



**WAL-MART STORES, INC. (NYSE: WMT)
First Quarter Fiscal Year 2018 Earnings Call
May 18, 2017
Management call as recorded**

**Steve Schmitt
Wal-Mart Stores, Inc. Investor Relations**

Good morning and thank you for joining us to review Walmart's first quarter fiscal 2018 results. This is Steve Schmitt, Vice President of Investor Relations at Wal-Mart Stores, Inc. The date of this call is May 18, 2017. On today's call you will hear from Doug McMillon, president and CEO and Brett Biggs, CFO.

This call contains statements that Walmart believes are "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, and that are intended to enjoy the protection of the safe harbor for forward-looking information provided by that Act. A cautionary statement regarding forward looking statements is at the end of this call.

As a reminder, our earnings materials include the press release, transcript and accompanying slide presentation - which are intended to be used together. All of this information, along with our fiscal 2018 earnings release dates, store counts, square footage, interactive earnings site and other materials are available on the investors' portion of our corporate website – stock.walmart.com.

For our U.S. comp sales reporting in fiscal 2018, we utilize a 52-week calendar. Our Q1 reporting period ran from Saturday, January 28, 2017 through Friday, April 28, 2017.

Before we get started, I'd like to remind you of a few upcoming dates. Our Annual Shareholders' Meeting will be held Friday, June 2nd on the University of Arkansas campus in Fayetteville. This meeting starts at 8 a.m. central time and is also available for viewing via webcast through our

website, stock.walmart.com or via Walmart's Investor Relations app. We will release second quarter earnings on Thursday, August 17. Also, please save the date for our Investment Community Meeting which will be held in Northwest Arkansas on October 9th & 10th.

Now, I'd like to turn it over to Walmart's CEO, Doug McMillon.

Doug McMillon

Wal-Mart Stores, Inc. President & CEO

Good morning everyone. As you may have seen this morning, we delivered a solid first quarter and we are encouraged with our start to the year. From my view, I'd say the Walmart U.S. highlights were the 1.5 percent growth in comp traffic, comp store inventory being down over 7 percent, improved expense performance in our stores versus last year and the acceleration of e-commerce GMV growth to 69 percent. There were some other highlights outside the Walmart U.S. business that we'll touch on later.

Inside the company, we can see that we're moving faster to combine our digital and physical assets to make shopping easier and more enjoyable for customers but we can also see plenty of room to improve. We need to scale our e-commerce business further and see some additional strength in our store comps to deliver the results we know we're capable of - so that's what we're focused on.

I'm really encouraged by how our store and club associates are embracing change. We're creating new solutions to help us run the business better in addition to creating a better experience for the customer in stores and online. Let me give you a few examples. A few weeks ago while visiting stores in Oklahoma City I saw first-hand how the combination of some new in-store apps and mobile handhelds are improving our in-store processes and making life easier for associates. A grocery department manager in one store showed us how she now ensures side counter modular accuracy and in-stock with a new app we've developed for our mobile handhelds. With this new app, the time to complete her work has now been reduced, improving her productivity and giving her more time to interact with customers. I saw it again last week in Omaha, Nebraska. I saw another example in Canada in April. There, we have an improved

process at store level that is reducing inventory levels in the back room in a meaningful way. Our team is building better tools, our associates are embracing them and the results are improving.

This is important because our key to winning starts with how we work inside the company. We're transforming to become more of a digital enterprise. The change is starting to be visible to our customers as they use online grocery, Walmart Pay, Scan & Go at Sam's Club and our Walmart app to skip the line when using our pharmacies and financial services in our U.S. stores. Online grocery also continues to perform well and we're on track to scale the offering to more stores this year in several countries, including the U.S. We're taking steps to save customers time as well as money.

Brett's going to take you through the financials—but before he does, I'll talk briefly about each area.

Let me start with our Walmart U.S. business:

Comp store sales grew 1.4 percent and comp store traffic improved 1.5 percent. We got off to a slower start than expected, due in part to delayed federal tax refund checks, but saw sales strengthen throughout the quarter. We also continued to manage the business well from an inventory and availability standpoint.

I recently attended the grand opening of our 100th training academy in Edmond, Oklahoma. I met associates there who were new to Walmart and were quickly learning about our business. I also met associates who have been with us for 30, 35 and even 40 years, and they were learning about new processes and tools. I'm proud that we have lifelong learners at Walmart and I'm excited about the training we're providing. We plan to graduate approximately 225,000 associates from our U.S. academies this year. Remember, 75 percent of Walmart U.S. store management teams started as hourly associates so it's critical we provide effective training for our associates as they take on more responsibility in our company.

Overall, the store business is getting stronger and I'm thankful to Greg Foran and the team for a thoughtful plan and the energy they're investing to lead the improvement. Greg, Marc Lore and the team continue to partner closely to serve our customers and figure out how to invent a

seamless shopping experience for customers across our apps, sites and stores. They are plowing new territory and I'm excited about what's to come.

In U.S. eCommerce, we like the traction and we are working hard to make even more improvements. Walmart.com launched two new initiatives in the quarter. First, we made the change to shipping terms at the beginning of the quarter. Customers don't have to pay a membership fee to get two-day shipping on millions of items. Second, we recently began offering customers pick-up discounts on non-store items. Our stores are located within 10 miles of nearly 90 percent of the U.S. population—so this is convenient for many of our customers, and also saves them money when they order online and pick it up during their visit to our stores.

Walmart.com now has 50 million first and third party items to choose from compared to 10 million at this time last year—so our assortment continues to ramp. We also made a few small, but strategic e-commerce acquisitions to further improve our assortment, while gaining critical category expertise in higher-margin categories like shoes and apparel. The acquisitions have received a lot of attention but our plan in e-commerce is not to buy our way to success. The majority of our growth is and will be organic. The acquisitions are helping us speed some things up. So overall, we're making progress in providing the seamless shopping experience our customer's desire and we will keep moving along this journey.

Staying in the U.S., let's talk about Sam's Club; John Furner and team have hit the ground running. They are focused on members, merchandise and our associates. They achieved comp sales growth of 1.6 percent in the quarter led by 1.1 percent comp traffic growth and e-commerce GMV increased 21 percent. I'm excited by how we're ramping up our private brand offering with improved quality and compelling new items. We've streamlined 20 private brands into one and will be introducing 300 new items this year that are branded Member's Mark. The team at Sam's Club is also taking important steps to simplify the business and give club managers more time on the floor to serve members.

Outside the U.S., Dave Cheesewright and the team continued to deliver solid results. Overall constant-currency sales growth of less than 1 percent was negatively impacted by a couple of timing and divestiture-related issues that Brett will discuss--but our underlying business continues to perform well.

At Walmex, we continued to see strong momentum in the business—across formats and countries. Comp store sales growth was nearly 4 percent this year and 12 percent on a two-year stack.

In April, I visited our businesses in China and Japan. China continues to be on fast-forward as it relates to all things digital including e-commerce. Operationally, our stores continue to improve and Sam's Clubs are doing well. Working with JD.com and New Dada, China's largest local on-demand logistics and grocery "O – to – O," short for online to offline, delivery platform, we now offer one-hour delivery service from 80 stores. This is an improvement from the two-hour service we launched last year. We can see the benefits of omni-channel retail even more clearly in China than any other country where we operate. Given the urban density and automobile traffic challenges, stores serve the triple purpose of in-store shopping, pickup and delivery most effectively.

I saw some similarities in Japan where stores are serving more than one purpose. In both markets, we're piloting the use of stores as shipping locations and we're learning what works best from a financial point of view in different types of store trade areas given how customer densities and travel distance can vary.

Moving on to Canada, our business continues to perform well, delivering 12 consecutive quarters of positive comp sales.

We've made some progress in the U.K. and the team is executing their plan. We are navigating our way back to a position of strength in that highly competitive market. When normalizing comp sales for the later Easter and Leap Day, we continued to see sequential improvement in the business, including customer traffic and ticket.

For the overall segment, International had another solid, predictable quarter. The team has done a nice job of growing profit faster than sales as they simultaneously shift our positioning in terms of store formats, on line grocery and e-commerce.

In conclusion – we're encouraged with our start to the year.

- We have a clear strategy we're executing against.
- We're uniquely positioned to deliver value through both our physical and digital assets.
- We have momentum across the business. We're making progress and we know we're on the right track as we work to become the most trusted retailer for our customers, provide ongoing opportunity for our associates and deliver results for our shareholders.
- We look forward to seeing many of you next month at our Annual Shareholders' meeting here in northwest Arkansas. Thanks for being interested in our business.

Now, I'll hand it over to Brett...

Brett Biggs
Wal-Mart Stores, Inc. EVP & CFO

Good morning, and thanks for joining us today.

As I've been saying over the past few quarters – this an exciting time to be at Walmart, and we are delivering solid results. In the U.S., important initiatives are underway both to accelerate growth in e-commerce and drive traffic to our stores. Most of our key international markets continue to perform well, and top-line performance at Sam's Club remains solid. On today's call I'm going to cover our consolidated results from the first quarter, talk about e-commerce in the U.S. and then provide details on our operating segments. We will discuss the consolidated results in the context of our financial framework of:

- Strong, efficient growth
- Operating discipline, and
- Strategic capital allocation

Let's start with our consolidated results.... EPS was \$1.00, which is at the top end of our guidance of \$0.90 to \$1.00 and 2 percent higher than last year. This marks the first quarterly EPS increase in more than two years on an underlying basis. On a constant currency basis, total revenue increased 2.5 percent to \$118.8 billion as we saw solid top-line performance across the business. Walmart U.S. continued its momentum with comps of 1.4 percent, while Sam's Club posted comp sales, without fuel, of 1.6 percent. In Walmart International, 7 of our 11 markets reported positive comps, even as the timing of Easter and last year's Leap Day negatively impacted results. The U.S. eCommerce GMV growth accelerated significantly, up approximately 69 percent. Through the lens of strong, efficient growth, I'm pleased with the results.

Gross profit margin increased 1 basis point during the quarter. The rate for Walmart U.S. was flat, while Walmart International was up slightly.

In regard to operating discipline...while we didn't leverage expenses on a consolidated level primarily due to investments in e-commerce and technology, I'm pleased that we leveraged in our U.S. stores. We're making progress towards our objective of slightly leveraging expenses on a consolidated basis for the year.

We continued to generate strong operating and free cash flow in the quarter -- \$5.4 billion and \$3.4 billion, respectively. Cash flow was down year on year primarily due to an increase in incentive payments, as well as a comparison against significant working capital improvements last year. As we strategically allocate capital, our first priority is to invest in improving and growing the business. In the quarter, we completed remodels of 95 stores globally, and in the U.S. we continued to expand our online grocery service to include nearly 670 locations. We also added a limited number of new stores, and made two relatively small acquisitions in the e-commerce space, Moosejaw and ModCloth, to expand our online selection and improve our category expertise in important areas like apparel and outdoor gear. In addition to investing in the business, we returned \$3.7 billion to shareholders through dividends and share buybacks.

Before I get to our operating segments, I'll talk about Walmart U.S. eCommerce. As a reminder, the results include all web-initiated transactions including those through Walmart.com such as ship to home, ship to store, pick up today and online grocery, as well as transactions through Jet.com and the other sites in our family of brands.

Year-over-year growth in GMV was approximately 69 percent, including acquisitions. The majority of this growth was organic through Walmart.com. This is extraordinary growth, and we're pleased with the traction we're generating across our e-commerce offerings. We've recently introduced free 2-day shipping with a basket size of \$35 or more on select items, and launched a new service called Pickup Discount, where customers can order non-store products online and receive a discount for picking these items up in our stores. This is a service that's convenient for customers and saves them money.

Let's now discuss the results for each operating segment in more detail, starting with Walmart U.S.

Walmart U.S.

You will recall in our fourth quarter comments that the first quarter started out slower than anticipated from a sales standpoint, due in part to the delayed issuance of federal income tax refund checks. As anticipated, our sales strengthened as the quarter progressed, delivering comp sales growth of 1.4 percent, led by an increase in customer traffic of 1.5 percent. This marks the 10th consecutive quarter of positive comp traffic. On a two-year stacked basis, comp traffic is up 3 percent. Average ticket declined slightly primarily due to lower sales of higher ticket items at the beginning of the quarter, as well as continued price investment. Additionally, the grocery business continued to improve with food categories delivering the strongest quarterly comp sales performance in more than three years, due in part to a lack of market deflation in food, excluding price investments.

All store formats had positive comp sales and e-commerce contributed approximately 80 basis points to the segment. We were really pleased with our results for the Easter holiday period, as both food and general merchandise performed well.

Gross margin rate was flat in the quarter. Savings from procuring merchandise and the acceleration of post-holiday markdowns taken in the fourth quarter benefited the margin rate, but this was offset by investments in price and the mix effects from our growing e-commerce business.

Operating expenses as a percentage of net sales increased 14 basis points primarily due to investments in e-commerce and technology. While we didn't leverage expenses for the overall segment, I'm pleased that we leveraged in the stores.

Operating income increased 0.9 percent, which is the first increase in more than three years.

The team continues to do a fantastic job managing inventory. During the quarter, inventory at comp stores fell 7.3 percent, while in-stock levels remained high.

We're pleased with the continued momentum at Walmart U.S. in both the digital and physical space. For the 13-week period ending July 28, 2017, we expect comp sales to increase between 1.5 and 2.0 percent.

Now, let's move on to Walmart International.

Walmart International

The International business continues to execute against its strategic priorities and delivered a solid start to the year. As I mentioned earlier, International performance was negatively impacted by one less operating day this year due to Leap Day last year, as well as the later timing of Easter this year.

Before we get into the results, let me discuss the financial impact, beginning in the first quarter, from strategic decisions we made previously to divest two businesses – Yihaodian in China and Suburbia in Mexico.

In the second quarter of last year, as part of the announced alliance with JD.com, we divested our e-commerce business in China, Yihaodian, except for the first-party piece of that business. Beginning in the fourth quarter of last year we began to wind down the first-party business, with only a small amount of sales remaining at the end of the first quarter of this

year. This created a sales headwind versus last year of \$385 million in the quarter and we expect a similar impact in each of the next couple of quarters until we lap the unwinding of the business.

Additionally, last month, Walmex announced it completed the sale of its apparel format, Suburbia. The gain from the sale of this business will be recorded in the second quarter of this year, and as a result, we expect a net benefit to EPS of approximately \$0.05 in the quarter. Beginning in the second quarter, and continuing throughout the remainder of this year, International's results will be negatively impacted by the operating profit lost due to the sale of the business. We expect a negative impact to EPS of approximately \$0.01 for the third and fourth quarters. We also expect a full year impact to sales of approximately \$600 million. We'll continue to detail the impacts of these transactions as we go through the year.

Now, let's move on to the overall international results. On a constant currency basis, net sales increased 0.8 percent, and excluding Yihaodian, net sales increased 2.2 percent. Reported net sales declined 3.5 percent, impacted by a \$1.2 billion currency headwind.

From a profitability standpoint, first-quarter operating income increased 9.0 percent on a constant currency basis and declined 0.1 percent on a reported basis. During the quarter, a benefit to operating income of approximately \$47 million from a land sale was recorded in one of our markets. Excluding this item, operating income would have increased 5.0 percent on a constant currency basis.

Let's now turn to some brief highlights of key markets. Please note that the accompanying financial presentation includes detailed information on our four major markets. The results discussed below are on a constant currency basis.

Let's begin with Walmex, where sales momentum continued across all countries and regions. Total sales increased 5.2 percent and comp sales growth was 3.7 percent. In Mexico specifically, comp sales increased over 13 percent on a 2-year stacked basis, and each of our merchandise divisions outpaced ANTAD self-service.

In Canada, net sales increased 2.7 percent and comp sales increased 1.5 percent. During the quarter, we reduced inventory levels even as sales increased, and according to Nielsen we continued to gain market share in key traffic driving categories like food and consumables & health and wellness. Continued planned investments in price and in-store efficiency initiatives are being supported by progress with our cost analytics program.

In China, net sales increased 0.7 percent and comp sales decreased 1.3 percent. In addition to the impact of one less day in the quarter due to Leap Day last year, sales were impacted by our strategic decision to reduce low margin bulk sales. During the quarter, we continued to expand our e-commerce offering by entering new cities through our crowd-sourced delivery partnership with New Dada and now offer 1-hour delivery from 80 stores. We also launched new product categories such as produce and frozen items on our Sam's Club flagship store on the JD.com platform.

Turning to the U.K., net sales increased 0.9 percent while comp sales declined 2.8 percent. When normalizing for Leap Day last year and a later Easter this year, we continued to see sequential improvement in the underlying business, including customer traffic and ticket. We're confident we're on the right track.

So, overall, our international strategy continues to produce consistent results, and we are pleased with a solid start to the year.

Let's turn to Sam's Club...

Sam's Club

At Sam's Club, comp sales, without fuel, increased 1.6 percent as traffic grew by 1.1 percent. We had good results across many of our categories, and comps have been positive for five consecutive quarters. We're also pleased with our digital growth as Club Pickup increased nearly 30 percent. The team at Sam's is taking steps to simplify the business and give club managers more time on the floor to serve members. The initiatives underway at Sam's are designed to grow membership and sales, and we know it all starts with member experience. We'll deliver for them through our efforts to lead in digital and provide unmatched value on great merchandise.

For the 13-week period ending July 28, 2017, we expect comp sales, without fuel, to increase between 1 percent and 1.5 percent.

With that, let's discuss total company EPS guidance.

EPS Guidance

We feel good about the momentum across the business and expect progress to continue. For the second quarter of fiscal year 2018, we expect EPS, excluding the gain from the sale of Suburbia, to be between \$1.00 and \$1.08.

In closing, I want to say thank you to all of our associates around the world for the important work you do every day. As a company, we're moving with speed and executing against the strategy we've outlined, and it's all happening through the lens of our financial framework. I look forward to seeing many of you at our Annual Shareholders' meeting in a few weeks.

Detailed Cautionary Statement Regarding Forward – Looking Statements

This call includes certain forward-looking statements intended to enjoy the safe harbor protections of the Private Securities Litigation Reform Act of 1995, as amended. Such forward-looking statements relate to management's guidance and forecasts as to, and expectations for, Walmart's earnings per share for the three months ending July 31, 2017, comparable store and club sales for the Walmart U.S. and Sam's Club segments, excluding fuel, for the thirteen week period ending July 28, 2017, the net earnings per share benefit of the sale of Suburbia business in the three months ending July 31, 2017, the financial impact of the Suburbia and Yihaodian divestitures in the year ending January 31, 2018, leveraging expenses for the year ending January 31, 2018, the level of future organic growth, and new product offerings at Sam's Club.

Assumptions on which any guidance or forecasts are based are considered forward-looking statements. Walmart's actual results may differ materially from the guidance provided, or the goals, expectations or forecasts discussed, in such forward-looking

statements as a result of changes in facts, assumptions not being realized or other risks, uncertainties and factors, including:

- economic, geo-political, capital markets and business conditions, trends and events around the world and in the markets in which Walmart operates;
- currency exchange rate fluctuations, changes in market interest rates and commodity prices;
- unemployment levels;
- competitive pressures;
- inflation or deflation, generally and in particular product categories;
- consumer confidence, disposable income, credit availability, spending levels, shopping patterns, debt levels and demand for certain merchandise;
- consumer enrollment in health and drug insurance programs and such programs' reimbursement rates;
- the amount of Walmart's net sales denominated in the U.S. dollar and various foreign currencies;
- the financial performance of Walmart and each of its segments;
- Walmart's ability to successfully integrate acquired businesses, including in the e-commerce space;
- Walmart's effective tax rate and the factors affecting Walmart's effective tax rate, including assessments of certain tax contingencies, valuation allowances, changes in law, administrative audit outcomes, impact of discrete items and the mix of earnings between the U.S. and Walmart's international operations;
- customer traffic and average ticket in Walmart's stores and clubs and on its e-commerce websites;
- the mix of merchandise Walmart sells, the cost of goods it sells and the shrinkage it experiences;
- the amount of Walmart's total sales and operating expenses in the various markets in which it operates;
- transportation, energy and utility costs and the selling prices of gasoline and diesel fuel;
- supply chain disruptions and disruptions in seasonal buying patterns;

- consumer acceptance of and response to Walmart's stores, clubs, e-commerce websites, mobile apps, initiatives, programs and merchandise offerings;
- cyber security events affecting Walmart and related costs;
- developments in, outcomes of, and costs incurred in legal or regulatory proceedings to which Walmart is a party;
- casualty and accident-related costs and insurance costs;
- the turnover in Walmart's workforce and labor costs, including healthcare and other benefit costs;
- changes in accounting estimates or judgments;
- changes in existing tax, labor and other laws and regulations and changes in tax rates, trade agreements, trade restrictions and tariff rates;
- the level of public assistance payments;
- natural disasters, public health emergencies, civil disturbances, and terrorist attacks; and
- Walmart's expenditures for FCPA and other compliance related costs.

Such risks, uncertainties and factors also include the risks relating to Walmart's strategy, operations and performance and the financial, legal, tax, regulatory, compliance, reputational and other risks discussed in Walmart's most recent annual report on Form 10-K filed with the SEC. You should consider the forward-looking statements in this call in conjunction with that annual report on Form 10-K and Walmart's and current reports on Form 8-K filed with the SEC. Walmart urges you to consider all of the risks, uncertainties and factors identified above or discussed in such reports carefully in evaluating the forward-looking statements in this call. Walmart cannot assure you that the results reflected or implied by any forward-looking statement will be realized or, even if substantially realized, that those results will have the forecasted or expected consequences and effects for or on Walmart's operations or financial performance. The forward-looking statements made in this call are as of the date of this call. Walmart undertakes no obligation to update these forward-looking statements to reflect subsequent events or circumstances.