter. Net sales were up 2.4 percent. And I think this is a good sign as well, that we had our fifth consecutive quarter of positive traffic. And during that, we had some pretty significant headwinds from deflation in the quarter; in fact, I think we're down about 100 basis points relative to last year.

Very pleased with the progress that we're starting to make on inventory, and I see that as I get around stores, stock rooms start to empty out. And with that, we're seeing improving in-stock position. So for the year, we got our net sales increasing by $10 billion.

I've spoken previously about the customer experience, so a quick update about that. We finished the year with 75 percent of our stores exceeding their experience goals. And as I've mentioned previously, there's correlation between that and sales. And we've reset the bar now, for the beginning of this year. In just a few days' time, February 20, we'll see the starting wage increase to $10 an hour for any associates hired before January 1. And of course that's part of our two-year, $2.7 billion investment. And as well as that, we've done a lot of work with our associates around Paid Time Off during January and have put in a new policy for them. I know that the labor investments we're providing are absolutely crucial to improving the store experience and service to our customers, and I'm seeing that as I get around.

In terms of the holiday, I'm actually pretty pleased with how we traded through that. So we made a deliberate decision for Black Friday to pull back on some deep discounts and focus right through the holiday season on everyday low price. Customers have also taken advantage of Pickup, and we've seen some pretty significant results around that.

Fresh is a big area for us. We continue to focus on that: testing new layouts, getting the inventories under control, improving in-stocks and reducing throwaways.

So I just actually finished with a [Year Beginning Meeting], meeting with 7,000 of our store managers. I've been in the role for about 18 months and I can feel a real sense of momentum coming through. Our team are energized, they're proud of what they're starting to see in their stores and the progress that they're making. So it's been a steady year in terms of hitting our goals. We're raising the bar higher; this coming year, we'll continue to march down exactly the same path that we've laid out previously. I'm expecting that the investments we're making in our stores and our associates and our customers are going to continue to drive the top line as we've laid out.

Over to you, Neil.

Neil Ashe, President and CEO, Global eCommerce: Thanks, Greg. Thanks for being with us, folks. As Brett mentioned, we grew 8 percent in the fourth quarter. That was impacted, as it has been through the year, by economic and some competitive challenges in our international markets, notably Brazil, China and the U.K.

In the U.S., a lot of the hard work we've done around the technology platform and the fulfillment networks have come together to deliver a really strong holiday season in Q4. As Greg mentioned, customers are interacting with us in new and different ways than they have in the past: on the app, the site and the store. They're picking up and we're delivering more effectively to wherever they want to pick up their packages. And while we've done this in the fourth quarter, in addition to holiday, we also have expanded online grocery. We're now in more than 20 markets, and we continue to see strong and positive customer response and growth from that. Notably, we combined our technology organizations across the company. So we took the technology organization from eCommerce, @WalmartLabs, and we combined it with the technology organization from retail to create Walmart Technology. So we're excited about the potential for the combined technology organization. An example of what we did there is Walmart Pay, which we launched in the fourth quarter, that allows any customer to pay with their mobile phone at any one of our locations, which really is an intro into our focus for the coming year.

So we're going to focus on continuing to build and expand that digital relationship with our customers so they can connect with us anywhere, anytime. We're scaling our online assortment through assortment expansion, both in a first-party and in Marketplace. And we'll continue to expand online grocery around the country. So we're confident in all these things coming together, Brett, to deliver a strong experience for our customer and to continue to grow the business.

So with that, we'll open it up and you guys can ask questions.

Shannon Pettypiece, Bloomberg: Hi. I guess this question would be for Neil. And thanks for doing this call. I was just trying to understand better the sales growth in e-commerce, which seems like it's consistently slowing. You mentioned that has to do with some markets outside the U.S., but I kind of find it surprising that those markets would be large enough to drag down, to slow down your online sales. Can you give me any sense of how big of role China, Brazil and the U.K. play in your larger e-commerce sales?

Neil Ashe: Good morning, Shannon. To put this in context, we've seen this throughout the year and we've been consistent about that. Yes, they are large enough to impact the top line. In the U.S. we saw, as we mentioned, good performance at Walmart.com, largely driven by the holiday. As Greg mentioned, we saw Pickup accelerate. So the way we're interacting with our customers has changed. And also in the U.S., Samsclub.com had one of their strongest quarters online in the fourth quarter, also with Pickup and the holidays. So yes, those markets outside the U.S. did drag us down. As I said, Brazil, China and the U.K. And we had good performance in the U.S., both at Walmart.com and Samsclub.com.

Shannon Pettypiece: So in the U.S., is online growth increasing?

Neil Ashe: We won't know the total market growth for a while, but through the course of the year we've grown at or faster than the market in the U.S. So that's probably the best context we've got for you there, Shannon.

Shannon Pettypiece: Ok, so just to make sure I understand it correctly. So, in the U.S. throughout the year, you've grown at or faster than the market. The market being the total U.S. market for online sales?

Neil Ashe: Yeah. That was until the fourth quarter. We don't know what the fourth quarter sales will bet yet, for the rest of the market, but that will directionally give you where we are.

Anne D'Innocenzio, Associated Press: Hi. Thanks for having the call. This is for Greg. You know, the 0.6 percent increase is a bit of a slowdown from the 1.5 percent, so can you breakdown the positive and negatives for the quarter and also can you talk a little bit about gas prices? You know, lower gas prices? How much has it helped in this latest quarter?

Greg Foran: Yeah, sure. Thanks, Anne. You know, what we saw during the fourth quarter was an interesting set of sales coming through. We'd made some decisions, months ago actually, that we would be more strategic around Black Friday. And so that was sitting in our guidance and the way we thought about our sales. We saw some of our business in store move to online, and that's exactly what our customers wanted. We then had a reasonably warmer start to the holiday season – a lot of retailers have spoken about that – and we saw a bit of that come through in terms of apparel. By the time we got to Christmas, we were feeling pretty good about how sales were tracking along and our stores were in much better shape, in-stock was better and things were going exactly as we expected. And actually January was also reasonable for us up until literally the last week or so when we saw a delay in some of the IRS checks coming through.

Now the other bit that I would comment on, that I mentioned, was deflation. So relative to last year, that's down about 100 basis points. That's a reasonably significant headwind to be cycling against. It's predominantly in meat and dairy, but to be honest with you, as fuel prices drop across the world we're actually seeing better prices on imports out of China or better prices from domestic suppliers. And as we can, we pass those on to our customers. So you know, not really any inflation sitting anywhere in our box. And a combination of those things saw us come in at about 0.6 percent for the quarter.

What I am pleased about is the 0.7 percent in traffic. I think that really says that the direction we're going, where we're making the stores a much better experience for our customers with in-stock, freshness, better service, working on getting Pickup and Site to Store, is actually starting to pay off for us. So I'm actually pretty relaxed with where we're sitting when I look into the numbers and I understand all the components that go to make it up. That's my read of it and that's how I see it.

Anne D'Innocenzio: And then gas prices? What are you seeing and how is it affecting your shoppers?

Greg Foran: So obviously now we've cycled the significant decrease that we saw a year ago, and it's down again. We've looked at this every which way that you can, and you know I'm being candid with you when I tell you, it's not something that I can say "Gee, it's worth X percent on your comp." I have no doubt that they continue to be a bit of a tailwind for us, but as you heard me say, what we gain in that tailwind is more than offset in quite a significant change in inflation versus a year ago in food. So that's how I would handle it.

Anne D'Innocenzio: Thank you.

Sarah Nassauer, Wall Street Journal: Good morning, everyone. I'm hoping you can talk a little bit about pricing and what your plans are. I think Doug and maybe others had talked about investing billions in prices over the next few years. Is there anything you can share about how you're going to go about doing that and how that's shaping up for next year?

Greg Foran: Hi Sarah, it's Greg here. As we have said, we've said that we'll invest several billion over the next few years and that is built into our plan and that is our intention. I'm not going to get into the details of how we're going to do that, but that is part of our plan and as we progress through this year and into the next two or three years, then as we lay that down I'll be able to be a little more concise as to exactly what we've done and how we've done it. But at this point, for obvious competitive reasons, I'm not going to get into more details on it.

Sarah Nassauer: Alright.

Phil Wahba, Fortune: Hi, good morning. Thank you for being available. Just a quick question for Neil, did you guys see a big payoff from starting the online sales earlier during thanksgiving and also turning Cyber Monday into Cyber Sunday? Did those just shift sales around or do you think that they added to the total?

Neil Ashe: Hey, Phil. As you pointed out, we took a different strategy for the holiday this year and we did intentionally spread the experience over a larger period of time. We did have very interesting sales on Thursday. It was kind of fun to watch. We said, as you can imagine, that the dead time while you put the turkey in the oven, you sit there for a few hours with not a lot to do. It seemed a lot of folks were shopping at Walmart.com, so we felt really good about that. We extended that, as you know, through the weekend. Sunday was also a good day and then also Cyber Monday continued. So, overall the period was what we expected it to be and the days were different than they have been in the past.

Phil Wahba: And can I just follow up with a question on e-commerce growth in the U.S.? I know you guys don't split it out. You guys say you had a good holiday season, and it looks to have been in line with the industry average, but a certain Seattle-based retailer had higher numbers; and I'm just wondering, you know, if it's somebody were to say, "is Walmart able to keep up with Amazon and start to bridge the gap," what would you say? Were they really that much of a runaway during the holiday? Or what would you point to as the things that happened at Walmart.com during the quarter that give you confidence?

Neil Ashe: Phil, we're really focused on building the customer relationship with Walmart – whether it's on the app, the site or the store – so that we can be there for the customer to grow with her as she wants and needs. That's why we're focused on expanding the digital relationship; that's why we're focused on expanding online grocery; and that's why we're focused on expanding our assortment. And so far, as indicated, the customer is reacting positively to that.

Phil Wahba: Thank you.

Lindsay Whipp, Financial Times: Thank you, and thanks for taking the call. I have a couple questions for Greg. I was wondering if you could give me a bit of your insight into the outlook for deflation this year, given what you've experienced in the past year? And also, a bit more on what your strategy is to get stores in urban areas now that we've got the end of the Expresses?

Greg Foran: Sure. Thanks, Lindsay. It's very difficult for me to understand what will happen in terms of deflation and be specific about it. You know, at this stage we're being sensible about how we build that into our plans, and at this stage I don't forecast things changing significantly in the next quarter.

In relation to the small stores, we closed 102 what we call "Express stores", or smaller Neighborhood Markets. Actually, the majority of those are in rural markets. And in fact I can't think of any that were in urban areas. It was a trial that we put down over the last couple of years; we had a look at the performance of that. Frankly, we've got quite a lot to do around the performance of Supercenters and Neighborhood Markets. And these smaller stores don't exactly fit our operating model of high-volume, low-margin, low-cost. And that was a decision to close those down. In terms of opening new stores, we opened some, what, some 69 Supercenters this year and 146 Neighborhood Markets. Next year, we've got a pretty full calendar as well. And I'm just trying to see the numbers here for this year as well. I think it's 69 Supercenters and 85 Neighborhood Markets. So, very comfortable with us opening new real estate. We're thoughtful about where we're putting it down. Getting out of the Express stores is simply not a part of the operating model that we want to concentrate on. And inflation, too difficult to call at this stage but a conservative approach makes sense.

The good news about the 102 Express stores is that many of the associates have actually picked up roles in the nearby stores – so well over 50 percent at this stage.

Lindsay Whipp: Thank you.

Sabrina Korber, CNBC: Good morning. Thanks so much for taking our question. A question for Greg, really. There was a marginal decline in ticket. And I know it was only marginal, but could you give a little more color on that as far as customer behavior? Are there any changes in how customers are shopping as far as the stock up trips go with Supercenters? And how they're now buying online becoming smaller baskets?

Greg Foran: Thanks, Sabrina. No significant change in that. We had a good result out in the Supercenter, as we did in the Neighborhood Markets. So I'm not seeing any significant change in ticket. The small change there would probably be more driven by deflation than anything else. So in terms of units and traffic, we're pretty comfortable with how that's all looking.

Sabrina Korber: Thanks.

Randy Hargrove: We're running a little short on time. We'll try to squeeze in a couple of more questions if we can.

Tonya Garcia, Marketwatch: Thanks so much. Good morning. Two quick questions. The first one might be a little more for Greg. I was wondering if you could talk a little bit more about the delay in the IRS refund checks that you mentioned. Is that something where there's been a delay from the checks being issued, or are you seeing something where people are a little bit slower to file? I just wanted to kind of understand that a little bit. And then the second question might be more for Neil. I was wondering if you could maybe talk a little about how you're doing that. Are there certain geographical targets? Or just anything in particular about how you're going about that?

Greg Foran: Thanks, Tonya. Very quickly on the first one: the slowdown is in checks and direct deposits from the IRS, not from people actually cashing them.

Tonya Garcia. Gotcha.

Neil Ashe: And on the online grocery. As we talked about, we're in over 20 markets. Those markets range in size from a Denver to a Phoenix to a Nashville, Tennessee. For obvious reasons, we won't talk about which ones we're going to next, but you'll start to see those in the first quarter and they will continue to be in a variety of markets as we have done. And the key thing there is that everywhere we've gone with this, we've gotten a consistent reaction from customers, which is generally: "Wow, you've really changed my life" and "thank you for doing this." You know, people literally jump out their cars to talk to us. It's been really fun, and so we're excited about it for a number of reasons.

Tonya Garcia: Thanks.

Sarah Halzack, Washington Post: Good morning. I was hoping Greg could just talk a little bit more about what's going on in fresh. You had mentioned you're testing new layouts, reducing inventory. I wonder if you could just offer any more color on what you're learning so far on that front and what we can expect to see moving forward?

Greg Foran: Thanks, Sarah. So a whole heap of things that have been actually underway. You know, we've got department managers now in place in our stores, not just in fresh but across all departments. So we added 8,000, but a fair percentage of that has gone into fresh foods. So they've gone in, they're getting trained, we're giving them the tools to do their jobs. We're focusing on throws and inventory and getting our accuracy right. We've actually started putting in some new layouts. We've done things like move leafy green vegetables to the front of the refrigerated case. We're also working on supply chain to ensure that we can move the goods faster to the store. So a whole series of events. And you will see us just continue to lean in here – not just over the next quarter, but over the next several years – so that we actually deliver to our customers a much improved fresh experience.

Randy Hargrove: Great. Thank you. I think we are at time. So we appreciate everyone's' interest in jumping on today. If you have follow up questions, you can feel free to reach out to me and we will see you at the end of our first quarter results in May.

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