

Walmart Q4 Earnings Media Call

February 21, 2017, 7:30 a.m. CT

Randy Hargrove: Good morning everyone. Thanks for joining us for today's call. As you've seen from today's news, we've announced our fourth quarter and full year financial results. Brett Biggs is here leading us on our media call today to discuss the company's business results. Brett is being joined by Greg Foran, Walmart US President & CEO, and Marc Lore, President & CEO, Walmart E-Commerce US.

We've got a number of media on the line today. We'll have about thirty minutes for today's call. You're going to hear some brief comments from Brett, Greg and Marc, and then we'll try to spend the bulk of the time answering your questions. Please try to limit those questions to one or two starting out, so we can try to get to as many as possible. If you need to fact check anything after the call, please reach out to me with any questions. With that, I'll turn the call over to Brett.

Brett Biggs: Alright, thanks Randy, appreciate it. Glad to have Greg with me as always on this call, and Marc Lore for the first time. I think it's great having both of them on as we talk about the continuing of how we integrate our business with the digital offerings as well as our store offerings, hear from both of them and get a better sense of that.

Also, just quick comments on our fourth quarter and full year. Overall, it was a really solid close to the year. We continue to make progress on a number of fronts, and Marc and Greg will talk quite a bit about that. Our financial strength continues to be a great competitive advantage, and I think you'll see that as we start to go through some of the numbers.

As you look at the numbers on a constant currency basis, full year revenue was up almost \$15 billion. On the quarter from a currency impact – the currency impact was a little bit more in the quarter than we anticipated coming in, and most of that was due to depreciation of Mexican peso. You would have seen adjusted EPS of \$1.30 for Q4 and \$4.32 for the full year, which, \$1.30 was at the top end of our range, and \$4.32 was actually higher than what we guided at the start of the year, so we're pleased with how we came out from an earnings perspective.

I'll let Greg and Marc talk in a minute about their businesses, but good performances in both.

From a cash flow perspective, \$31.5 billion of operating cash flow, which is an all-time record for Walmart. Again, it just continues to demonstrate the strength of the business. Working capital continues to be a highlight, particularly with Greg and Walmart US. Comp store inventory was down 7% on the quarter, while we had increases in in stocks, and you saw the sales and traffic of one-eight comp and 1.4% traffic gains, so overall really good performance in the US.

With that cash flow, in addition to continuing to invest in our business, we were able to return to over \$14.5 billion dividends and share repurchase through the year. You would have also seen this morning that we increased our dividend for the 44th consecutive year from \$2.00 per share to \$2.04 per share.

As you look at guidance, we guided EPS for the year at a range of \$4.20 to \$4.40, which is in comparison to \$4.32 on an adjusted basis this year. If you recall, last October we said that earnings in FY18 would be relatively flat to FY17, and this guidance would indicate that we are where we thought we would be. We anticipate EPS in Q1 will be in the range of \$0.90 to \$1.00. Be aware that there is a 2 to 3 cent impact on currency that's embedded in that number when you compare it to the prior year. We expect Walmart US comps to range from 1 to 1.5%. Sales have started off a bit slower than we would have expected this quarter. We believe that has to do in part to a delay in tax refunds versus last year, which has been pretty well chronicled in the media. And we have more assumptions about the guidance that you can read in the messaging part of my earnings script.

We continue to have really good momentum in the business. Really nice finish to the year, and I think as you look at us versus other retailers, we are really uniquely positioned to be able to integrate what we're doing in ecommerce with what we're doing in the stores. And with that, I'm going to turn it over to Greg.

Greg Foran: Thanks, Brett. Good morning, everyone. As you mentioned, Brett, we did a strong performance in Q4 in Walmart US, we continue to be focused on our commitment to improve the operations right across the U.S. business. Always more work to do, but we're happy to make progress – for both our customers and our associates.

In terms of performance, comp sales increased 1.8%, it was our strongest comp of the year and ahead of guidance, and that was driven by 1.4% increase in customer traffic. E-commerce contributed approximately 40 basis points to the segment comp. We're pleased with grocery comp, despite continued significant headwinds from deflation, which we believe negatively impacted our food comp by about 90 basis points in Q4 relative to last year. We continue to be happy, as you mentioned, with how we're managing inventory. We actually came down 7% on a comp store basis this quarter versus last year; we're driving that through many, many things that we're working on, like new technology and apps, real-time information to associates, better training and we are seeing results. Overall, net sales were up 3.2% for the year – nearly \$9.5B to over \$307B.

I'm happy with how we traded and took care of customers during the holiday period. We continued to simplify the keys to winning Black Friday. Offered good prices and availability on items customers wanted– in store and online – and what we saw is that customers responded well. One area we deliberately leaned into was Pickup; we added more items to Pickup Today, we're finding customers really appreciate that. As well as that, we had provided better technology tools to our associates and invested in the labor in that area, and as a result, you've seen improved performance and service to our customers. Another area that I'm really pleased with in the progress that we're making is around training and looking after our associates. Now opening and making progress over the last 12 months, continue to lean into that. But you know, by the fall, we'll have 225,000 department managers and hourly supervisors that go through the academies.

So in summary, we continue to execute the plan that we shared two years ago. We are making good progress in delivering a better shopping experience that we believe that's the one program to drive sustainable growth in traffic and sales. Marc, over to you.

Marc Lore: Thanks, Greg. It's great to be on a call with all of you. I'm very excited about the progress we're making. We're moving fast, putting the necessary building blocks in place. We've restructured the e-commerce org to be much more customer focused. We're making big investments in merchandising and customer experience and the customer value proposition, with 2-day free shipping as well as a recent acquisition.

Looking at growth, US GMV increased 36%, including Jet.com and online grocery in the quarter. Over the holidays, fulfillment centers supported record volumes with on-time delivery rates that far exceeded last year, and same-day store pickup grew by 27% over last year.

Digging into the business a bit more, we're scaling our assortment fast. We've more than quadrupled the number of SKUs from the beginning of the year to more than 35 million today, and that's up from about 25 million at the beginning of Q4. We've improved the customer experience by introducing free 2-day on millions of items with a \$35 minimum order, we've seen a nice uptick in sales as a result.

We're also improving the customer experience through recent acquisitions with ShoeBuy and Moosejaw, along with Hayneedle. They bring merchandising expertise, valued brand relationships and rich product content to enhance the shopping experience on all sites. In fact, we've tapped the leaders from those companies to be category leaders across both Walmart and Jet in their areas of expertise. We've also seen how our reach and scale can help these businesses grow much faster. So expect us to continue to look for these strategic opportunities where it makes good business sense.

We're leveraging the combined strengths of Walmart and Jet. We started sharing assortment, and we've merged the back-end fulfillment networks. We're creating experiences that leverage the strength of the stores as well. Greg's team and the e-commerce team have been working together to make store pickup fast and easy, and it's working.

So looking ahead, I'm happy with about how fast we're moving and what we've accomplished, but we still have a lot of work to do. It'll be an exciting year. We have many new enhancements to the customer experience plan, so stay tuned. Now I'll hand the call over to Randy.

Randy Hargrove: OK, I think right now we'd like to begin the Q&A portion of our call.

Operator: To ask a question, please press star one. To withdraw yourself from the queue, hit the pound key. One moment while we queue for questions. We'll take our first question from Anne D'Innocenzio of the Associated Press.

Anne D'Innocenzio, AP: Thank you, thanks for having the call. So my question is, can you comment on the current state of the consumer right now, given so much uncertainty right now, with you know, with healthcare, where that's going, under Trump? And maybe give us some more color about tax refunds, you know, the delay in tax refunds?

Greg Foran: Sure, thanks, Anne. Look, as Brett's already outlined, we've seen a slower start to the year, which we believe in part is due to the delay in tax refunds compared to last year. I'll come back to that in a minute. I'm comfortable with the plan we have in place. Tax as I see it has been a slow start due to the delay in tax refunds. We think this week is going to be a very interesting week for us in terms of how those tax plans fall.

Anne D'Innocenzio, AP: In terms of uncertainty regarding healthcare, where that is going under Trump, are you seeing, are you picking that during your in polls, in your polls of consumers?

Greg Foran: Anything we've got we've included in our guidance going forward and the guidance is the guidance. At this stage, we're running the program as we've set out to do. And it's been slower than at the beginning and we think part of that is due to the delay in tax refunds compared to last year.

Operator: Once again, if you would like to ask a question, press star one on your touchtone phone. We'll move next to Brian Sozzi of the The Street, your line is open.

Brian Sozzi, The Street: Good morning, guys. Marc, first question for you. Do you feel as though people are underestimating what Walmart can achieve online? And then Greg, to what degree have you seen any trade down in the US business from the rise in gasoline prices?

Marc Lore: Hi, yeah, this is Marc. To answer your first question, I think we're making great progress. I think we've got the right building blocks in place. I feel really good about where the organization is. I feel great about the changes we're making to the consumer value proposition. The acquisitions have definitely helped to accelerate growth into those hard-to-crack, long tail categories. We're building merchandise expertise in categories we hadn't before, so I feel really good about how things are looking, and we've seen nice uptick in sales since the 2-day.

Greg Foran: Thanks, Marc. Look, in terms of gasoline, we've been trying to create good algorithms to get a sense of relationship to gas to sales for some time. It's certainly up a bit, I think about 20 to 30 cents a gallon. We don't think that that is particularly instrumental or a huge change that we're seeing in our consumer at this point, so that's not a call-out for our customers.

Operator: Our next question comes from Sarah Nassauer of The Wall Street Journal. Your line is open.

Sarah Nassauer, The Wall Street Journal: Good morning. I was hoping you guys could talk a little bit more about two things in the release. One, as you mentioned, on expenses, the incremental store wages to support holiday customer service – can you tell us what that means? And you know, what kind of customer service that was? And also, the timing of post-holiday markdowns, can you explain more about what happened there.

Greg Foran: So in terms of customer service, I guess I would characterize that as, you know, entering a store is a really important part of a shopping trip. What happens when you first get into a store... the first couple of minutes is like the first chapter in a book. Second part is what it's like when you leave the store, the last chapter. So we're pretty cognizant of getting the checkout experience right is important. So one of the things we introduced this year was holiday helpers. We started rolling that out early into the holiday season. We're very cognizant of getting people quickly through checkout. So we made sure hours were right, we made sure people were trained and we're happy with the performance there.

In relation to holiday markdowns, you know, we had a look at inventory and how we were trading and we were able to clearance winter merchandise, end of January, which made us able to set ourselves set up for what is turning out to be early spring for us. We took that opportunity and got out there with post-holiday markdowns.

Sarah Nassauer, The Wall Street Journal: Was that an issue of buying? During holiday ramp up, you talked a lot about being bold in inventory so people weren't disappointed. Do you feel you overshot, or did something else happen?

Greg Foran: No, we actually feel pretty good about how we managed inventory. But actually our in stock position, better than has been historically. We think that forecasting and the managing by the entire team was extremely well formulated to play out through the holiday season. Every KPI that I look at and what I see as I get around the stores, would indicate to me that we've done pretty good job of managing inventory. So I'm very happy with that performance.

Sarah Nassauer, The Wall Street Journal: OK. Thank you.

Operator: Our next question is from Matthew Boyle of Bloomberg. Your line is open.

Matthew Boyle, Bloomberg: Hey guys, good morning. My question is for Marc. Marc, you said in your prepared remarks that you're happy about how fast things are moving, but my question for you is are there areas you wish you could move even faster in terms of your integration? I mean Walmart.com has historically been accused of moving too slowly. Even Mike Duke admitted that it was one of his biggest regrets, not moving fast enough online, so Marc, are there areas you wish you could move faster or initiatives that you really want to get rolled out perhaps that are a bit of a struggle.

Marc Lore: Not at all. It feels like a startup right now. Moving as fast as we possibly can. I'm really happy about the progress we're making.

Matthew Boyle, Bloomberg: OK. Speaking - just in light of Moosejaw last week, I mean, if Walmart has added \$5 billion in cash over the past year, which means you have over \$20 billion cash there. It's clear that you're planning to spend some of that on digital acquisitions. Could you talk about what holes might exist in your portfolio, Marc? You talked about building expertise in categories that you didn't have before. Obviously, Moosejaw was a solution to one problem there, what categories where you're maybe not as strong as you'd like would you like to add via M&A?

Marc Lore: Yeah, we're open and looking at all opportunities to, like I said, enhance the customer value proposition and expand our merchandising expertise and relationships. There are a lot of categories that fit that description, and we're actively looking.

Matthew Boyle, Bloomberg: OK, anything you want to enumerate for us?

Marc Lore: Like I said, we're actively looking.

Matthew Boyle, Bloomberg: OK, alright, thanks.

Operator: Our next question is from Krystina Gustafson of CNBC.

Krystina Gustafson, CNBC: Hi guys, I was just wondering, I know you guys noted the change in your ecomm figures moving forward and how you report those, did that lead to an inflated number this quarter now that we're not including international?

Brett Biggs: Hi Krystina, this is Brett. In the release, we included the way in which we prior discussed e-commerce results, which is Global E-Commerce, and excluding Yihaodian. And what we've said during those releases is that US was growing at a higher rate than International, so we were giving some indication of what that would be. Going forward now, with the change in org structure and Marc being on board, we thought it was time to go at it, have a pure Walmart US number. So we'll be talking about Sam's within Sam's results, International within the International results, and then we'll have this Walmart US ecommerce number – which includes everything that's going through the US stores that's ordered online, everything that's shipped to home, as well as Jet.com, the other acquisitions, and online grocery – so we certainly got more questions than not about Walmart US ecommerce, and wanted to be helpful in how we're describing that.

Krystina Gustafson, CNBC: Great, thank you.

Operator: And once again, if you want to ask a question, please press star one on your touchtone telephone. We'll move next to Lindsay Whipp of Financial Times.

Lindsay Whipp, Financial Times: Good morning, thank you for taking the questions. First of all, I'd like to ask about the proposed border tax and the overall tax reform in the Trump administration. Obviously, that will impact you quite significantly, so could you sort of give us a clearer steer on how you're looking at that and its potential impact? And secondly, if you strip out the acquisitions including jet.com, how did walmart.com do? Thank you.

Brett Biggs: Sure, I'll hit – this is Brett, I'll hit both of those. I'll start with your last question. We're going to continue to talk about US e-commerce as one number, and we think that's important because as we bring various businesses online and bring them together, there are parts of the business we want to keep separate, and there are parts of the business we want to be fully integrated, so we're going to be talking about one number going forward.

On the border tax – let me back up and just talk about tax reform. As a company, we, for years, have talked about how we are pro-tax reform. We are for anything that makes it easier for our customers and our associates, and that's the lens in which we look at this. Like you, we haven't seen details. We have the house blueprint which is, has come out several months ago, and we hear what you hear through the media. The things that are being discussed around border adjustment tax, for us, is a concern. Clearly anything that would potentially raise prices for our customers in the US would be a concern for us. We want to be helpful in the process. We're engaged in the process, as you might imagine, we're staying very close to it. We don't have any more details today than you do, but we're engaged in the process.

Lindsay Whipp, Financial Times: OK, thank you.

Operator: Our next question comes from Sarah Halzak of The Washington Post.

Sarah Halzack, The Washington Post: Good morning, guys. I'm just wondering if you can talk a little bit more about the assortment and ecommerce, obviously it's grown a lot. Can you share any color around, you know, how much of that is marketplace, how much of that is Jet, how much is your own inventory that you're holding for Walmart.com, and can you share how do you expect that to go over time, over the coming year?

Marc Lore: Sure. So yeah, most of that increase is in fact coming from marketplace, but we're going to be much more focused in the coming months and quarters here on the quality of the assortment as opposed to just the sheer number. So that's something that will be a little bit different going forward.

Sarah Halzack, The Washington Post: I see, and what does that mean? The quality of the assortment? Sort of being more precise about just carrying things customers want or having a different kind of merchandise, different merchandise categories?

Marc Lore: Just focused. If you look online, you know, the top million SKUs online represent about two-thirds of ecomm in general, and it's really important that we get those top million all, you know, in-house, in one tee, and we perfect all the product content, and the experience around those products. As well, we'll still continue to add third party marketplace SKUs, we'll be focused on SKUs that people buy most frequently.

Sarah Halzack, The Washington Post: Got it, thank you.

Operator: Our next question comes from Suzanne O'Halloran of FOX Business.

Suzanne O'Halloran, FOX Business: Hi, everybody. Greg, I think this question may apply to you. You know, everybody talks about uncertainty around our new administration, and yadda yadda yadda. But we do have stocks at record levels, and there is a level of optimism about the economic future under

President Trump. So once these tax refunds start picking up, are you encouraged sales will follow suit because of where US stocks are?

Brett Biggs: Yeah, this is Brett, I'll take that. You know, we talked about from a sales perspective that the year did start a little slower than we anticipated and believe in part that's due to the tax refunds, we'll see that that play out in the coming weeks and through the quarter. We're engaged with the current administration like we would be in any other administration in the past, and where we can be helpful to them as it relates to our customers and how our associates are doing with the economy, anything we can be helpful as far as creating jobs, we want to be engaged in that process.

Suzanne O'Halloran, FOX Business: OK but typically when we do see, you know, the enthusiasm for stocks, up sharply since the election, does that bode well for your business, sales-wise? Consumer sentiment?

Brett Biggs: That's not an assumption I would make either way. We just, as Greg talked about, we're running the play we run in our business, and the stock market will do what the stock market does.

Randy Hargrove: We've got time for maybe one more question.

Operator: We do have a follow up question from Lindsay Whipp of the Financial Times.

Lindsay Whipp, Financial Times: Hi, thanks so much. I just wanted to ask about the drop in margins in the U.S. and what you're planning to do this year, given that you'll – in order to reverse that decline?

Greg Foran: Thank you, Lindsay. So the margin did come down a few basis points in the fourth quarter. I'm sure you can appreciate there are lots of things that affect margins, and we are working on lots of things, so improving our fresh food, throwaways, improving our inventory results, unknown shrinkage – both of those things will move margin up, as will continuing to lean into ensuring we buy better from our suppliers. And then, of course, we'll invest some of that improvement in margin and price and we continue to run the program we initiated a couple years ago. So, what you see going forward is what's included in our guidance, but I am satisfied that as an organization, we make sound decisions in balancing what's right for all our stakeholders. It came out where we wanted it to.

Lindsay Whipp, Financial Times: Thank you.

Randy Hargrove: OK, I appreciate everyone's participation in today's call. We'll see you again back in May when we announce our Q1 results.

###