Walmart Inc. (NYSE: WMT)

First Quarter Fiscal Year 2019 Earnings

May 17, 2018

Kary Brunner: Walmart Inc., Senior Director of Investor Relations

The management commentary below contains statements that Walmart believes are “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, and that are intended to enjoy the protection of the safe harbor for forward-looking information provided by that Act. Please review our accompanying presentation for a cautionary statement regarding forward looking statements made below.

As a reminder, our earnings materials include the press release, management commentary and accompanying slide presentation - which are intended to be used together. All of this information, along with our fiscal 2019 earnings release dates, store counts, square footage and other materials are available on the investors’ portion of our corporate website – stock.walmart.com.

For our U.S. comp sales reporting in fiscal 2019, we utilize a 52-week calendar. Our Q1 reporting period ran from Saturday, January 27, 2018 through Friday, April 27, 2018. Also, this quarter, the company revised its corporate overhead allocations to the operating segments. Accordingly, previous segment operating income was recast to be comparable to the current period's presentation.

I’d like to remind you of a few upcoming dates. Our formal Shareholders’ business meeting will be held on Wednesday, May 30 starting at 10 a.m. central time at the John Q. Hammons Center in Rogers, Arkansas. Our Annual Associate/Shareholders’ meeting will be held Friday, June 1 on the University of Arkansas campus in Fayetteville. This meeting starts at 8 a.m. central time. Both meetings are also available for viewing via webcast through our website, stock.walmart.com. We will report our second quarter earnings on Thursday, August 16, 2018.

Doug McMillon: Walmart Inc. President & CEO

Walmart's first quarter results were solid. We're encouraged by the progress made across the business and the continued momentum we've experienced. Total revenue, on a constant currency basis, increased approximately 2.7 percent and adjusted EPS grew 14 percent. Each of our business segments delivered solid sales growth.

Walmart U.S. continues to perform well with comp sales growth, excluding fuel, of 2.1 percent. Greg and the Walmart U.S. team continue to strengthen our supercenters. We've improved our merchandising in areas like fresh food with better lighting, an expanded deli offer, and an improved bakery layout to make it easier for customers to navigate. We also recently introduced new apparel brands with improved design, quality and value. Customer experience scores continue to improve as we've lowered prices and taken steps to make shopping with us easier and more enjoyable. We aim to make shopping easy, fast, friendly and fun for customers, and our team continues to make progress towards that goal. I continue to be impressed by the progress the team is making on inventory management. They've put together a string of 12 quarters of reduced comp store inventory while maintaining strong in-stock levels. eCommerce sales accelerated in the first quarter with 33 percent growth, and we expect to grow sales about 40 percent for the full year. Sam's Club comps improved 5.2 percent, excluding fuel and a 140 basis point decrease for tobacco. Outside of the U.S., eight of eleven markets posted positive comp sales, including our four largest markets of Mexico, U.K., China and Canada. So overall, we feel pretty good about this quarter.

Recently, we took some strategic actions to further position our portfolio for long-term growth. We were pleased with the response of our colleagues in the U.K. following our announcement of the proposed merger of Asda with Sainsbury's. We believe this proposed combination is good for customers and colleagues as well as shareholders.

It was exciting to be in India last week with the Flipkart team for our announcement of Walmart's investment. eCommerce in India is growing rapidly, and we expect it to grow at four times the rate of overall retail. Flipkart is already capturing a large portion of this growth and is well-positioned to accelerate into the future. So, this is an investment in a large, fast-growing country, with an innovative business positioned in the growth area of eCommerce, and with an opportunity to be a positive force for good as we create shared value for years to come. We're excited about what the future holds.

These changes are consistent with our strategy to continually review our portfolio and position the company for growth. We are encouraged by the health of the overall business and remain confident in our ability to win over the long term while delivering results in the short term.

Let me mention a little more about each area of the business.

I'll start with **Walmart U.S.**

In addition to comp sales growth of 2.1 percent, more people shopped with us as comp traffic improved 0.8 percent. Comp sales were trending higher through early April, but general merchandise sales and traffic were somewhat negatively impacted by unseasonably cool weather in April.

Overall, the stores business is getting stronger. We're using technology in more ways to simplify work for associates so they can better serve customers. This is also helping with inventory flow and expense management. The previously-announced starting hourly wage rate increase took effect in February. But because we're operating more efficiently, we were able to leverage expenses in our stores this quarter.

We're pleased that U.S. eCommerce delivered sales growth of 33 percent with strength at Walmart.com and online grocery. Last week, Marc and the team launched our newly redesigned Walmart website and app. Customers are responding well to the refreshed, personalized and engaging experience. We've also added new brands to Walmart.com and the redesigned site will include a new Lord & Taylor store where customers can shop a broader assortment of premium brands. Overall, our

Walmart.com assortment offers more than 75 million first and third party items available for customers.

We're on track to increase online grocery pickup by around 1,000 stores this year to reach more than 2,100 locations across the U.S. with this service. We're also rolling out grocery delivery to about 800 stores by year-end, allowing us to cover 40 percent of the U.S. population with delivery. The eCommerce food business we've been building is important not only because of the volume it's driving but, strategically, it's helping to grow the number of omni-channel customers we serve. You'll remember from our previous presentations that omni-channel customers spend almost twice as much with us, and they also spend more in stores even after becoming omni-channel customers. In addition to grocery pickup, we have nearly 200 automated pick up towers in stores now and we'll have about 700 stores covered by year-end. Customers love to have choices in how they shop and we're positioning to serve them well.

Sam's Club had a strong quarter with comp sales growth, excluding fuel and tobacco, of 5.2 percent led by strong traffic growth of 5.6 percent, and eCommerce sales increased about 25 percent. Keep in mind that our decision to remove tobacco from certain clubs will be a headwind to reported comp sales throughout the year, and pressured the first quarter comp by approximately 140 basis points. Including that impact, Sam's comp sales, excluding fuel grew 3.8 percent. I'm excited by the focus John is giving to the fresh food part of our business and the momentum the team is building. Members are responding to improved quality and freshness in fresh food, lower prices and more newness. The Sam's team is also doing a good job driving growth in our private brand, Member's Mark. Private brand penetration increased more than 220 basis points year-over-year.

Judith McKenna**, Walmart International's** new CEO, has hit the ground running with the big announcements related to the U.K. and India. She's already been to Canada, China, the U.K., India and Mexico since taking the role. This segment continued to deliver solid results with constant-currency sales growth of 4.5 percent. Walmex led the way with another strong quarter as comp sales grew 9.5 percent. We benefited in Mexico, as did several of our International markets, from the earlier Easter but traffic was strong even considering that benefit.

In March, I visited our business in China. Our Walmart stores are getting stronger and Sam's Club continues to go from strength to strength. I really like the progress Sam's China is making one item at a time. In addition, as we partner with JD Daojia, China's largest local on-demand logistics and grocery delivery platform, we've expanded our one-hour delivery service, which is now available from 177 stores. During my visit, we opened our first small supermarket store format. Customer response was terrific. We're able to offer over ninety percent of the items we carry in the supermarket via eCommerce for delivery. The supermarket offers delivery in less than 30 minutes. The fastest delivery on opening day from online order to customer door was 9 minutes! We believe there are opportunities to selectively expand this format in key regions. We can certainly see the benefits of making our stores, websites and apps seamless with the capabilities of in-store shopping, picking in store and delivering. We're learning a lot from China these days.

In Canada, we're investing in price and customers are responding as we continued to gain market share in key traffic driving categories like food and consumables.

In the U.K., we saw sequential improvement in the business as comp sales increased for the fourth consecutive quarter. We continue to remain focused on improving the customer experience in our stores and providing value for customers by investing in lower prices.

This quarter we hosted suppliers and environmental leaders here in Bentonville as part of "Project Gigaton," which we launched last year to remove one gigaton of emissions from our supply chain by 2030. We also launched Project Gigaton in China this quarter. We were pleased to announce that in the first year we already have over 400 suppliers on board and suppliers have reported 20 million metric tons of greenhouse gas emission reductions from our supply chain. We're also excited to be doubling our renewables capacity in the U.S. with more of our energy now coming from wind and solar. In addition, we announced we're doubling the number of electric vehicle charging stations at Walmart and Sam's Club. You can now drive coast to coast in an electric vehicle and charge your car at our stores and clubs.

In closing, we have good momentum in the business, we're focused on serving customers more effectively and we're executing on our strategy.

We look forward to seeing many of you next month at our Shareholders' Meeting here in northwest Arkansas. Thanks for your interest in Walmart.

Brett Biggs: Walmart Inc. EVP & CFO

We delivered a good quarter to start the year. Constant currency revenue grew 2.7 percent to $120.7 billion, comp sales were positive across each of our three operating segments, and Walmart U.S. eCommerce sales increased 33 percent. I'm pleased with the momentum we have in the business and the pace at which we're moving to stay at the leading edge of retail.

Over the past weeks, we have announced a couple of significant portfolio moves in the U.K. and in India. The ability to confidently make these decisions is due in large part to our very strong financial position as well as the business continuing to operate very well on a day to day basis. We continue to be pleased with the overall health and momentum of the various parts of our business worldwide.

Now, I'll provide additional details about our results from a consolidated perspective before moving on to our operating segments, including eCommerce.

Adjusted EPS was $1.14, an increase of 14 percent versus last year. GAAP EPS was $0.72. EPS was positively impacted by about $0.03 due to currency impacts, but this was more than offset by the combined impacts of a loss on disposal of our bank business in Canada as well as some continuing expenses related to disposal and closure events, which began in Q4 of last year.

As outlined in today's earnings release, the company's first quarter GAAP EPS was negatively impacted by an unrealized loss of $0.47 related to our equity investment in JD.com. Since taking a stake in JD.com in fiscal year 2017, the market value of the company's investment had increased $3.7 billion as of January 31 of this calendar year. Beginning in fiscal year 2019, due to a change in U.S. accounting principles, Walmart is now required to include unrealized gains/losses of certain equity investments in net income. This quarter, the company recorded an unrealized loss of $1.8 billion due to a decline in the JD.com stock price during Q1. This accounting change could continue to create volatility in reported EPS, which we plan to remove from adjusted EPS going forward. Additionally, GAAP EPS benefited by $0.05 due to an adjustment in the provisional tax amount recorded in Q4 fiscal 2018 related to Tax Reform.

Now, let's move to operating results.

Consolidated gross profit margin declined 15 basis points primarily due to price investments in certain markets and higher transportation costs.

Consolidated operating expenses as a percentage of net sales increased 11 basis points even as we leveraged expenses in our U.S. stores and across many of our international markets. We deleveraged in total primarily as a result of investments we're making in eCommerce, as well as the closure and disposal costs associated with the items I described earlier.

We saw a benefit in interest expense during the period due to the impacts of reduced debt levels and bond tender transactions last year.

The company's effective tax rate for the quarter of 19.3 percent benefited from an adjustment in the provisional amount recorded in the fourth quarter of last year related to Tax Reform. Without this adjustment, our ETR would have been about 24 percent, which is in the guidance range for the year.

Providing returns to shareholders continues to be a priority for us. During the quarter, the company returned $2.1 billion to shareholders through dividends and share repurchases. Our level of share repurchases declined significantly in Q1 from prior year levels as we suspended buybacks in anticipation of the Flipkart announcement.

U.S. eCommerce sales grew 33 percent in the quarter. We're making shopping easier and providing an improved experience for our customers. As Doug mentioned, the team recently launched several new initiatives, and we remain focused on nailing the fundamentals. We're excited about the new site redesign as well as new premium brands we're attracting. We're continuing to rapidly expand online grocery pickup, and we're beginning the rollout of a new grocery delivery service that we believe will resonate with customers.

Now, I'll discuss the results for each operating segment beginning with Walmart U.S.

Walmart U.S.

The team delivered another quarter of solid top-line growth as comp sales, excluding fuel, increased 2.1 percent with a contribution from eCommerce of approximately 100 basis points. Our comp was trending higher through early April, but general merchandise sales and traffic were somewhat negatively impacted by cool weather in April. This business has picked up again as the weather has normalized.

The grocery business continued its strong performance with healthy traffic across key categories. Strength in fresh food and packaged goods drove low single-digit comp sales for the quarter.

Gross margin rate declined 23 basis points primarily due to price investments and higher transportation expenses as a result of higher fuel costs and third-party transportation rate pressures.

Operating expenses deleveraged approximately 11 basis points largely due to investments in eCommerce and technology. Our stores leveraged expenses again this quarter as productivity improvements more than offset the impacts of increased associate wages.

Overall, we're pleased with the underlying strength in the Walmart U.S. business. We're finding new ways to leverage our stores to provide even more convenience through the expansion of pickup towers as well as online grocery pickup and delivery. We're saving customers time and money, and they're responding favorably.

Walmart International

We continue to execute against our strategic priorities of delivering disciplined growth and being a low cost operator. We're being thoughtful and deliberate as we assess our portfolio and make decisions about where and how we'll grow. We're continually reviewing our portfolio and consistent with that, we're currently considering options for our business in Brazil.

During the quarter, we saw broad-based sales growth across the markets with most of the growth coming from comp sales. Overall, eight of eleven markets delivered positive comps. We're pleased with the trends we're seeing in key areas such as fresh and private brands, as well as online grocery. We have good momentum in the business, and we're well positioned for continued success.

Net sales in constant currency increased 4.5 percent and grew 11.7 percent on a reported basis. Changes in currency rates benefited net sales by approximately $2 billion. While the earlier timing of Easter this year helped pull sales forward into the first quarter in a few markets, it's important to note that we also experienced headwinds of about $200 million related to last year's divestiture of Suburbia and the wind-down of the first party portion of our Brazil eCommerce business.

From a profitability standpoint, first quarter operating income increased 0.2 percent in constant currency and 11.1 percent on a reported basis. Profit was negatively impacted by residual expenses related to the wind-down of eCommerce in Brazil and a charge related to the pending sale of our bank in Canada. These expenses were somewhat offset by a gain of $51 million for the sale of land in Canada. As a reminder, during the first quarter of last year, we recorded a gain in international of $47 million for the sale of land. Excluding all of these items, operating income growth in constant currency would have increased faster than sales growth.

Let's now turn to highlights from key markets. The following results for the quarter are on a constant currency basis.

Momentum at Walmex continued across all countries and regions. Total sales increased 9.1 percent and comp sales increased 9.5 percent. All divisions outpaced ANTAD self-service representing our widest gap to the market since 2009. In Mexico, comp sales increased 14.1 percent on a two-year stacked basis driven by strong comp traffic growth. We continue to make progress with our digital transformation, and Mexico's omni-channel sales, while still fairly small, grew 28 percent during the quarter, which includes the expansion of marketplace and the introduction of pickup.

In Canada, net sales increased 2.9 percent with comp sales growth of 2.6 percent. According to Nielsen we gained market share in key traffic driving categories such as food and consumables as well as health and wellness. Additionally, we continued to invest in price to further improve our position in the market. Lastly, profit was negatively impacted by a charge of $81 million related to the pending sale of our Canada bank, somewhat offset by the sale of land mentioned earlier.

In China, net sales increased 6.0 percent and comp sales increased 4.0 percent, which marks the best comp performance in more than five years. We're pleased with the comp performance of both our Walmart and Sam's Club formats, and the flagship stores on JD.com experienced significant growth. Additionally, we expanded the one-hour delivery service with JD Daojia bringing the total number of stores providing this service to 177.

Turning to the U.K., net sales increased 3.7 percent and comp sales grew 3.4 percent. The team continues to focus on improving the customer experience through price perception and quality private brand products.

Overall, we're pleased with the consistent performance from international. We're positioning the company for continued growth and we're confident in our strategy.

Sam's Club

Before I discuss the performance at Sam's, let me remind you that at the end of last year, we made the decision to close 63 clubs in the U.S. and remove tobacco from certain clubs, which will impact various metrics throughout the year.

Net sales for the quarter decreased 2.7 percent, but this includes a negative impact of nearly 8 percent from closed clubs. So, while we will have comparability challenges throughout the year, we feel good about the current momentum in the underlying business.

Comp sales, excluding fuel, increased 3.8 percent with comps excluding fuel and tobacco increasing 5.2 percent. Comp traffic was strong at 5.6 percent. The fresh category continues to perform well with comps of greater than 5.0 percent, led by strong traffic growth. We expect tobacco to negatively impact sales more as the year progresses.

In eCommerce, we recently announced free shipping from Samsclub.com for Plus members. This new benefit is driving more members to upgrade to the premium membership, which is providing a nice lift to membership income. Overall, eCommerce sales increased approximately 25 percent during the quarter.

Conclusion

I'll close today with a comment on EPS. As announced last week, the company's investment in Flipkart is expected to negatively impact fiscal year 2019 EPS by approximately $0.25 to $0.30 if the transaction were to close at end of the second quarter. As in past years, we will update certain full year guidance with our second quarter release.

With that, I want to say thank you to all of our associates around the world. I look forward to seeing many of you in a couple of weeks at our Shareholders' Meeting.

Thank you to our investors for your trust in Walmart. We're making decisions and running the business with both the short term and long term health of our business in mind.