Walmart's Fiscal Year 2016 Q3 Earnings Results
Media Call Transcript
November 17, 2015

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

You'll hear some brief comments from Charles and Greg and then we'll spend the bulk of the time trying to answer your questions. Please try to limit your questions to one or two so we can try to get through the queue as many times as possible in our 30 minutes.

If you need to fact check anything on the call, please reach out to me or you can reach out to Deisha Barnett as well and we'll try and help you. With that, I'll turn it over to Charles.

Charles Holley, CFO, Wal-Mart Stores, Inc.: Thank you and welcome everybody. I'll just say a few comments about the quarter from a company perspective. We felt like it was a very solid performance, given that we had some heavy investments in our associates and our eCommerce business along with continued headwinds from currency. Our reported sales were $117.4 billion, and that was impacted with about $5 billion of headwind from foreign exchange. If you take out the foreign exchange, our increase would have been about $3.4 billion. Earnings per share were $1.03 – there was a $0.04 benefit from some lease adjustments in there. Even without that we feel like it was a pretty solid performance. Free cash flow was $6.8 billion. We feel very strong. Our inventory performance around the company is very good. Our share repurchase was about $437 million for the quarter and 6 million shares. And just as a reminder, the board approved a $20 billion share repurchase program that we fully intend to utilize over the next two years.

Just looking at the segments quickly; Greg will give you more insight. But Walmart U.S. had almost $73 billion in sales. Very good comps and traffic. Walmart International, when you strip out the foreign exchange, was up about 3.2 percent. That would have been about $34.7 billion. Sam's Club, with fuel, was about $14.1 billion. Without fuel, about $12.9 billion. Their comp sales are up about 0.4 percent. eCommerce was up about 10 percent on a constant currency basis, and that really was some of the soft economic conditions that we've seen in Brazil, China and the U.K.

When we look forward to guidance for the full year; our range used to be $4.40 to S$4.70, but we've narrowed that guidance today. It will be $4.50 to $4.65. For the fourth quarter, it will be $1.40 to $1.55. And of course as the quarter continues, we'll continue to invest heavily in our associates and training and hours, as well as our eCommerce business. And we will continue to have, we think, headwinds in our currency. We updated the guidance at our October Analyst Meeting on currency, and we think it will impact the company about $0.16 per share. And that is included in the guidance I just gave you. Also it will impact sales about $16 billion for the year.

When you talk about tax rate, we think the tax rate will be between 31 and 33 percent for the year. We're monitoring the progress in Congress as far as extending certain tax legislation, which we see now almost every year. And that will have an effect on what the tax rate will be, and what the earnings will be for the year.

Before I turn it over to Greg, this is my last call as CFO. I'll be retiring at the end of this year. I've really enjoyed working with each of you. I'll be turning it over to Brett Biggs, who will be CFO as of January 1. And I know the company is in very capable hands with Brett. With that, I'll turn it over to Greg.

Greg Foran, President & CEO, Walmart U.S.: Thanks, Charles. Turning to the U.S. business, I think we would say that we're starting to get some good momentum. So we've got our fifth consecutive quarter of positive comp sales: plus 1.5. And our fourth straight quarter of positive comp traffic: up 1.7. Net sales were up nearly 4 percent. In-stock is improving and importantly, comp store inventory declined. So total inventory grew at half the rate of sales, and we had literally a 1 percent decrease in comp store inventory. So, some pretty good momentum.

I shared with many of you last week in New York when we were talking about Black Friday how we're executing against our plan to be the first to deliver a seamless shopping experience at scale. We want to win with our stores, we want to deliver value and we want to be great merchants. And most importantly for our customers, we want to make sure we provide them with a convenient shopping experience that's fast and easy.

Our customers are telling us that they're continuing to see improvements in our stores. They're happy with some of what they're seeing. To date, we've got 70 percent of our stores that have achieved the goals we've set for Clean, Fast and Friendly. And as I shared in New York, we'll actually be raising the bar on that again next year.

You know, all formats came in with positive comps. Supercenters were pretty good right across the box, with the exception of entertainment. So apparel, hardlines, home and seasonal continued their strong performance. Back to school was pretty good for us, and new launches like Pioneer Woman and Star Wars have been strong. We actually saw the best topline food performance of the year, and that was despite negative inflation impact of around 90 basis points on the total box comp. Traditional format Neighborhood Markets delivered an 8 percent comp, and that's actually the 19th consecutive quarter we've put in positive comps. eCommerce: we got the fifth next-generation fulfillment center open in Atlanta. We've now got an additional 85 locations in grocery home shopping, so we've now got almost 140 locations across 25 markets. And we've seen that people who are using that [service] are spending up to 50 percent more than similar customers who are shopping in stores.

In terms of holiday preparation, we've been working on this really all year now and we're pretty excited about what's coming up. We do expect it to be competitive – it always is. We do expect that food inflation is going to remain low relative to last year, and we'll lack, of course, last year's significant drop in fuel prices. So that's going to make the fourth quarter comparison a little more difficult. But we're feeling confident about what we're pulling together, feeling good about the strategy. We expect that the fourth quarter comp sales increase is going to be around 1 percent. And of course last year fourth quarter comp, we're actually up against 1.5 percent, and that was the strongest comp of fiscal 2015.

So in closing, we are working hard on pursuing the "sweet spot," as we call it, that accesses Walmart in multiple ways. We're doing things here in a very long-term and deliberate way. We're growing sales, working on creating a seamless shopping experience and ensuring that we deliver shareholder value. Thank you.

Randy Hargrove: Thank you. And I think now we'll open it up for questions.

Sarah Nassauer, Wall Street Journal: Good morning. I wanted to ask two things. One, can you tell us a little bit about why comp ticket numbers were down this quarter? And then second, you've talked about serving all income levels and getting even stronger in that: can you tell us if that means welfare customers and what you're seeing in the marketplace that means that's important to do now?

Greg Foran: So in terms of the comp ticket, Sarah, it was really only very marginally down. Probably as much of anything a reflection of the fact that inflation, particularly in food has been really, really quite significantly different than last year. And, as I just mentioned, a 90 basis point difference on the total box comp. I'm sorry -- your second question was…?

Sarah Nassauer: You've talked a few times, or Doug has talked a few times, about serving all income levels, growing in that area. Can you talk about what that means and why now?

Greg Foran: Yes, so actually we covered some of this last week. And I can remember Steve Bratspies making a great comment. One of the terrific things about Walmart is that we'll sell literally a dime up to several thousand dollars. And in fact, if you go online, many, many thousands of dollars. So our objective here is to cater to anyone who wants to shop with us, anyone who wants to save money. So that's what we're focused on. Making sure our stores are clean, fast and friendly and making sure that you can do the seamless experience. We want everyone in America to shop at Walmart.

Courtney Reagan, CNBC: Hi there. Charles, thank you very much for doing this with us. I know you are retiring soon, so it's been nice to have you on these calls. We'll miss you. And I think this question is probably directed a little bit more toward you because it is actually quite an accounting question. Basically, we noticed that in some of the comments there's a positive impact for accounting treatment for leases, positively impacting EPS by $0.04. So my question is, do you anticipate the continued positive impact due to EPS because of these accounting adjustments in the future? Or can you tell us a little bit more about where that came from?

Charles Holley: Yes, that was on how we were accounting for some of the leases that we have. And I'm not trying to get too complex in the answer, but when you acquire goods for a lease then you're required to put the lease on your books and capitalize for it. And that's what we were going back and doing. We don't expect future large adjustments of any sort like this. This will be more of a one-time adjustment.

Courtney Reagan: Great, thank you very much. And then my second question is if you guys are able to tell us at all about how things are going so far into early November? Trends either online or early traction from your holiday promotions or deals that you've announced? We'd love to hear more about that.

Greg Foran: Look, we won't comment on what's happening in the fourth quarter on this call. What I will say is that it's really early in the holiday season. As I mentioned, we know it's going to be competitive, but we also know that millions of Americans are going to be depending on us to give them the right items at the right prices. So that's what we're focused on. Our stores are in better shape, we've got things like radio back on; Santa's in stores; Clean, Fast and Friendly scores have improved. We've got more capabilities for customers through mobile and pickup to make things easier. So I'm pretty confident in the assortment and the prices that we've got and I think we're pretty well-positioned for the holiday season.

Sarah Halzack, Washington Post: Good morning. This question is for Greg. So you said that 70 percent of stores had met their initial goals in terms of Clean, Fast and Friendly. And I'm wondering if you can just elaborate on what exactly does that mean? And we've heard a number of times throughout the year from both you and Judith that the goal is to be Clean, Fast and Friendly by the holidays. Have you met that goal?

Greg Foran: We have met that goal. We effectively have a reasonably simple survey that we actually get our customers right across the country to fill out. They rate us every single week, Sarah, on how they see our stores by store. So we know every single Monday right across literally 4,600 locations how we look for Clean, Fast and Friendly. We put a line in the sand back in February on where we wanted to be in October. We have achieved that goal. But we're not going to be satisfied with resting there, so what we've done is we're now working on moving the bar up for next year. So that is in place. And what we're starting to see is, we're starting to see it work.

Sarah Halzack: So does moving the bar up for next year mean that you want to get higher scores on those surveys or does that mean that you're looking at different criteria of what it means to be Clean, Fast and Friendly?

Greg Foran: It fundamentally means higher scores on the survey. So we know we're measuring the things that customers want, so we don't need to change that. What we do need to do is to now raise it to even a higher level.

Shannon Pettypiece, Bloomberg: Hi. So just two things I wanted to ask about. The first is online: obviously 10 percent growth is good growth, but not as great as you've seen in the past. And we've been seeing this with other retailers, where it looks like online growth is slowing. So I'm wondering if you could talk about what's driving that, even as you make these investments. I know online, even outside the U.S., has been challenging; that other e-commerce companies are managing that as well. So if you could talk about online. And then, this might be more for Charles, but is there long-term effects that you guys see from the potential Fed interest rate hike?

Charles Holley: This is Charles. As far as the 10 percent, like I mentioned earlier, it really had more to do with the weak economies we see in Brazil and the consumer environment in China and the U.K. Our U.S. dot com experienced a higher comp than that. I will say also, though, that most of the businesses we see around the world have soft sales when it comes to technology and entertainment. And, as you know, that really has to do with innovation and technology in entertainment. We just haven't seen as much of that. I think that would be a common thing amongst all of our retail operations and dot com operations.

As far as interest rate hikes, I don't believe it will have a significant effect on our company. We have a strong AA rating, a strong balance sheet. And quite honestly, if it's 25 basis points I don't see that having much of an effect on the company.

Hadley Malcolm, USA Today: Hi. Greg, you mentioned that you saw the best topline food performance of the year. And I'm wondering if you can expand on that and give some insight into why you think that happened?

Greg Foran: I think primarily it's because we have maintained a better in-stock position for our customers. So, what we've been working on this year is basic blocking and tackling: doing the simple things really well. You're aware that we reduced some of the promotional activity we were running in our stores, the amount of PDQs we were putting out, the amount of modular changes that we were doing. And what we've done is really just gone back to some simple principles of giving the customer what they want, making sure we're in-stock on the most wanted items, making sure we're flowing those through our supply chain properly. And of course by putting the investment of associates into our stores with more hours; 8,000 more department managers, what we're seeing is in the departments where we've put that degree of experience and effort back in, what we're seeing is an improvement in sales. But primarily it's because the product is on the shelves.

Hadley Malcolm: Is that investment in the department managers primarily focused in grocery?

Greg Foran: No it isn't, it's across the box. You know, I was having a look at an area like cosmetics the other day. We've put department managers back into cosmetics and not surprisingly, we're getting really, really good improvements in sales in cosmetics. So it's across the box. It could be cosmetics, it could be footwear, it could be children's apparel. We definitely have put people into fresh areas and grocery and it's starting to pay off. Now it's still pretty early in the piece, because we only got into this literally a quarter ago. So these people are now starting to come to grips with what they have to do and understand how to do MC-40s and Top Shelf and CAP processes. But as they start to develop that level of experience, what we'll hopefully see is continued momentum.

Candice Choi, Associated Press: My question is for Greg. Just going on Sarah's question earlier about what drove comps. The average ticket was down marginally but traffic was up and that pulls the comp up. Do you expect that traffic to continue in the fourth quarter and if so is that going to be the result or reflection of any increased discounting that you guys are going to do?

Greg Foran: Look, as I said before we won't comment on the fourth quarter. It's really early into the holiday season and you know, I couldn't tell you what would happen in the fourth quarter in terms of that.

Lindsay Whipp, Financial Times: Good morning. Thanks for taking the call. I have two questions that are related, one's a little broader question. I'm hoping to get a better understanding of how you're viewing the increasingly competitive discounted market, which of course will be key when it comes to pricing and whether you see intense discounters and whether there are any lessons from the price competitions seen in the U.K. or whether the markets are just too different to get any lessons from there? And then, secondly, I was just hoping to get a good idea of how your private brands business fared in the third quarter and what you're doing in terms of growing that business?

Charles Holley: I'll take the first part and maybe Greg, you can add to it? I think no matter which market you're in, or we operate in, price and value continue to be extremely important to the customer. That's not going to change. Those are things we're very focused on in all of our operations.

Greg Foran: I agree, Charles. You know, we've seen good improvements in private label at this point. We've invested in that area, we've put more resources into that, we're more focused around how we're going to win in private label because we do see that as an important component in dealing with hard discounters. And what I'd add is there are always lessons to be learned in any market. There are some differences that occur – you know, I've worked in four different countries now – and there are some things that are different because of culture or geography, but there are many things that are the same and there are great lessons for us to learn from the U.K. or Australia.

Lindsay Whipp: Would there be any examples you could give?

Greg Foran: Well, I think one for example is making sure that your private label product is incredibly good quality. And then, of course, delivers the right pricing. So that's a pretty clear message that I've learned. I haven't worked in the U.K., but I've worked in Australia where hard discounters have entered. So that's one lesson that I take with me that's top of mind for the U.S.

Tonya Garcia, Market Watch: Good morning, everyone. I wanted to go back to the food performance, if we could. Could you maybe elaborate a little more on what it is that people want? You said that having things in stock and having a better in-stock position was where you saw improvement. But are there any examples of things that are particularly popular, or maybe any new items that you've added that people seem to be responding to?

Greg Foran: We've made some solid strides in fresh. We're pleased with what we've seen in terms of many of the fresh areas. Organic product has seen a tick up for us, and we've gone to the step of identifying that more clearly in our stores. We're also very well-priced on that product. And then the rest of it comes back to making sure that you are in stock of the key brands that customers want, and we're well-priced on many of those products. And making sure that we're in stock right through the week, and particularly Saturdays and Sundays, is paying benefits for us.

Luc Olinga, AFP: Good morning. I wanted to have an idea of how your unlimited shipping program is doing?

Greg Foran: Sorry, the question was…?

Randy Hargrove: Unlimited shipping.

Greg Foran: Unlimited shipping. So we've got millions and millions of items that have, obviously, free shipping and for any item that customers want to have picked up in store, then that is delivered to the store for free. I'm really pleased with the development I've seen there, and I've spoken recently about how, with Pickup we've invested in another 3,500 department managers in that area. And only as recently as yesterday we were starting to see some good momentum in our Pickup business.

Hiroko Tabuchi, New York Times: Hi, thanks for taking my question. Are you putting in any extra security measures following the attacks in Paris and the threats that have followed heading into Black Friday? And is there any concern that consumer sentiment has been affected by the attacks and the aftermath?

Greg Foran: No, we're not putting in any extra security measures and we're not seeing anything at this very early stage.

Charles Holley: We do take the security of our customers, though, very seriously even before the attack. It's an unfortunate incident. Like Greg said, though, we will always keep our customers' security top of mind.

Deisha Barnett, Senior Director, Corporate Communications: Hiroko, this is Deisha. We mentioned this last week when we talked about Black Friday. But each store has traditionally, and continues to have, a unique security plan for the event that we talked to you about last week.

Kim Souza, Talk Business: Hi. I was wondering if you could share a little more details on inventory. The release said inventory growth was about 1 percent, but inventory declined about 1.9 percent in comp stores. There's been some recent reports that Walmart is scaling back SKU counts. Can you talk about that? Has this begun? And do these numbers reflect any SKU reductions?

Greg Foran: So the simple answer to that question is, no they don't reflect any SKU reduction. Like any retailer, we go through a pretty thoughtful and deliberate process, effectively on an annual basis, that looks at each department. And we determine what new items we put in, which we take out. There's no plan to significantly change what our assortment is other than to make it more relevant and better for the customer. What you're seeing in terms of improvement in inventory is the beginning of a journey for us. We've got still a lot more that we can achieve in this area. But it's primarily driven by a reduction in the amount of displays that we do that are off location.

Randy Hargrove: And I think we've got time for one more question.

Shannon Pettypiece: Hi. Thanks for taking my follow-up. I just wanted to go back to technology, because you mentioned this kind of contributing to slowdown in growth online and then I know you mentioned earlier that entertainment and technology has been down. So can you explain that more for me? People are just buying fewer TVs, fewer iPhones, fewer tablets? Because, you know, I thought Best Buy, at least as of last quarter, seemed like they were seeing an uptick in TVs and tech devices.

Charles Holley: This is Charles. I think, first of all, like I said, some of the markets outside of the U.S. are very soft anyway, economically. But technology really relies on a lot of innovation to kick-start sales, and there hasn't been as much innovation in technology over the last year or two. You have different versions of tablets or whatnot, but there isn't anything like when the iPhone first came out or when the iPad first came out. And it's somewhat cyclical, and we'll see, there will be, I think, some releases on video that will be good, Greg, for Christmas season. Like Star Wars and whatnot, you'll get some things there. But Greg, if you have any comments on what you see?

Greg Foran: Yeah, I think that's exactly right, Charles. And I also think that, you know, we continue to have opportunities to get into some of the things, some additions like 4K TVs. I'm happy with what I'm seeing around our kick-start for Black Friday in some of these areas. We've got work to do around some of the store operations to ensure that we deliver a better and seamless shopping experience in this area. But yeah, I think you've nailed it.

Randy Hargrove: Thanks everyone, for joining us today. I appreciate your participation. If you have any follow-up questions let us know, and we will see you next quarter.

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