

Walmart 3Q20 Earnings Transcript
November 14, 2019

PREPARED REMARKS

Randy Hargrove: Good morning everyone, thanks for joining us for today's call to review our third quarter financial earnings results. Brett Biggs will be leading our call again to discuss the company's business results. Brett is being joined by Marc Lore, President and CEO of Walmart eCommerce US, and new Walmart US President and CEO John Furner. John joins us from El Paso today, where he and Doug McMillon are there in-market supporting our associates for the reopening later this morning of our Cielo Vista store following the tragic events of August 3rd, so appreciate you joining.

We have media joining us today we'll have about 30 minutes for today's call. After some brief comments from Brett, John, and Marc, we will spend the bulk of the time answering questions. Please try to limit those questions to one or two, so we can try to get through as many as possible during our time. If you need to fact check anything afterwards, please feel free to reach out to me. With that, I'll turn the call over to Brett.

Brett Biggs: Thanks, Randy. Appreciate everybody being on this morning. Walmart delivered another strong quarter. We continued to see good momentum, solid sales growth, particularly pleased that we grew adjusted operating income versus last year, but the underlying business is growing and is really healthy. Total revenue increased 3.3% into \$129 billion in constant currency, this up about \$4 billion from last year.

Currency had a negative impact of approximately a billion dollars – that's about \$500 million more than we anticipated as we came into the quarter. Adjusted EPS increased 7.4% to \$1.16. Operating income is down on a constant currency basis, but was higher than last year on an adjusted basis. We leveraged expenses by 30 bps, I'm really proud of that, led by Walmart US store productivity and Walmart International operating efficiencies. You'll hear more from John in a second, but Walmart US delivered both strong comp sales and profit growth. Marc will also walk you through eCommerce, which posted strong sales growth of 41%. That's our best quarter of the year, with online grocery still a major contributor to that.

International had solid sales growth. Seven of ten markets reported positive comps that was led by Mexico and China, and of course the inclusion of Flipkart following the one year anniversary of that acquisition. Sam's Club momentum continued 4.1% increase in comp sales, that excludes fuel and tobacco. ECommerce sales grew 32% and membership income was a highlight, up 3.1%, which is the highest growth in about three and a half years.

So, in August we provided updated full-year guidance as part of our second quarter release. Q3 sales and operating income were relatively in line with our expectations, but EPS was a little bit higher than anticipated due in part to a lower effective tax rate. So, because of that we're updating FY20 EPS guidance to reflect the YTD results with no material changes really to our fourth quarter assumptions. So now we expect FY20 adjusted EPS to be up slightly compared to our prior guidance of down slightly to up slightly.

On tariffs, we're continuing to monitor those discussions and certainly are hopeful that an overarching long-term agreement can be reached. Our merchants continue to do a great job with potential mitigation strategies and of course our goal is to be the low price leader. Our guidance assumptions today include our current understanding of the timing of tariff implementation on various categories in our company. So, we had really strong results, had good results YTD, and we're looking forward to serving our customers during this very busy fourth quarter. And with that I will turn it over to John Furner.

John Furner: Thank you, Brett. First, it's great to join everyone today. I'm really excited about the opportunity to lead the team here in Walmart US, and first I do want to appreciate Greg Foran's leadership. He put the business in a position of strength. I had the opportunity to work with Greg for a number of years in Asia. He's a great leader and we'll miss Greg, but I look forward to building on the success and making Walmart even better place to work and to shop. We've got great associates all over the country and it is a real privilege to get to lead this team.

Today is, as you heard earlier, a very important day as we begin serving our community again in El Paso. We will be opening our Cielo Vista store here in just a couple hours. I can tell you our associates are ready to get back to work, the store looks fantastic, and they're ready to take care of their customers. With this group, it's important to note that will never forget what happened. And as we can move forward, we will continue to make sure we honor the families and the victims and take care of all of our associates. So, it's great for me and part of my team to be here today supporting our team as we commemorate the reopening of the store this morning.

Turning to the business, as you heard earlier Walmart US saw another quarter of strong sales and profit growth. Customers are continuing to respond to the omnichannel offering and our comp sales increased 3.2%, and that's a 6.6% two-year stack, and that's the best we've seen in a number of years. Transactions are strong, up 1.3%, and ticket was up, 1.9%. And as Brett mentioned, it's great to see that we're growing share in key food and consumable categories, and that includes our fresh foods business.

The business continued solid expense management and that helped us leverage SG&A in stores, even as we made our investments in price in the country. And then the overall performance allowed us to grow operating income 6.1%, and that's the sixth consecutive quarter of growth.

So, the business continues to build on the clear competitive advantage that the Supercenters offer customers through both omnichannel and new service. Walmart now has pickup available at 3,100 locations, and we offer delivery now in 1,400 stores. And we've taken another step forward in convenience with the rollout of our Delivery Unlimited, our grocery delivery membership option, and then our in-home grocery delivery is now available in three markets, which enables customers and members of the program to have a fully stocked refrigerator. Marc will touch more on that in just a few minutes.

Then finally in the quarter, we announced the grand opening of the new Walmart Health Center in Dallas, Georgia, which offers low transparent pricing on key health services all in one place to begin in the store.

So, in closing, we're pleased with the third quarter performance, we're ready take care of customers during the busy holiday season, and we're going to continue to innovate all across the business,

leveraging data, a strong balance sheet, we're going to look at new emerging technologies, and make everyday lives better for our busy families. And now I'm going to turn it over to Marc to talk about eCommerce.

Marc Lore: Thank you, John and good morning everyone. As Brett said, eCommerce sales grew 41% this quarter, which is the highest so far this year. We're also continuing to significantly improve contributed profit, and as Doug said, reducing operating loss is one of our key focus areas. We remain committed to our three-part strategy, including nailing the fundamentals of eCommerce, playing offense using our unique assets and innovating for the future. In nailing the fundamentals, the Customer Value Index we use to measure progress is tracking ahead of where we expected it to be at the end of the year, and that's leading to a higher customer NPS score.

Next day shipping is doing very well, it's proving to drive up customer NPS scores and at the same time it's lowering our delivery costs. We're offering next day to more than 35% of the population and I'm really happy with how the team's executed on it.

We're also continuing to improve our assortment both in first party and marketplace. The assortment and the experience in home and fashion is helping to drive overall growth and increased margins. We've been adding to our assortment organically and by leveraging the assortment from the e-tailers we've acquired. In marketplace, we've dedicated a lot of attention to the customer experience and we've dramatically improve the NPS score. We're now turning our focus to the seller experience, including both tools and services.

John talked about the continued role of grocery delivery and how well customers are responding to that service. Our fresh business has a unique advantage in the eCommerce space and I'm excited about Delivery Unlimited scaling to 1,400 stores last week. As we drive a deep connection with customers in grocery, we're able to offer our extended assortment through our Supercenters and on Walmart.com. We're focusing a lot of energy on making that connection.

Also looking further out, we're innovating for the future. In-home delivery is something we've incubated in Store No. 8, and after initial testing we decided to graduate it into the core business. Bart Stein's team and the service moved into the customer org as it begins to roll out more broadly, it's now available in three cities representing more than a million people. It's a great example of pushing the limits of how we can create convenience for customers.

In summary, after delivering 37%, 37%, and 41% in the first three quarters, respectively, we're on track to deliver 35% growth for the full year. We're tracking toward the range we gave in the beginning of the year of 30-40% growth each of the quarters, with the lowest growth come in Q4. We're continuing to push on growing the business, while focused on reducing the operating loss and we're really excited about our customer offers on the experience throughout the holidays. Thank you.

Randy: So with that I think we're ready to open the lines for questions.

MEDIA QUESTIONS

Nandita Bose, Reuters: Hi, thank you. I have two questions, one for Marc and one for John. I'll start with Marc. For the past couple of years, your eCommerce strategy has been to sort of increase assortment, acquire brands, and become more competitive. And now you're planning to sell some of those brands and some of the initiatives that you said will drive growth. How should we think about your eCommerce strategy for 2020 and beyond?

And my question for John is, what are some of your top priorities, John, in your new role? What are some of the areas that you think need work? Thank you.

- **Marc:** Okay, I'll start. The strategy hasn't changed. It's been the same strategy, we're focused on nailing the fundamentals and improving the experience and I think we're measuring that with our CDI, and that's doing very well. We're also leveraging unique assets, and I think we've done a great job with Delivery Unlimited, pick up, now in-home, to really build, you know, Walmart into that primary destination for all their everyday needs. So I think the strategy hasn't changed at all with respect to the brand specifically. Again, there's two parts to that strategy, there's the specialty retailers, of which we bought five now - Shoes.com, Hayneedle, Moosejaw, etc. – and that's really helping to build out the longtail experience on Walmart.com, and the merchandise mix feeds the product content. It's been great to accelerate those categories. On the other side, are the digitally native vertical brands, and that strategy has really evolved. We've had great success with incubation. Allswell was one of the first ones that we incubated, a mattress brand that's doing quite well, we've incubated Scoop and Modern – two other great brands. So we've evolved the strategy to focus more on incubation. We've got a few more in the pipeline, as opposed to acquisition. So, the strategy overall is not changed.
- **John:** Hey Nandita, it's John. Thanks for the question. First, the business in Walmart US has got a lot of momentum and the first thing we've got to do is maintain our momentum from now through the holiday season. So it's really important for our team to stay focused on serving customers all across the country for the next few months. Early impressions – I've been really impressed with people in the home office, the stores all around the country. I just keep commenting on how many smart people are there that are making such a difference all across the business. That's been really refreshing. Second, on merchandising, teams have got good plans. Straight across the box, when you think about the fresh food offer from now till the holiday. We mentioned the strength of online grocery and commerce in omnichannel. And then finally, also been excited to learn about some of the innovations that I've heard about. I've gotten closer to some of the innovations, everything from in-home, the innovations that are coming in shopping in the application when you're ordering groceries for pickup. And then just a number of innovations in store I'm excited about seeing accelerate over the next few months and year. So right now, the focus is we're going to stay focused on customers, associates, and land all the plans that we've got from now through the end of the year.

Anne D'Innocenzio, Associated Press: Hi, thank you for having this call. Two questions, one for Marc and one for John. The one for Marc, as you know, Amazon dropped the extra \$15 fee for Amazon Fresh, does that make you reconsider the fee that you're charging for grocery delivery unlimited. Does that put more pressure on your business?

- **Marc:** Sure. As you know, we launched delivery unlimited on November 6th and we're super encouraged by the early results. We feel very good with this \$90 per year or \$12.95 a month fee for the service and we have no plans to consider changing that.

Anne: Okay. And then for John, you know, we have reporters on ground in El Paso – I know you said you were re-opening the store. Have you noticed any impact from your new policy on open carry or just any impact on sales from open carry or from your restriction on ammunition? Have you noticed anything like that, or has it been pretty negligible?

- **John:** Thanks, Anne. As I said earlier, I've been in the business couple weeks. I haven't seen anything that suggests the run rate had changed in the end of the quarter or in the middle of the quarter. Food and consumables were strong throughout the quarter, mid-single-digit comps appear a bit softer in the beginning of quarter but got better as weather turned cold. So at this point, we're going to continue with current focus and execute the holiday plans.

Anne: Okay. You haven't seen any kind of backlash or anything like that, from your gun policy? That's what I'm asking.

- **John:** Okay. No, I have not seen anything like that at this point.

Anne: Okay. Thank you.

Sarah Nassauer, WSJ: Morning, everyone. I'm wondering, we also have a reporter in El Paso today, I wonder if you can shed a little light on the debate that you had internally on if you should open the store. There is some debate on the ground that we have heard from locals, victims, and others, so if you could, you know, help us understand why you chose to reopen it, that's the first part. And then on the business, can you just talk through some of the key evidence that you're watching, you know, over the next two months to gauge the help that consumer? Thanks.

- **John:** Hey Sarah, as far as the decision to reopen today, we listened to our associates, we listened to people here in town, and our associates want to get back to their normal way of life, and this is an important step for them and the recovery process for what had happened a few months back. As far as the timeline and the decision to do this today, this is something that they had a lot of input in, we've taken our time, we're going to take our time this morning and open whenever the team here is ready to go. As far as the second part of the question on things we watch, we'll continue to watch things we always do, which is the items in the basket, the mix of what's selling, the traffic count and as I said earlier, we were up about 1.3% in the US business in traffic across the country, so I don't think there's anything that we would say is going to be different in terms of the way we monitor the business the next couple months. Should something in the environment change, we may change our opinion or decisions at that time, but for now, we'll continue watch the core metrics and our merchants will react any changes in trends that they see.

Sarah: Okay, thanks.

Matt Boyle, Bloomberg: Thanks for taking my questions, guys. You said in the prepared remarks that you need to make more progress selling general merchandise online. Can you help us understand, how exactly do you plan to do that - things that you're not doing now - I know you want to sell more apparel

more home goods online, but is that through new brands, new partnerships, you know, what exactly might you do differently in the months ahead to increase the amount of general merchandise online?

- **Marc:** Yeah, Matt. Well we continue to see great progress in both the home and fashion businesses, areas where we focus a lot of time and we're increasing assortment, we're adding a lot of new brands, and certainly we're incubating and creating quite a few products as well. Scoop is a great example of brand that we just recently launched in the fashion space that is doing quite well. So yes, just increasing assortment, either in the experience and focus on great products.

Matt: Also, can I ask, how does a shorter holiday season impact the fulfillment and logistics in eCommerce, especially as you guys are moving to more next day shipment. Is the more compressed season basically a headwind or not, Marc?

- **Marc:** We're trying to focus on spreading out sales versus just focused on just a couple of key days, so we feel good about how we're prepared for the holiday this year. It's probably the best that we've been prepared since I've been here.

Matt: Thank you.

Lauren Thomas, CNBC: Thank you so much for taking my question. I'm not sure if this is more for Marc or for John, but wanting to dig into grocery a little bit more. I know that's what's really fueling online sales gains. I just wanted to know if there's any more color you could provide as to what consumers are really responding to when it comes to grocery? I know you called out fresh a few times in the prepared remarks, but what investments have you made there recently that's really driving that business? And then from here, how do you continue to grow in grocery? Thanks.

- **John:** This is John, Lauren. Thanks for the question. I think in terms of the categories, I wouldn't say anything differently than what we have already said. Fresh food is the driver, the size of the basket is the driver. There's been a number of new innovations in the application that's making it easier, everything from scheduling to the geo-fencing so we were able to tell when customers pull into the lot. Those are examples of ways we're removing friction, and we've got a number of tests and innovations we'll continue to learn from. The majority of them are to make the shopping experience, list building, and the checkout easier for customers, and then we've got some projects around the country where we're experimenting with different types of equipment to augment our ability to pick rapidly, and increase the number of orders per location. Nothing yet that we'd say are ready to push across the country, but as I said in the beginning, I've been really impressed with the innovations the team is working on and they're clearly thinking about how this strength becomes something we're even stronger in in the future, and we can serve more customers throughout the country.
- **Marc:** Just to build on what John said there, just keep in mind that, you know, we call it grocery, but we are broadening the assortment every day – delivery, unlimited, pickup – so, it covers obviously all of the consumable products that more and more sell general merchandise at the store as well.

Sarah: Thank you so much.

Nathaniel Meyersohn, CNN: This question is more for John or Brett. Can you talk a little bit more about the health clinic in Georgia? Do you think that this is something that you guys can scale? Might we see Walmart health clinics around the country? Do you have an idea of a target for the number of locations that you guys want to open?

- **John:** Hi Nathaniel, thanks for the question. I did have the privilege to visit the clinic a few weeks ago, just after it opened, and it's an exciting proposition. It's a great clinic, the range of services that are offered in clinic are very broad, Dr. Mehta (22:25) and his team are doing a fabulous job teaching us about the business and what it is customers are looking for. And it quite frankly supports a number strengths we have in the store. Now to say all that, we've got one clinic open in Dallas, Georgia, we have a second, that will be slightly different in a city called Calhoun, Georgia that's coming up in a few months, and it'll be different because we're clearly in the phase where we're trying to learn, we're trying to learn about the core services that customers would like to see us offer. We're trying to learn about the impact this has on the entire business, and we've got to learn the business model. So I'd say we're really pleased with the first location, we're excited about the opportunity, we're excited to get the second location open, and from there, we'll have a lot to learn as we decide to move forward, but clearly what we've learned from Dallas is Walmart playing a role in providing healthcare services to customers seems like a great idea and over the next few months we'll be able to talk more about what we've got in terms of learning from the first two locations.

Nathaniel: Ok, thanks.

Courtney Reagan, CNBC: Hi there. Thanks for having this call. This is just kind of a bit of an add-on as we learn more about the grocery with the additional programs that you're rolling out. I guess my question sort of two-fold. Number one is fairly basic, the customers that are using an in-home delivery or the unlimited delivery, are those customers that were previous in-store, Walmart grocery shopper, or is this a new customer, or are customers typically using both? And then the second question is, if it is a new shopper, how generally do you think that consumers are finding out about the program itself, and how it works? We all cover it fairly closely, but on a day to day basis I often wonder, you know, the consumer that has a job outside the world of media and retail, how they become familiar with these programs enough to go ahead and sign up for one. Thanks.

- **John:** I can take the first part about delivery and then let Marc jump in and talk about in-home – he's been closer to that one. As far as delivery, you know, a lot of the customers that are using delivery are customers that were in the store already doing pick up, and this is just another level of service that we offer in the number of ways we deliver, or fulfil I should say is more appropriate, and we're well equipped for customers to shop in the store, we're well equipped to pick up. Now we can deliver onto your home with a couple of options that we can get to. Of course the eCommerce team has been working on having quite great success delivering to home directly. And then in-home would be the next step for that, so as far as the number of customers that are add-on customers in all the programs, but I'll let Marc talk about the in-home and marketing.
- **Marc:** In terms of the marketing, we have been doing some local marketing tests, and we're learning every day and at some point we'll do a more national marketing campaign once we've

got enough coverage and it makes sense. But right now we are doing local marketing and it is helping.

Sarah Halzack, Bloomberg: Good morning, this question is sort of building on what Courtney just asked. Essentially, as pickup gets more saturated, you're in 3,100 stores out of 4,000-some-odd stores now. Can you just talk about what the next tranche of growth looks like once it's not coming from just rolling it out to more markets? Is it more about marketing to new customers for pickup, is it more about making it stickier, getting more repeat customers, how should we think about where the next bit of pickup growth is going to come from?

- **Marc:** Sarah, thanks for the question. I think the answer is it's a combination of everything you just said. We'll appeal to existing customers, we'll be able to bring new customers in, we'll be able to grow organically in stores. There's some things that we're working on, like in different parts of country, we're fulfilling out of locations near stores, we have some dark facilities that we're learning to pick from that can supplement the capability number of orders we can get out of the market. There's some new technology we're employing to help associates pick faster and pick more orders more effectively and efficiently – things like phone picking in the stores are helping. And so certainly there's growth to be had from opening more stores, but like every other business we run across the company, we're always working on ways to increase our ability to grow year-on-year and existing facilities where we can, we can sell more to existing customers while attracting new customers.

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