

**Walmart 1Q Earnings Media Call**  
**May 18, 2017, 7:30 a.m. CT**

**Randy Hargrove:** Good morning everyone. Thanks for joining us for today's call as we discuss our first quarter financial results. Brett Biggs is joining today and will be leading our media call today to discuss the company's business results. He is being joined by Greg Foran, Walmart U.S. President & CEO, and Marc Lore, President & CEO, Walmart E-Commerce U.S.

We've got a number of reporters 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, so we can try to get to as many as possible in our allotted time. If you need to fact check anything after the call, please reach out to me and we will try and help you. With that, I'll turn the call over to Brett.

**Brett Biggs:** Good morning everybody, I'm going to start with a few comments, and then hand to Greg and Marc for a few comments as well.

So it's an exciting time to be at Walmart, we keep saying that, we had another solid quarter. We have really good momentum across the business, and I'll give you just a few highlights before turning it over to Greg and to Marc.

On a constant currency basis, our revenue was up 2.5 percent to just under \$119 billion dollars. We still had a currency impact of just over a billion dollars for the quarter, but solid topline growth.

You would have seen our diluted EPS of \$1.00 a share for the quarter, which was at the top of our guidance and above last year.

Greg will talk in a minute a little more about Walmart U.S., but Walmart U.S. has now posted 11 straight quarters of positive comp sales and 10 straight quarters of positive traffic.

You've seen the U.S. e-commerce number, a really extraordinary number, sales and GMV, up 63 percent and 69 percent, respectively. Marc will talk a little bit more about that in a minute.

On International, 7 of our 11 markets reported positive comps, and you will recall that we have a one month lag in International so the timing of Easter impacted that number but still very good results in international and on a constant currency basis, net sales did increase just under 1 percent.

A good quarter for Sam's Club as well, comp sales posted 1.6 percent, the fifth straight quarter of positive comps and traffic was up 1.1 percent so good traffic into Sam's Club.

Operating cash flow and free cash flow remain strong, \$5.4 billion of operating cash flow in the quarter, it's a little less than last year due to some timing and we will be comping some really strong working capital performance from last year, but still a really strong number and we returned \$3.7 billion to shareholders in the form of dividends and share buyback.

We feel good about the momentum across the business, you would have seen that with the 1.5 to 2 percent U.S. comp guidance for the second quarter, and EPS guidance for the second quarter, excluding an anticipated gain from the sale of Suburbia, EPS of \$1.00 to \$1.08.

So we continue to move really quickly. As we think about our financial framework moving forward we will continue to focus on strong and efficient growth, operating discipline and strategic capital allocation. We are making progress on our fronts, and with that I want to turn it over to Greg.

**Greg Foran:** Good morning everyone. Positive momentum continued in the Walmart U.S. business across store formats in this quarter. We're pleased with the steady progress we are making.

Net sales were up 2.9 percent to \$75.4 billion and we saw our sales strengthen as the quarter progressed. We delivered comp sales growth of 1.4 percent, and that was led by a customer traffic increase of 1.5 percent. On a 2-year stack basis, comp sales and traffic were up 2.4 percent and 3.0 percent, respectively.

We had a good Easter - both food and general merchandise performed well. And e-commerce contributed approximately 80 basis points to the segment comp and Marc's going to cover that in greater detail.

Grocery continued to improve with food categories, delivering the strongest comp sales performance for the quarter in more than three years, some of that is due to market deflation and price investments.

General merchandise was soft due in part to the delay in tax refunds that we have spoken about previously at the beginning of the quarter.

We expanded locations with online grocery service to approximately 670 stores during the quarter and we were able to leverage that in our U.S. store business.

We continue to make progress on inventory, which was down 7.3 percent for this quarter versus last year on a comp store basis. In-stock levels remained high for our customers, and that marks the fifth-consecutive quarter we have seen an improvement in our inventory.

As you know, over the last few years we've invested in our associates and that continues. We have trained thousands of associates at our training academies and recently celebrated the opening of our 100<sup>th</sup> training academy in Edmond, Oklahoma.

In the second quarter, we expect comp sales of between 1.5 and 2 percent. There's plenty of work still to be done, but we are happy with progress against our plans in both the digital and physical. I'll turn it over to you, Marc, for some comments on digital.

**Marc Lore:** Thanks, Greg, and good morning everyone. We are moving fast and making great progress in e-commerce. Walmart GMV grew 69 percent and sales 63 percent in the quarter, the majority of the increase in growth over Q4 has been organic, it's not through acquisition as both quarters included the full contribution of the Jet acquisition. The primary driver of this organic growth can be attributed to two-day free shipping and also re-order, which allows customers to seamlessly re-order their everyday essentials.

Customers are placing more orders, and are beginning to spend more. As we are becoming the customers go-to destination for everyday needs, we also are beginning to increase our assortment in the long tail. Walmart.com now has more than 50 million SKUs, a fivefold increase versus the 10 million SKUs from the same time last year.

Our recent acquisitions are helping to shape our expertise, site content and customer experience in the key long tail categories like shoes and apparel, across all our sites. This year we've acquired ShoeBuy, Moosejaw and ModCloth. While each of these sites continue to operate independently, their leaders also manage their categories across our online portfolio.

I'm also excited about the Pickup Discount we launched this quarter. It gives customers a discount on non-store items when they pick them up in our stores. While it's still early, we're seeing nice growth in pickup orders. It's a real competitive advantage for us to leverage our transportation network and our stores to significantly lower our shipping cost and pass those savings on to our customers.

During this quarter we also announced Store No. 8 – which will incubate businesses and focus on technology that is going to shape the future of shopping, like conversational commerce, virtual reality, augmented reality and artificial intelligence. Jenny Fleiss, co-founder of Rent the Runway, joined us to oversee Store No. 8's first portfolio company called Code 8.

Jet.com has also continued to see growth particularly with urban, millennial shoppers where Walmart has less of a presence. We are now able to leverage Walmart's scale to drive efficiency and growth there. In closing, while we are happy with the top-line momentum there is still much work to be done. We are going to stay focused on the strategy we have been executing and remain fanatical about the customer experience, and we will continue to innovate in ways that leverage Walmart's resources and physical assets. Now I will turn the call over to Randy.

**Randy Hargrove:** Thank you Marc, now we'd like to begin the Q&A portion of our call.

**Matthew Boyle, Bloomberg:** Good morning guys, thanks for having the call. My question is for Marc, now that online grocery is in 670 stores, do you have any more data on the performance of that business beyond the Net Promoter scores? I have to imagine online grocery shoppers, their online baskets are somewhat larger. Can you quantify that at all? And what about repeat orders, are they coming back after they trial it? It would be nice to put numbers behind this expansion here.

**Greg Foran:** Hi Matt, we're really happy with how we're doing with online grocery and we continue to roll that out. I think we said we will do about another 600 locations this year. And we are just progressively hitting the markets that we want to get to. Customers are really happy with what they're seeing. I think the teams and our associates in stores are doing a good job serving our customers and we think it's a really good addition to our overall strategy of letting customers shop when they want and how they want. We don't get into the specific details, or rather financials, but we are happy with it and we continue to roll it out as quickly as we can.

**Matthew Boyle, Bloomberg:** OK, so you can't give any sort of data, are they ordering more? Is the average basket bigger? I know you alluded to this, are you getting incremental customers? You did say you were getting incremental customers in online grocery when you launched it in Denver a while ago.

**Greg Foran:** We continue to be really pleased with what we are seeing Matt. We don't get into the details or specifics but you know it's a good addition to our strategy and we are going to continue to roll it out.

**Matthew Boyle, Bloomberg:** OK, thanks.

**Operator:** Our next question comes from Anne D'Innocenzio, The Associated Press.

**Anne D'Innocenzio, AP:** Thanks for having the call. Just a question for Marc. Regarding the 63 percent surge in online sales, you had said on the call that this was driven primarily through two-day free shipping and Pickup Discount. Can you give more color? Are you finding that maybe you are grabbing more new customers, maybe people from Amazon Prime, and can you give more color on how much they're spending? That 63 percent is huge. Is that something that you will be seeing the next couple quarters or is it going to slow down because of the newness of the offer?

**Marc Lore:** Sure Anne. Yes, we are really happy with 63 percent growth, it shows that the changes we are making are starting to have a positive impact. We are seeing that customers are placing more orders, they are coming back more often and spending more, so we are really happy with that progress. The idea of that two-day shipping on over a million items without having to pay a membership fee is really resonating with customers.

**Anne D'Innocenzio, AP:** But that 63 percent, I mean, that's a huge surge, is that also coming from the fact that now you've increased the online assortment, now that it's 50 million?

**Marc Lore:** Yeah absolutely, it's all of the above. Primarily driven by two-day and the easy re-order, but also, we are increasing assortment. We have 50 million SKUs now and we're growing.

**Anne D'Innocenzio, AP:** OK, thank you.

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

**Sarah Halzack, The Washington Post:** Good morning and thanks for doing the call. I just wanted to ask about tax reform actually. In some ways since the last time we talked nothing had changed, and in some ways a lot has changed, so I just wonder if you can share any thoughts about your optimism on whether we are actually going to see anything happen on that front this year and if so, what your sense is of whether or not the border adjustability tax will be part of that?

**Brett Biggs:** Hi Sarah, this is Brett. We continue to be very pro-tax reform. We have been the entire time. We want things to be simpler and to continue to do the right thing for our customers, so we want to help in any way we can from a tax reform perspective. We are engaged in the process. As you would expect, you hear the same things I do about border adjustability tax on whether it will or won't happen, so we will continue to watch along with you, but we would like to see something done on tax reform.

**Sarah Halzack, The Washington Post:** Ok, thanks.

**Operator:** Our next question comes from Tonya Garcia of MarketWatch.

**Tonya Garcia, MarketWatch:** Thank you, I had a question going back to digital. Maybe you can talk a little bit in more detail about what is working so well? You mentioned a variety of things, more SKUs, there's been more acquisitions, the two-day free shipping. Can you talk a little about what it is you're finding that people are looking for from the digital experience and what you're trying to provide for them?

**Marc Lore:** Basically what I said before, the experience value proposition is improving. So, more product is available, able to get the product quicker, and the overall experience is just getting better, delivery time, SKUs, product content, the overall experience is improving.

**Tonya Garcia, MarketWatch:** Is there anything more you can say, I know in the comments there was a mention made that you are not going to buy your way to success, but is there anything more you can say about your acquisition strategy?

**Marc Lore:** All I can say is that the companies we have bought have really helped to build product content, give us expertise in categories that are harder to crack, and really help us improve the experience and accelerate growth in those categories.

**Tonya Garcia, MarketWatch:** Thank you very much.

**Operator:** And we will go next to Sarah Nassauer of The Wall Street Journal.

**Sarah Nassauer, The Wall Street Journal:** Good morning everyone. Not to beat a dead horse, however, on 63 percent e-commerce growth, I think it would be helpful to understand if this is sort of the new normal in your mind, this level of growth over the next few quarters, or do you feel like this is an 'OK, we've made these acquisitions which add sales and we've added these few things and we've also been marketing them so we are getting this boost that's especially big. Is this 63 percent the new normal for the next few quarters or not?

**Marc Lore:** Yeah, the majority of that 63 percent growth came from organic. Again, we are seeing customers place more repeat orders and spend more as a result of giving them quick delivery time, and also the expanded assortment.

**Sarah Nassauer, The Wall Street Journal:** OK, alright, thank you.

**Operator:** Our next question is from Nandita Bose with Thomson Reuters.

**Nandita Bose, Reuters:** Thank you for taking my question. Just wanted a clarification from Greg. Greg said grocery and food comps have improved during the quarter, because of the increase in deflation

including the price investment, so wanted to be clear about how much of your price investment impacted results this quarter.

**Greg Foran:** Thanks Nandita. We don't share what we have invested in price. We came out a couple of years ago and said we've invested several billions of dollars and that's fundamentally what we have been doing. We are really happy with how that is going and that's just part of our everyday plan and business. What we did see during the quarter is that deflation didn't have an impact on our results for that quarter because previously we had deflation in areas like meat and milk etcetera. But that has gradually lessened. Food overall has been very strong for us this quarter. We are pleased with how we are tracking there but have a lot more to do.

**Nandita Bose, Reuters:** OK, but are you able to clarify if the price investment that you're making? Has it started to show more results or the impact on results has started to show more this quarter than over past couple of quarters? Was the impact this quarter higher?

**Greg Foran:** I'm not going to get into those details. We know what we need to do and we are going to keep on doing it and running that, so customers get low prices every day when they go to Walmart and this is part of what we have been doing for several years so we are happy with how that's tracking.

**Operator:** Next we have Phil Wahba from Fortune Magazine.

**Phil Wahba, Fortune:** Good morning everyone. Just a point of clarification about the surge in online in the U.S. and the 50 million SKUs. Do you break out how much of that is third party and first party? Just trying to get a sense here of how much of your online assortment could be part of you omni-channel efforts, just to get a sense of how much this can help your store traffic, if you guys break that out.

**Marc Lore:** No, we don't break that out, Phil.

**Phil Wahba, Fortune:** Is it fair to assume that a big chunk of 63 percent is more about marketplace expansion than buying Moosejaw and all that.

**Marc Lore:** It's a combination but primarily driven by organic growth, not acquisition.

**Phil Wahba, Fortune:** OK, thank you.

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

**Suzanne O'Halloran, FOX Business:** Hi everybody, I'm just curious on your thoughts on Sears and JCPenney. Are you taking any of those customers as those retailers experience a down side, if you will?

**Greg Foran:** Thanks Suzanne, to be honest with you I wouldn't really know the specifics around that. Customers tend to move between retailers, and I have seen that over the years that I've been doing this. Specifically when you see movement from one area to another it's something really difficult to rank, and in some cases some of those probably are not core customers for Walmart, but they may be shopping online with us. I wouldn't really know about that either.

**Suzanne O'Halloran, FOX Business:** OK and just to follow up, on your comment on the tax issuance coming later, do you expect that now that we are past Tax Day that some of that spending will be back-ended to third and fourth quarters?

**Greg Foran:** I don't believe that to be the case. I believe that the issuance has run its course. We saw that play out at the beginning of quarter. We saw our sales strengthen as we got through the quarter, but I'm not expecting to see any action later in terms of tax. I think we are seeing that we are in a different time of the year, different set of events. We have Memorial Day coming up in a week's time and we're getting ourselves ready for that.

**Operator:** We will go next to John Biers with AFP.

**John Biers, AFP:** Hi there, thanks for taking my call. Just two questions. A lot of folks have asked about high growth in e-commerce. Growth and overall sales is up 2.9 percent, so a lot smaller than that number. Can you explain why it's not a jump in overall sales given that e-commerce sales were up so much? On a related question, are you going to, in the future, break out your financials in a different way so there is more information specifically about e-commerce?

**Brett Biggs:** Hi, this is Brett, I'll take those questions. There were a couple of things in the quarter that were a little bit of headwinds from a revenue perspective. We mentioned currency being a part of that, and also had leap day last year, so you had one more day in the quarter. Also international is on a one month lag, so the timing of Easter tends to be a little bit of a drag on international when it comes later like this year, and also you remember we had our business Yihaodian in China, which we started winding down. That's a sales difference as well from the first quarter. One thing, as you think about the e-commerce number, you know while it's a good-sized business, it's still fairly small inside Walmart U.S. so you have to keep that in mind. As we go through time, we will think about what we think is meaningful from the stand point of how we talk about e-commerce, but for now we are comfortable with how we are talking about it.

**Operator:** We will go next to Kim Souza of Talk Business

**Kim Souza, Talk Business:** Hello thanks for taking my call. I have been in a number of stores lately, and I've noticed that in a number of your stores you have more self-check-out and far fewer manned stations, and after 10pm in local super centers I'm often seeing one line open with no self-check outs open. I wonder if you might talk about the store labor and distribution and if you are actually having fewer labor in the store and if that's helping U.S. profits as well?

**Greg Foran:** Thanks Kim, that's a great question. What we are doing is having a look at our business and how we want to position our business over the next ten years. Where we can get technology working and provide options for customers that customers want to take, then that's exactly what we're doing, so self checkout is good example of that. You know in a couple of our locations, and certainly in our Sam's Club locations, we have leaned pretty heavily towards Scan and Go, and customers can use their own device or a device we provide them and customers have a choice -- they can do that or not. What we have found is that we have a group of customers that actually like checking themselves out and use self checkout, so as we remodel stores, and we are certainly doing plenty of remodels at the moment, we are taking the opportunity to replenish our front end. Other things like Pickup Discount where customers are taking the opportunity, that is where on some items you can get them cheaper if you go into the store and pick it up, then that's going to change how we operate our stores as well. Instead of just traditionally coming in and doing the shopping, you've now got customers coming in and going to a specific location to pick something up. The same thing with online grocery. So we have a moving feast of activities happening in our stores, so what we are doing is balancing the needs of the customer with where we place labor at the right time to deal with it. It's a good challenge, and I'm really pleased with the way the team is addressing this.

**Operator:** And we go next to a follow up with Matt Boyle, Bloomberg.

**Matthew Boyle, Bloomberg:** Thanks for taking my question. I wanted to follow up with a question on your services business, in store services. Doug has said on recent investor calls that he wants to see Walmart get more aggressive in services and I imagine that includes financial services, maybe health and wellness, pharmacy as well. I'm not sure if this is for Marc or Greg, but how do you plan to heed Doug's call and get more aggressive in services, which is an area where you can differentiate yourself from other retailers and get more aggressive even from Amazon?

**Greg Foran:** Thanks Matt, some of the that is related to the ability to get in the store and do the shopping yourself and check yourself out, but we continue to work on many other things that I'm not going to get into the specifics of yet because it's work in progress. But you can absolutely know that health and

wellness, where we have a terrific pharmacy and terrific OTC business, we are looking for ways to improve experience for customers in store and online. Same sort of thing with financial services, Daniel and his team are doing a good job of looking at these products and ways to speed up all the services and there are literally a host of other activities that Marc and his team are working on at the moment so you would see a reasonable cadence of us rolling those out over the next few years.

**Operator:** And we go next to a follow up with Sarah Nassauer with The Wall Street Journal.

**Sarah Nassauer, The Wall Street Journal:** Hello again. I was wondering, Greg, if you could speak about new products, new SKUs, organic, private label, some of the more premium fields that you have been bringing in over the last two years now. Can you talk a little bit about how customers are responding, if you've seen the demand increase for those types of SKUs, is it resonating in certain areas or not others?

**Greg Foran:** I'm pleased to get one on merchandise, it's the heart of the business, seriously. Often we get caught up with operational excellence in a store and that's important, but if you gave me a choice between operating a really efficient store or having a store with great merchandise, clearly I want both but if I only get to pick one, merchandise actually always works. If you have the right items and you have them at the right price then that gives you a chance to get up. Look, we have many, many things, and one of the great things about Walmart is it's so extensive. So you know we have food, yes, we are continuing to lean into organics. You will see those ticketed in our stores, you will see the product coming through but most importantly you will see price is really really good. Great Value, Equate, Marketside are some of the private brands we are offering in grocery, and I'm really pleased with what the team is doing there and that's an important part of our offer. In some cases those are what we call the price point items, in other cases not, but it's a really important part of our offer to give customers fantastic quality products at the lowest price. And then in general merchandise, you know whether we are talking about Ozark Trail, which we are doing in sporting goods and hardwares, or some of the latest things that have happened in sheets and towels like the Hotel Range which is at a good price point. These are really important items for our customer, and the good thing is that Marc and I are getting these things online and getting good sales out of these products and giving customers choice to come to the store to buy them or buy them online.

**Sarah Nassauer, The Wall Street Journal:** Ok, thanks.

**Randy Hargrove:** Thanks, everyone, I think we're at time, if you have any follow up questions please reach out to me, and we appreciate everyone's participation and we will see you next quarter in August.

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