Walmart Q1FY19 Earnings Media Call

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Randy Hargrove: Good morning everyone. Thanks for joining us for today's call to discuss our first quarter financial results. Brett Biggs is going to be leading our call today to talk about our business results, he's being joined by Greg Foran, Walmart's U.S. President and CEO, and Marc Lore, President and CEO of Walmart E-Commerce. You all will have seen the press information that we released. We'd like to spend the 30 minutes that we have today focused on talking about our business results. We do have a number of media who has joined our call today. After some brief comments from Brett, Greg and Marc, we'll try to get to as many questions as we can. Please try to limit those questions to one or two starting out so we can get through everyone. If you need to fact check any information during the call, please reach out to me. And with that, I'll turn the call over to Brett.

Brett Biggs: Great – thank you. Good morning, everybody. So, as you would have seen over the past few weeks, we've made announcements of strategic moves to strengthen our portfolio around the world. We're able to do that with confidence because of what you see from our company – the financial strength that we have and because of the underlying business being really strong. I think first quarter was a really good example of that, and Greg and Marc will go into some details here in a minute – but a solid quarter across the company. As you would have seen, net sales were up 2.7%, to just under 121 billion dollars, that's over a $3 billion dollar increase from last year on a constant currency basis. Adjusted EPS was 1.14, that's a 14% increase versus last year.

You would have noticed the difference between GAAP EPS and adjusted EPS. There's one main item that relates to it, and there's a new accounting rule this year that causes us to mark certain equity investments to market. As you know, we have 10% interest in JD.com, that stock decreased in price during the first quarter, and so that's the difference between GAAP EPS and adjusted EPS. Overall, we still have a nice gain on the shares that we took in JD almost a couple of years ago. So, you'll hear more from Greg in a minute – comp sales were positive across each of the three operating segments – 2.1% Walmart U.S.

Marc will walk through U.S. eCommerce. As expected, sales accelerated in the first quarter with 33% growth. Walmart International had another strong quarter. Eight of 11 markets reported positive comps, including our four largest markets, and net sales and constant currencies increased 4.5% -- that increased a little bit because of the early Easter this year, but still a really strong quarter. Sam's Club had a very strong quarter. Comp sales, excluding fuel and tobacco, were up 5.2%, and traffic growth of 5.6%, so a very strong quarter for Sam's Club.

From a cash flow perspective, we generated just over $5 billion in operating cash flow. One thing you would have noticed is that our share repurchases were down quite a bit in Q1, and that was primarily suspending our buy-backs in anticipation of the Flipkart announcement. So overall, I feel really good about the momentum of the business.

The performance across the business was very consistent across all parts of the business, and with that I want to turn it over to Greg.

Greg Foran: Thanks, Brett. Good morning, everyone. U.S. stores were able to deliver another quarter of solid top-line growth. Comp sales in total increased 2.1%. Costs of ticket was at 1.3% and the traffic increased .8%. We were trending higher through April, but general merchandise sales and traffic was somewhat negatively impacted by some cold weather in April, but the business has picked up again and the weather has normalized; eCommerce has contributed about 100 basis points to the comp.

We continue to perform well on inventory management, and we put together now a string of 12 quarters of reduced comp store inventory, while maintaining strong in-stock levels.

Pleased with what we're seeing in the Supercenters, the merchandising in areas like fresh food continue to do well, and we've introduced new apparel brands with improved design, quality and value.

The technology continues to roll out in a simplified way for associates, and that allows them to better serve customers, and it's also helping with the inventory flow and expense management.

Customer experience scores continue to improve in both Neighborhood Markets and Supercenters as we've lowered prices and taken steps to continue to make shopping with us easier and more enjoyable.

Incremental price inducements – we continue to roll those out and customer are responding well. We're making good progress with the omni-channel offerings, and we're on track to deliver another 1,000 stores with this offering this year, and that's going to see us to 2,100 locations across the U.S.

We're also rolling out delivery to 800 stores by year-end, and that will see us covering around 40% of the U.S. population. 200 automated pick up towers are in stores now, and we'll hit about 700 by the year-end. What we're seeing is the customers are liking this converged experience, and we think we're in reasonable shape and positioning to serve them well.

Associates remain a key priority. In February we implemented starting wage of $11 dollars, and we also made changes to benefits. We've been very careful in terms of operating efficiency and were able to leverage expenses in our stores this quarter. So, overall, pretty pleased with the first quarter results, feeling that the momentum continues and we continue to remain focused on our strategy.

Over to you, Marc.

Marc Lore: Thanks, Greg. Good morning, everyone. As you heard, U.S. eCommerce grew 33% this quarter, driven primarily by Walmart.com and online grocery - contributed 100 basis points to the growth of Walmart U.S. This performance was in line with our plan, and we continue to forecast approximately 40% growth for the year.

I'm happy with the progress we made on strategy this quarter. As a reminder, the strategy focused on three key areas. First, nailing the fundamentals of eCommerce. Second, playing offense by leveraging a unique asset to deliver experiences that only we can. And, third, innovating for the future.

With regard to the fundamentals, we made really good progress and have seen nice improvement in our customer value index (CVI). The CVI measures how we're meeting customer expectations in five areas – Have It, Find It, Display It, Price it and Deliver It.

The most visible development in the quarter was the release of the new Walmart.com site experience with a much more modern look and feel. It's designed to make it easy to navigate our unique omni-shopping experience, and since launching, we've seen between 10 – 20% more traffic going to online grocery.

The new site has a much more personalized experience in the homepage, including easy re-ordering, and it shows items that are trending in a customer's local area and order status. While still early, we're seeing very positive comments from customers.

We've been adding great new premium brands to the site, and we've just announced that the new Lord & Taylor store on the site will add more than 125 premium brands in the coming weeks, including brands like Vince Camuto, Tommy Bahama and Lucky Brand, and we'll expand from there.

Looking at Jet, we're repositioning the business to focus more on affluent millennial customers in the major metro areas where Walmart has lower penetration. We've shifted from investing broadly across the country to focusing on the target metro markets and have seen nice growth in those, particularly in the Northeast.

We hired a new leader, Simon Belsham, as Jet's president. He is a true retail leader in developing Tesco's grocery delivery in the U.K., and worked for Ocado and NotontheHighStreet.com.

Last week, we also announced that we added Apple on Jet, which brought a much broader assortment of Apple products to the site. While we focus on the fundamentals, we're also playing offense using our unique assets, including the 4,700 stores that are within 10 miles of 90% of the U.S. population.

As Greg said, we're moving fast in online grocery and are increasing pickup to more than 2,100 locations across the U.S. this year. We've got 18,000 personal shoppers to power this program, with thousands more being added this year. We're rolling out delivery to 800 stores by year-end covering 40% of the U.S.

We're continuing to see NPS score in the mid-80s for pickup, even as we scale. Another part of playing offense is building a portfolio of digital brands. In addition to having Bonobos and ModCloth, we launched our first home-grown brand called Allswell, which is a line of luxe bedding and mattresses. We believe these furniture brands will be a key part of differentiating ourselves over the long-term.

The third part of our strategy is innovation for the future. We now have several portfolio companies testing new ways of shopping, ranging from conversational commerce to VR to IOT, and we expect to start sharing more shortly.

So, closing out, we're really encouraged by our progress and execution this quarter. We've seen a nice increase in the CVI score. We know there is still huge opportunity to do more for our customers, and we'll continue to stay heads down on the fundamental eCommerce experience, while we play offense in our stores and innovate for the future. Thanks.

Randy Hargrove: Great, thank you. I think with that, we'd like to open the line for questions.

Operator: At this time, if you would like to ask a question, please press the star and one on your touchtone phone…and we can take our first question from Anne D'Innocenzio with The Associated Press. Please go ahead.

Anne D'Innocenzio, Associated Press: Hi, thanks for having the call. My question is, overall, in terms of the revenue growth, how much was it due to the economy versus your own initiatives versus, also, tax cuts, and how is that affecting shoppers? Can you kind of put it in buckets for us? Thanks.

Greg Foran: Hi, Ann. It's Greg. It's really, really hard for us to be that specific to be honest. I guess what I saw happening through the quarter is pretty similar to what I've seen through the previous year to be honest. It wasn't until we got to the end of the quarter, as I mentioned, that I started to see things move around a bit. I think most of that to be honest was weather-driven as spring really didn't happen in most parts of the country.

I spent a lot of time traveling around stores. I'm sure that part of the mix in here is also gas prices. You know, we may be running at about 30 cents a gallon, but averages are a very difficult number in a business like ours where you have so many stores operating in so many different parts of the country, and once again, gas prices will impact some customers more than others, tax on customers more than others, but our base is so broad and our store base is so broad across the country that, when you put it all together, it's a much more difficult thing to actually try and isolate. So, overall, my read of things is that it's actually reasonably similar to what I've seen over the last year. I'm pretty comfortable with our strategy and the play that we're running and that's what I would expect us to continue to do for the rest of the year.

Anne D'Innocenzio: Ok, thank you.

Sarah Nassauer, The Wall Street Journal: Good morning everyone. I think, Marc, you said that part of what was driving this re-acceleration of growth in dot-com was increased traffic going through online grocery. I just wanted to clarify that because my understanding is that's a separate site. Can you just tell us more about what drove that re-acceleration?

Marc Lore: Sure. Just keep in mind, Sarah, that the new site experience launched at the end of the quarter, and so we have very little history with regards to that, but we have seen more traffic going to online grocery, which is a good thing.

Sarah Nassauer: But, you mean through Walmart.com because there is a link now on that homepage?

Marc Lore: Yeah, on the homepage we are linking it much more prominently, so linking customers to their local store, so they can see if pickup is available or if same-day delivery is available, and we are definitely more focused on creating that true omni-experience online.

Sarah Nassauer: Ok, and was that the main driver of that re-acceleration of growth or was it broad-based across many, many things?

Marc Lore: Like I said, that was just right at the end of the quarter, so the growth during the quarter was driven really by us just being heads down and focusing on improving the fundamentals - Have It, Find It, Display It, Price it and Deliver It. We saw growth coming from improvements in pricing and marketing, and we're seeing improvements on site, assortment and delivery experience. So, it's all of the above.

Sarah Nassauer: Ok, thank you.

Matt Boyle, Bloomberg: Hi, guys, thanks for taking my question. In the discussion comments, there was no mention of the performance of the new apparel brands. How are they doing so far? I see that home and apparel combined the comp growth was mid-single digit versus high single digit in previous quarters, so can you give us any sense of how those new brands are doing?

Greg Foran: Greg speaking, Matt. I'm really pleased with how they are going. I like what I see in the stores, and I like what I'm seeing now that the weather has warmed up a little. Now that products start to get out on the floor in predominantly March, April, and then with spring being a little bit light, as we've already mentioned. But, I like what I'm seeing, and I think we're hitting the mark with our customers and our associates. So, I'm pleased, and we continue to head down that path, and you'll see more exciting items out there very, very soon.

Matt Boyle: Ok, great. A follow-up for you, Greg, if I can. Any thoughts on Kroger's deal with Ocado? Ocado said in the press release that Kroger is the best-positioned retailer to win in U.S. grocery. I imagine you have a response to that.

Greg Foran: I don't have any response to that, Matt. I'm really pleased with how our food business is going terms of in terms of ambience and fresh, and I'm pretty clear on the strategy that we're playing. We like the addition of getting more online grocery out there, pickup, delivery, so I'm really happy with how Walmart is going and we'll continue running our play.

Phil Wahba, Fortune: Hi, good morning. Just a quick follow-up on Matt's question about the private label. So far, do you feel that it's bringing in newer customers that haven't about apparel from you before or is it still, so far, maybe, your existing apparel buyers who might be just buying these nicer products?

Greg Foran: Greg, speaking. Pretty hard to be specific on that one at this point because I think there's a number of factors that go into getting new customers in stores whether it's more roll-out of online grocery, reduced pricing, new private brands, but I think a combination of all those things help, and once again, I'm pleased with the progress that we're making there. I think it's hitting the mark in terms of having great opening price points, and at the same time, ensuring the quality improves even further and one of the things we've done across the floor in apparel is that we've spread our price points, so we still maintain this amazing value on opening price points whether it's camis at $1.68 or a great quality t-shirt at $2.78, but then we've expended – you know - the good, better, best and now we're offering some really great items at $9 and the like. So, it's working. Hard to isolate it, but I think it's a number of things, but I'm pleased with the direction and I think, generally, we've executed it reasonably well, but there are always areas for improvement.

Phil Wahba: Ok, thank you.

Kate Rogers, CNBC: Hi, good morning, everyone. I'm curious with the acceleration in home delivery if Walmart is seeing a slowdown in those consumers who buy online and then come pick-up in-store?

Greg Foran: Hi, Kate. So, we've been really leaning into the delivery piece. Specifically, over the last 6 weeks or so. If you track our journey in the space, for the last few years, we've been building our muscle in pickup, dropped in 1,000 stores last year and dropped in another 1,000 more this year, and then really in the last 8 to 12 weeks, we've worked hard now start developing this muscle in delivery. It's too early for us to really comment on apart from that it just makes a lot of sense, doesn't it? Now that you've started to get reasonably good at picking product, let's work out how we provide another option for the customer with delivery and once again we'll move at speed. I'm pretty confident we'll do the 800 stores this year and as I track the performance, which I do every single week with some detail. The customers like it. We've seen some new customers that we didn't have before. This is going to be a steady rollout by us. And, over time, customers are going to have the choice of coming into a Walmart store and shopping and testing prices, ordering online and coming and picking it up and getting fantastic prices or having it delivered it to their home. So, we think it's a pretty compelling offer and now we just got to execute to it.

Kate Rogers: Great, thank you.

Nandita Bose, Reuters: Hi, thanks for taking my question. Just had a quick follow-up on the site redesign and traffic that you spoke about. Could you just talk a little bit about whether those orders are being picked up in-store or are they being delivered? Any update on how your new delivery partnerships are doing? You've been announcing a lot of new partners of late.

Greg Foran: Do you want to comment on site redesign first, Marc, and then I'll pick up on delivery?

Marc Lore: Yeah, regarding the site redesign, it's still early, but we are hearing lots of great feedback from our customers, and it's really performing above expectations at this point, so we're seeing positive signs like more traffic from online grocery like I said, and we're getting great feedback from the ground that we're trying to take on the site and onboard. So, we're feeling really good about the site redesign at this point.

Greg Foran*:* In terms of pickup, I guess the way that I would describe this is we are very cognizant of taking the friction out for customers. The ability for customers to be able to order online – you know, the items that they want – and then they have a choice as to whether they want to ship the item or pick-up in-store. We think that's a good option for customers, but of course, it's a great option when pickup is really frictionless, so that's why we're leaning into things like towers – we have 200 there now, and we'll take that up to 700. But, of course, that still means that you've got effectively 4,000 stores where you're going into the counter and you're picking things up, so we track things like wait times and we're training associates and giving them better tools.

Delivery then becomes another component that you add on and, you know, if you think about it, a store is actually becoming like a fulfilment center, as well as being a fantastic area where you would merchandise product and get customers to come in, so it's a muscle that we have to build. The relationship that we're finding with the delivery partners is really, really good. We have a good team, and they are getting around the country. It's amazing how many people are out there doing delivery. The ones that always come to mind - the Ubers and the Door Dash and the Postmates, but trust me. There is a suite of dozens of other people out there who have set themselves up, and we're making it into that, and some of these are much more local, and we're finding we're getting great service from them. I feel good about the direction we're going with delivery. The partners are working out well, and this whole converged experience we think is really important and that's what we're focused on.

Sarah Halzack, Bloomberg: Good morning, and I'm sorry if this question has already been asked. I had to jump off the call for about three minutes in the middle there, but I wanted to ask about the Toys 'R' Us bankruptcy, and if you have seen anything or plan to do anything knowing that there is sort of a hole in the market there in terms of presentation, do you want to do anything different to grab that market share for toys, are you seeing anything different in the business yet in terms of toys?

Greg Foran: Hi, Sarah. Greg speaking. The answer is if there will be an opportunity there. We are working with Marc's team very closely to make sure that we take that opportunity if we think it's right for our customers, and obviously, right for our shareholders. You can imagine that what we've done is had a look at where the Toys 'R' Us stores are located and considered literally geographic area by geographic area what we should do in those stores, began to get more toys to sell and more space to sell them. And, as well as that, work closely, Marc, with your team, spending time with your team and we're leaning into suppliers and we'll make sure that we do the right thing. So, the answer is yes.

Suzanne O'Halloran, Fox Business Network: Good morning everybody. My question is with respect to Lord & Taylor, two questions. Do you plan to offer more premium brands in the number you mentioned as opening in the fall? Are you looking to do more deals like the Lord & Taylor deal on the premium end?

Marc Lore: Sure. That's a key point of our strategy is to partner with folks that can help bring brands to improve our "Have it" score. So, we know that we don't have a lot of products and brands that we want to have on the site, and while we're trying to go direct and establish those relationships themselves, it also helps to have partners who already have those relationships. We're definitely aggressively pursuing a number of different partnerships right now.

Randy Hargrove: We're getting close to time, so let's see if we can squeeze in one more question, maybe?

Tonya Garcia, MarketWatch: Thanks so much. I was hoping – Marc, this is probably for you – if you can elaborate a little on how Jet is targeting millennials?

Marc Lore: Sure, we obviously refocused our marketing, Tonya, on the urban, higher income demographic – so cities like New York City and San Francisco. We're curating the assortment more for that audience. We're definitely pushing more premium product, more premium brands. You saw just recently we announced that we got a whole range of Apple products now on Jet, so I'm pretty happy about that. We've got a lot of great discussions in the works right now, as well, to improve the assortment. Also, the brand voice, the look and feel of the site, it's really targeting that different demographic, and we think Jet.com is working together with Walmart.com in a really complementary way is exactly where we want to be positioned right now.

Tonya Garcia: Would you say there is a lot of difference between Jet.com and Walmart.com because of this, or are there some points of convergence we can keep an eye out for?

Marc Lore: On the back-end, certainly, we're getting leverage, but with respect to the front-end, they are meant to be targeting very different demographics and audiences, and you know that the Walmart.com penetration in places like New York City is lower than it is other places, and that is exactly where Jet is going to be focused.

Tonya Garcia: Thank you so much.

Randy Hargrove: Ok, we've got time for one more question.

Kim Souza, Talk Business: Thank you for taking my question. I wanted to ask Greg about the health of the Supercenter. I go in them all the time, and I see that much changed over the last few year as you took over. Could you give us some color on some of the work that you've done there? Also, with the multi-functionality of the Supercenters, how is that bearing down on labor costs and how are you using technology to maybe combat those labor costs?

Greg Foran: Hi, Kim. I'm going to try to answer a very complex question quickly, so let me try. I really like the Supercenter – over 100,000 SKUs. Generally, the ones you want most in your life at an everyday low price. Good mixture of brands, private brands, general merchandise, food, health and wellness on a 25-acre, 30-acre block of land. You can put other items in there, whether it's fuel stations, whether it's tire and lube, whether its food and beverage, whether it's getting your hair cut, and so you create the Supercenter. You then layer in the ability to do omni-business. So, I can buy digitally, I can have it delivered to the store, I can pick it up in the store; I can deliver it from the store.

I think a Supercenter well-managed is a really good operation, but it's complex because it has lots of moving parts, and you are very reliant on the quality of the manager and the associates in the store, so that's why paying them well, retaining them, giving them the tools to do the job is so critical. It's why getting the assortment is right because if you haven't got the right 100,000 SKUs, and the right mixture of brands and private brands, then it doesn't work.

So, you have all these bits and pieces you're pulling together. And at the same time, I think price becomes really important, and we know how competitive the market is, and I don't think that's going to change. So, to your point around how do you then keep the productivity loop going, it's many things. It's getting the flow of merchandise right, so that you only touch it once, it's introducing better ways to unload trucks, better ways to do price changes in stores; improved ways of laying out the shelves through things like shelf-ready trays, introducing more Scan & Go. It's an enormous array of things that a whole team of people become focused on. We've just been working away at that and I can tell you that we're probably about a third of the way from where we need to be. That's how I would describe the journey of the Supercenter.

Randy Hargrove: Alright, I think that brings us at time, so we appreciate everyone being patient, and we will talk to you again when we announce our Q2 results in August. Thank you.

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