

**Walmart 2Q Earnings Media Call
August 17, 2017, 7:30 a.m. CT**

Randy Hargrove: Good morning everyone. Thanks for joining us for today's call for our second quarter financial earnings results discussion. I'm joined by Brett Biggs, who will be leading our discussion today of the company's business and results. He is being joined by Greg Foran, Walmart U.S. President & CEO, and Marc Lore, President & CEO of Walmart E-Commerce U.S.

We've got a number of you on the line today. We'll have about thirty minutes for today's call. You're going to hear some brief comments about our business results and, as part of our discussion, you're going to hear 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 through everyone in our allotted time. For fact checking afterwards, please follow up with me and we will try and see how we can help you out. With that, I'll turn the call over to Brett.

Brett Biggs: Great. Thanks, Randy. Good morning everyone and thanks for joining the call, we appreciate your interest in Walmart.

It was a solid quarter, and solid first half of the year. I continue to be very excited by what we're able to do, and bringing together what we're able to do in our stores and what we're doing in online. Marc and Greg will speak to that in a minute, but the experience we're giving customers both in stores and online continues to be good and showing up in momentum for the company.

We had solid topline growth on a constant currency basis. Revenue was up 2.9%. We still had a currency impact of \$1.0 billion for the quarter, but it's a little bit less than what we've seen over the past few quarters.

Adjusted EPS of \$1.08, which you would have seen at top end of our guidance, is slightly above last year.

We continue to have very good momentum in Walmart U.S and Greg will talk about it in a minute. We've now posted 12 consecutive quarters of positive comps sales and 11 straight quarters of positive comp traffic.

Marc will talk about e-commerce in a minute, but again, very good performance on the topline. GMV grew 67% and net sales grew 60%. The majority of that growth was through organic through Walmart.com, and that includes online grocery and online grocery continues to grow pretty quickly.

Walmart International had good underlying results. Nine of eleven markets had positive comps and five of those markets had comps of more than 5%.

It was also a good quarter for Sam's Club, with the sixth straight quarter of positive comps and traffic was up 2.1%.

We did slightly deleverage expenses in the quarter, although we did lever expenses in Walmart U.S. in the stores, and also in International, so we are making some progress around expenses, and I'm pleased with some of the progress that I'm seeing.

With another strong quarter from a cash flow perspective, operating cash flow of \$11.4 billion and we returned nearly \$4 billion to shareholders for dividends and share repurchases.

I continue to feel very good about the momentum of the business and you would have seen that by us raising the lower end of our full year adjusted guidance. We were at \$4.20 to \$4.40 for the year. We raised the bottom end to now make that range \$4.30 to \$4.40 and that includes third quarter EPS range between \$0.90 and \$0.98.

I'll close by saying I'm pleased with our performance first half. I think we're executing against our plan and with that, I'll turn it over to Greg.

Greg Foran: Thank you, Brett. We continue to see momentum in the Walmart U.S. business across all channels. Net sales were up 3.3% to \$78.7 billion and comp sales were up 1.8% and that's the 12th consecutive quarter of positive comps. E-commerce contributed 70 bps to our comp.

Traffic growth continued to be strong at 1.3%, the eleventh consecutive quarter of positive traffic.

We're really encouraged that sales growth is coming from multiple channels, including stores, e-commerce and, of course, a combination of both.

We're really pleased with the improvement in the grocery business, food categories delivered the strongest quarterly comp sales performance in five years.

Our replenishment store teams are doing a good job with inventory management. Comp store inventory levels decreased for the sixth straight quarter and in-stock levels remain high.

We're also pleased with the expense discipline as we leveraged store expenses for the second consecutive quarter. And we're able to do that while maintaining good in-stock and service levels for our customers.

We continue to incrementally invest in price and are pleased with what we're seeing from customers' in terms of their response.

Online grocery is strong. We're now in more than 900 locations and plan to have 1,100 by the year-end.

The training programs that we've invested in are also delivering. We've got 175 training academies and will expect to have 200 operating by the end of the year. And that's helping us in terms of delivering better performance in our stores for our customers.

As you can imagine, Back-to-School is in full swing and I see that as I get around the country and we have really good pricing and offers out there for our customers and of course we're now linked in closely with Marc and his team on Walmart.com. We've got a really simple addition there and that has got an easy way for customers to order for their kids.

In Q3, we expect comp sales to increase between 1.5 and 2.0%.

We have good momentum in stores and e-commerce and we will continue to execute our strategy for our customers.

There's still much work to be done and I see that as I get around the place, but we are happy with the progress as we continue to stick to our plan and roll that out. Marc, I'll turn it over to you.

Marc Lore: Thanks, Greg. E-commerce continues to perform well and we're making good progress with our customer value proposition, including leveraging the strength of our stores.

Walmart U.S. e-commerce GMV grew 67%. While this included acquisitions, the majority of this growth was organic through Walmart.com, including the online grocery piece.

We're seeing success on our core strategy to offer the best value proposition on the items people buy every day. This includes offering low prices and two-day free shipping without needing a membership, and also the discount for store pickup, as well as the new easy reorder feature. That's leading to good growth in new customers and we continue see an increase in repeat purchases.

The second part of our strategy is to really expand our assortment and expertise in the tail. We're making good progress there. We now have 67 million SKUs on Walmart.com, up from 50 million in the first quarter. These acquisitions and their leaders are helping us create better experiences in key, higher-margin categories like apparel and home.

We also made an additional acquisition with Bonobos that expands our collection of exclusive, owned brands. Andy Dunn from Bonobos, who helped pioneer digitally native brands that really create a meaningful connection with their customers, is leading that group, which also includes ModCloth. Those brands will continue to sell through their own channels and Jet.com over time to help serve its passionate customers, many of whom are urban millennials.

I'm also excited about the ways we're connecting our stores with e-commerce. As we mentioned in June, one program we're testing lets associates choose to deliver packages on their existing commute home. When you look at the commutes of 1.5 million associates in the U.S., we can cover a huge percentage of the population. We're also seeing strong uptake for the pickup discount, which drives savings for us that we share with customers. And of course, one of my personal favorites, easy reorder, which makes it really simple to reorder items from previous purchases – both online and in stores. And customers love it too with 50% of consumable repurchases being purchased through easy reorder.

In closing, we're making really good progress in driving innovation across the business and providing the seamless shopping experience that customers want.

We're also staying laser-focused on the fundamentals and we continue to chart our progress - so we can deliver the best customer experience.

I'll now turn the call over to Randy.

Randy Hargrove: Thank you, Marc. At this time, I think we're ready to start the Q&A portion of our call.

Operator: And at this time, if you would like to ask a question, please press star one on your touchtone telephone. You may withdraw your question at any time by pressing the pound key. Again, to ask a question, please press star and one on your touch tone phone. We will pause a few moments to allow our questions to queue. And we can take our first question from Courtney Reagan with CNBC. Please go ahead. Your line is open.

Courtney Reagan, CNBC: Hi there, guys. Thanks for taking my questions and thanks for doing this call. My question is for Marc. Marc, we would love to know just a little bit more about some of the strategies and the things you're doing to leverage store and online, specifically that pickup discount. I think you said that there was a strong uptick or uptake in customers taking advantage of that. So, I guess I'm wondering, are those new customers to Walmart? Are they grabbing any additional items as they come into the store? And then secondarily, with the acquisitions of ShoeBuy and Bonobos, are there any concrete learnings you can share with us, so that we can have an anecdotal example of how that is working for Walmart? Thanks.

Marc Lore: Sure, Courtney. Regarding pickup discounts, we are happy with the progress we are making there. We are seeing that customers are coming into the store when they come to pick up items. We know that they are saving money and we're saving costs by not having to pay for last mile delivery. I think the program is doing exactly what we hoped it would, which allows customers to save money, while at the same time, drive traffic into the store, so we're really happy about that program and will continue to expand that over time in terms of the number of SKUs that we offer. With regards to the acquisitions, I think it's too early to say anything about Bonobos, but I know with some of the acquisitions like ShoeBuy, Moosejaw and Hayneedle, we're seeing those teams that manage the categories across Walmart and Jet, we're seeing they're bringing a lot of the relationships they've made with partners to Walmart and Jet. Our CVI score in terms of measuring the fundamentals on those sites are improving as you see better product content on those sites as a result. So, yeah, it's definitely starting to work. It's still pretty early, but we're really encourage by what we're seeing so far.

Courtney Reagan, CNBC: Thanks.

Operator: Thank you. We'll take our next question from Sarah Nassauer with The Wall Street Journal. Please go ahead.

Sarah Nassauer, The Wall Street Journal: Morning all. I was hoping, maybe Greg, if you could just speak to, you're at this point, where you as you said, you have been executing your plan for two years now, and it seems to be working. Can you talk to us a little bit about the balance and how you execute the balance between costs and getting the revenue and store improvements that you need out of the store base? Where are the other levers that you can pull in terms of costs and how do you avoid going back to the stores before you arrive?

Greg Foran: Great question, Sarah. It's coming up on three years since we started the plan. I've said previously, I think we're probably about one third of the way through and we might be a little bit further away from that now, but to be honest with you, we also sit down every year and review what are the other things that we need to add in and what's changed. The fundamentals of getting this right in the store are going to be around touching the product once. I want to get to a point where our replenishment systems, our supply chains are operating really efficiently, and products arrive into the store and effectively are only touched once and the only other time are touched if we're doing online grocery or doing a pickup for a customer. And, to pull all that together, and that's if you like the simplicity on the far side and the complexity means that you've got to build all your infrastructure around that. You've got to build distribution systems really well, you've got to get your replenishment systems working well, you've got to train your associates – forecasting all those sort of things. What you're starting to see in our business is that we're making some reasonable strides along that journey. So, inventory comes down in the back room, associates are trained. And what does great look like? Great looks like you walk into the store and people know exactly what they've got to do. The carton is moved from the back and put on the shelf. We're even making the checkout process considerably easier with a lot more self-checkouts and working hard with Scan & Go and those sort of things. You have this really curated assortment of most wanted items for customers delivered in an incredibly efficient environment. And at the same time, you have your stores - exciting. So, you take things like events like Back-to-School or Halloween, and you create excitement for customers, so that they put extra items in their baskets. So, that's the journey and the way that you get there is you do it a piece at a time. And you stay really close to these key leaders and you've got to get out and walk stores and get into distribution centers and listen to your associates and create the right balance of speed and efficiency and cost. I think we're doing a reasonable job of doing that, but we've still got quite a bit to do.

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

Operator: We'll take our next question from Matt Boyle with Bloomberg. Please go ahead.

Matthew Boyle, Bloomberg: Hey guys, good morning. Thanks for taking my question. My question has to do with the muted response so far to what seemed to be a pretty strong performance in the quarter. Shares are down in the pre-market here, and I just I want to ask you guys, all the online investments that you're doing – easy reorder, pickup discount – all of these great programs, as you guys have said, is coming at a cost to your margins. Is there any sort of time table for when this business will stop being a drag on the bottom line? I mean, given you continue to make investments, I know it's hard to say, but Greg just said he's about one third of the way there in his journey. Marc, how close are you to the point where the online business will stop being a drag?

Brett Biggs: This is Brett. As you think about what we're trying to do from a total company perspective and there's a lot of pieces to the portfolio. We've got a great U.S. business, a great Sam's business and a lot of great businesses around the world and e-commerce. So, Matt, as we're pulling all of this together for the customer and ensuring that we meet that need of how they want to shop, it's our jobs to balance out how we do that as a company and where we make our investments. We've invested in certain parts of the company and we'll continue to do that. We also know that shareholders have expectations and we've

got to be able to balance that with what we're looking to do in the short to mid-term. As a business, we're pleased with where we're at. If you look at the results from this morning in the second quarter, I think it was a solid quarter and it has been a really solid start to the first half of the year.

Matthew Boyle, Bloomberg: OK. Thanks, guys.

Operator: The next question is from Joseph Pisani with the AP. Please go ahead.

Joseph Pisani, Associated Press: I wanted to see if you could talk about the 60 percent growth. Where is that mostly coming from? What percentage of that is online groceries? The other question I had is about the Amazon/Whole Foods deal. How concerned are you about that eating into your online groceries and even on Jet.com? Thanks.

Marc Lore: Sure, Joseph. Yeah. In terms of the growth rate, I think nothing had really changed from what I said last quarter. We've seen a really nice pickup in new customers and repeats as it relates to the free shipping with no membership. People definitely like the speed of shipping. We're also seeing nice repeat behavior metrics coming out of the easy reorder. So, it's really on the consumable portion of the business. We've seen a lot of momentum and we're seeing those customers that start to attach to the long-tail category where we're improving the experience. So, nothing really changed much from last quarter. Regarding Amazon and Fresh, we're really happy about the progress we're making with online grocery pickup. I'll turn it over to Greg, who I'm sure will have more color to add on that, but, we feel really good about our strategy there. I think we have the assets in place to do that last mile of delivery grocery. We're already doing it now in a dozen stores, so we feel really good about where we stand there. Greg, I don't know if you had anything else to add there?

Greg Foran: Thanks, Marc. I think you said it well. It's actually the third country that I have done online grocery rollout now and I think you keep getting better at it, the more you do it. We said we'd be in 1,100 stores by the end of this year and we'll continue to lean into that next year. I can tell you that the customers really like the offer that we've got. We track MPS scores every single week across that. Amazon is our really strong competitor, so I don't know for sure what they're going to do – are they going to get into the space? Maybe. We've got a good strategy. I'm comfortable with what we're doing – I'm comfortable with what we're doing with speed and excellence and at this point, we'll stick with that plan and get on with it. But, obviously keep our eyes very much across what our other strong competitor does in the marketplace.

Operator: Thank you. We'll go over next Phil Wahba with Fortune. Please go ahead

Phil Wahba, Fortune: Thank you. Good morning everyone. Thank you for doing this and taking my question. So quick question, I want to drill down into the grocery getting the best comps in a while, if you could give us a bit more detail on what that was. Maybe some categories – was this online, was this your Fresh reset? I was little surprised given the food deflation in recent quarters to see that. So, Greg, maybe if you can give us a bit more detail on what spurred the grocery performance?

Greg Foran: Sure. Thanks, Phil. A number of things is the simple answer and that's usually what you find in a business like ours. Some of the things that we've done over the last year are playing dividends with being continued to be disciplined on the way that we build assortments in-store and that translates into modulars. We've also done things like adjusting space in key categories, expanding those that are growing, decreasing those that are declining. It's obviously been a lot of work around store operations in terms of things like count and top stock and you go into the store and you can see that being played out. We've introduced more section-work tools, tools for associates that allow them to be able to do their jobs better and we've seen that with better in-stock performance. We've had the benefit of a little bit more inflation in this area and we call out 30 basis points - the majority of that is produce and meat. Of course, we don't disclose what we invest in price, so we get a little bit of a headwind as we continue to do that. A combination of all those things is basically seeing more traffic in that department and more items in people's baskets. And we're pleased about that because it's an important driver of our strategy. So, it's all of those things, it's none in particular and I still think we've got room to do better.

Phil Wahba, Fortune: And how about price deflation? Was that still a factor?

Greg Foran: We call out some slight inflation in this area, about 30 basis points. A majority of that was in produce and meat.

Phil Wahba, Fortune: OK, great. Thank you.

Operator: And as a reminder, that's star one to ask a question. Star and one. We'll go next to Lindsey Rittenhouse from The Street. Please go ahead.

Lindsey Rittenhouse, The Street: Thanks for taking my question. I'm just wondering, I'm always surprised by what you guys launch, whether its pickup, these endless aisles. I know it's kind of hard to predict the future, but I'm just wondering, well first, what are customers responding to most in your stores? Also, ten, fifteen years down the line you must have a vision of what the store of the future might look like, and I'm wondering if you could give some insight into what your vision is.

Greg Foran: Sure. So, a couple of questions there. When you are doing 140 million of transactions a week, there are many things that customers respond to. We are putting in innovative things like the pickup towers, and I can tell you that where we've put them in customers really like them, and it's a great way to transact in the store, and a good example of creating a matchless, frictionless environment for our customers. At the end of the day, that's sort of how we think about these things. How do we make things better for our customers? So, whether its pickup towers, whether its online grocery, whether it's our Scan & Go, whether its apps that are going to get you through a financial services transaction quicker or through a refill in the pharmacy – those are all things that we are building into the offer. Having said that, we never underestimate what you can achieve by just going back to basic, fundamental things like how you build an assortment, how you're replenishing that, how you're training your associates because we always find that when we do that, there is more that we can achieve out of it because we never got to full potential. I wish I could tell you exactly what our stores are going to look like in ten years' time, but I'm pretty sure we're still going to have them. Are they going to have the same assortment that we've got today. There will be some changes in that and we've seen that over the years as entertainment departments have grown and shrunk and we continue to look at areas where customer are going and what they're doing. I think services are an interesting area and we'll just continue to build and develop our offer and take it where customers want us to go. Anything you want to add to that Marc?

Marc Lore: No, I think that's good.

Lindsey Rittenhouse, The Street: Do you foresee that there will be less employees, if I can ask a follow up, in your store of the future?

Greg Foran: I can tell you there will be employees doing different things. So, do I want to have a situation where in every Supercenter I've got a team of associates out in the back of the store unloading a truck, which is being loaded from a distribution center? No. And, we're working hard on how we take our supply chain to the next level, and really get much more specially built pellets and those sort of things. So, I think what you're going to see is a change in roles, and if you think about it, that's exactly what's happened over the last 40 years that I've been in retail. Overall, will the store numbers change? It will depend on what the offer is for the customer. But, one thing is for sure – they will be doing different roles and that's one of the reasons academies are so important to us because what we're doing here is we are equipping, effectively a million of our associates to learn and do different things. And, if I just reflect over the last 24 months, what we have our associates doing now versus what they were doing two years ago is dramatically different and I think that will accelerate.

Lindsey Rittenhouse, The Street: Alright, thank you.

Randy Hargrove: I think we have time for about one more question,

Operator: And we can take that question from Suzanne O'Halloran with Fox Business. Please go ahead.

Suzanne O'Halloran, Fox Business: Hi everybody. Thanks for hosting the call. This is a follow up, Greg, on the grocery business. What can consumers and investors expect for these 1,100 stores? What's going to be different and how are you thinking about those stores ahead of a potential Amazon/Walmart, excuse me, Whole Foods conglomerate coming together?

Greg Foran: So, for the 1,100 stores we'll have a place by the end of the year. You've got the ability to jump on the app to order groceries, we continue to bring down the time it takes to pick an order. As Marc mentioned, we're looking at how we deliver product and it's a pretty good experience for those people that want to use it. And, it's something that a lot of customers have not had the ability to participate in and I can tell you that when we turn it on, they like it. The other thing that you get is you naturally get a halo across the rest of the store because when you've got a personal shopper picking someone's order, you better make sure that your cilantro is really good, or that your French bread is great and we just don't produce items that are different for an online grocery shopper to what you get if you physically go in a store. What tends to happen is that it's a bit like getting an order done on your store and the entire performance lifts across the box. So, we like the halo effect. As I've said, I think Amazon is an unbelievably good competitor, and to be honest with you, I like the fact that they're a good competitor. And I like that fact that Aldi and Lidl are both out there because what it does is it lifts our performance. In order to do well in a market, which is improving you have to perform better yourself. So, as to exactly what Amazon will do – I don't know. But, if they get into the space then we'll watch closely, but at this point we're pretty happy with how that's going and we continue to develop and innovate.

Suzanne O'Halloran, Fox Business: OK. Just a follow up, Greg, when you talk about, or Marc, you mention the time it takes to receive their order, is that going to speed up in terms of day-of, hours-of, is that where you're moving towards?

Greg Foran: Yup, everything really. We continue to work with Marc on creating better service for our customers, better experience for the customers, but we also take all of that and we look at how we can be even more efficient in the store. So, it's a combination of all this.

Suzanne O'Halloran, Fox Business: Great, thank you.

Randy Hargrove: Thanks, everyone, we're at time. I appreciate everyone's participation today and we will plan on talking to you in the third quarter in November. Thanks everyone.

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