Walmart Q2FY19 Earnings Media Call
August 16, 2018, 7:30 a.m. CT

Randy Hargrove: Thanks everyone for joining us as we talk about our second quarter financial results. I'm joining in with Brett Biggs, who will be leading our media call to talk about the company's results. He is being joined by Greg Foran, Walmart US President and CEO, and Marc Lore, President and CEO of Walmart eCommerce US. We have a number of media on the line with us today. We are again going to have 30 minutes. There will be some brief comments from Brett, Greg, and Marc and then we are going to try to get to as many questions as we can. Please try to limit those to one or two starting out, so we can get through the queue. If you need to fact check anything afterwards, please reach out to me and we will try and help you. And with that, I'll turn it over to Brett.

Brett Biggs: Thank you very much. Good morning everybody, thanks for joining the call. I'm really proud of the quarter. Strong top line, strong top and bottom line results and it was a good performance across all the segments. Customers are really responding to the unique ways in which we can serve them, both in physical store, online, and ideally with both.

I'll give you a few takeaways from the quarter and then I'll turn it over to Greg and to Marc. Adjusted EPS was $1.29, that's a 19.4% increase, so very strong from a bottom line perspective. On a constant currency basis, total revenue increased 3.6% to $127 million, that is an increase of $4.4 billion. Great sales results from every segment. Walmart US had its highest comp sale performance in more than 10 years, with comp growth, excluding fuel, of 4.5%. And I will let Greg talk more about that in a minute. Sam's Club delivered its highest comp, excluding fuel, in six years at 5.0%. eCommerce net sales accelerated to 40%, Marc will talk more about that in just a second. International sales are also at 3.1% on a constant currency basis and with good momentum across our largest markets. Operating income increased in both Walmart U.S. and Sam's Club and it would have grown as well in international if not for a gain we had last year from the sale of our Suburbia business. So good progress across all the segments. We're making good progress on our cost transformation. We leveraged expenses by 19 basis points in the quarter, certainly that's aided by great sales growth. But I'm excited about what I'm seeing from a cost standpoint. We're glad to have the India Competition Commission's unconditional approval for the company's investment in Flipkart. We're looking forward to closing the transaction as soon as reasonably practicable.

Let me update a little bit on guidance, and you would have seen that we raised guidance, for the most part, across the board on most of our metrics. Total sales growth in constant currency now at about 2.0%, that's an increase from 1.5% to 2.0%, realize now that that excludes Brazil, which won't be a part of our consolidated results. So, the sales growth is quite strong. We have Walmart US comp sales growth now at around 3.0% we're guiding for the year, versus the previous guidance of at least 2.0%. And recognize that our year-to-day comp in Walmart US is around 3.3%. Also wanted to remind you that the comps will be a little bit more challenging in the back half of the year, particularly in the 3rd quarter, as we had hurricanes last year that drove higher-than-expected sales. Walmart US eCommerce growth we still expect be around 40%, that's unchanged from previous guidance. And we increased our and adjusted our EPS range to be $4.90 to $5.05. That's most comparable to our original guidance of $4.75 to $5.00 at the start of the year. And just for clarity, that excludes any impact of Flipkart because that transaction hasn't closed yet.

It was a really strong quarter. I'm proud of our associates, I'm proud for our associates because they're the ones who've made all of this happen. Greg, I'll turn it over to you.

Greg Foran: Thanks, Brett. Good morning everyone. We did have strong results in Q2 and we're pleased with the momentum of the business. Like you, Brett, I would want to thank all our associates in our stores, distribution centers and main office because it is their hard work that brings all of us together. We continue to focus on price leadership, a compelling merchandise assortment and on improving the overall experience of shopping at Walmart. And I think we are seeing customers respond to that and with that some strong sales. Walmart US delivered the best quarterly sales comp results in more than a decade, up 4.5%, excluding fuel, and both comp traffic and ticket exceeded 2.0%. With strong performance in fresh food and that lead to mid-single digit comp in grocery, and that was the best in nine years. And we are seeing customers continuing to gravitate towards produce, bakery, where we're, I think, doing a good job mixing quality and price. General merchandise sales also recovered from some of the weather-related headwinds we experienced in April, and we saw that momentum continue throughout the second quarter, in both apparel and seasonal. Been really pleased with the expense leverage delivered by the team and we actually leveraged expenses for the 6th consecutive quarter in Q2. Associates are getting told to better serve our customers, improved apps, wages and training initiatives and all of that is starting to come together and the Walmart wheel is turning. Inventory is also in reasonably good shape, even with the strong sales performance this quarter. The team reduced comp store inventory by 70 basis points, and the store maintains strong in-stock levels.

Pleased with the progress on omni-channel initiatives. During Q2, we expanded grocery pickup and are now in more than 1,800 locations. And we're making good progress on activating grocery delivery and will have 40% of the US population covered by the year end. We continue to roll out the automated pickup towers as some of you will have seen for general merchandise. And we will have over 700 of those in place by the year end.

So, in closing, pleased with the Q2 performance in the U.S. Brett, as you mentioned, we're going to increase our guidance for full-year comp sales growth to about 3.0%. Customers are responding well to our strategic actions including investments in associates, cleaner and more organized stores, lower prices and progress on the omni-channel experience. And we're excited about the back half of the year. And Marc, over to you on eCommerce.

Marc Lore: Thank you, Greg and hi everyone. We had a strong quarter in eCommerce with 40% sales growth and we're on track to hit about 40% for the year. We made a lot of progress in our customer experience and I'm really excited about how we're playing offense with omni. We had wins as we execute on all three areas of our strategy. Again, those three areas are 1) nailing the fundamentals, 2) playing offense by leveraging our unique assets and 3) innovating for the future.

Under nailing the fundamentals, our customer value index continues to improve. The CVI score, again, is made up of five metrics – Have It, Find It, Display It, Price It and Deliver It. We built on our new site experience, adding a 3D tour that lets customers shop home items in an actual room, and even buy it all at once. We launched a new nursery destination as we ramp up in the baby category. We've seen a 40% increase in searches for baby items and added more than 30,000 new products this year. We also expanded our assortment on Walmart.com with new and existing brands. Since April, we've added more than 1,100 brands, like Calphalon, J.A. Henkels cutlery and Therm-a-Rest outdoor products. And, the Lord & Taylor store opened this quarter with 125 new premium brands and growing. On top of that, we announced a new fashion line with Ellen DeGeneres yesterday called EV1 that launches in September. So, we're making improvements in the supply chain - speeding up delivery and bringing down costs. We've seen a 20-point increase this quarter in deliveries made in two calendar days or less.

The second part of the strategy is really, like I said, playing offense and leveraging our unique assets. Greg talked about grocery pickup and delivery. We now have grocery delivery in 320 stores and growing fast. Customers are expecting faster delivery, including same day, and it's a huge advantage to have stores within ten miles of 90 percent of the population. As we win customers on fresh, we'll continue to add more GM items to same-day delivery. In the major metros areas where Walmart doesn't have as many stores, we're positioning Jet to reach those customers. We announced we're opening a fresh fulfillment center in the Bronx to do same-day grocery delivery in New York City, and we're using Parcel for the last mile. We also announced we will make it easier for customers to return marketplace items through Walmart.com, and in the future, we'll look at using our stores to help with marketplace returns as well.

The third part of our strategy is really about innovating for the future. And we announced Jetblack, which lets customers order using text and voice, and customers are loving it. Jetblack is developing the foundation of conversational commerce technology that can be applied across our portfolio in the future. We'll also incubate other technologies in Store No. 8 and we'll have more to share soon.

As Brett mentioned in his management transcript posted today, at the start of the year we said eCommerce losses could be somewhat higher than last year. We now expect that to be the case as we continue to invest for the mid-to-long term with continued site enhancement, new tools and technology and Store No. 8 initiatives while working towards the right balance of assortment and margin. The strength of our company gives us the ability to invest in parts of our business in the short term to ensure we win with the entire business long term.

In closing, it was a strong quarter with good growth and a lot of successes. We continue to expand assortment with new and existing brands, improve the onsite experience, and accelerate grocery pickup and delivery. We added great talent that will push us further, faster. One big addition is Janey Whiteside who is our first-ever chief customer officer, overseeing the full customer experience across online and stores. Again, we're planning to hit around 40 percent approximate growth in U.S. eCommerce for the year.

Randy Hargrove: Thanks, and we'd now like to open the lines up for questions.

Operator: Thank you. At this time, if you would like to ask a question, please press the star and one on your touchtone phone. If you find your question has been answered, you can remove yourself from the queue by pressing the pound key. Again, star and one to ask a question. And we will pause briefly for questions to queue.

And we'll go first to the line of Anne D'Innocenzio from the Associated Press.

Anne D'Innocenzio, Associated Press: Hi, thanks for having the call. Obviously the 4.5% was much higher than analysts expected. What did you not expect? Do you think it was a reaction – obviously we all knew and had seen the very positive reaction to grocery delivery, but what really led to that big increase that you maybe didn't expect? Was the economy better than expected? Shoppers were buying more apparel or grocery? What did you see, getting into the weeds a bit?

Greg Foran: Sure. Good morning. I'll have a shot at that and Brett, you add in anything you want to say. Clearly, we saw an increase in momentum from Q1 to Q2 and that coincided with warmer weather. It's not an exact science. I'm guessing the economy is feeling better, our customers are feeling better. The performance for us was strong right across the entire business. There's no particular callout. In general, I mentioned that grocery was good, the best in nine years, but general merchanidse also kicked off, consumer health and wellness. We saw an increase in traffic. We saw a performance that was solid across the box and it was really good, steady momentum and I'm guessing a whole number of things played into that from weather, to economy, to improved stores. So, that would be my read on it.

Anne D'Innocenzio: Ok, thanks. Thank you.

Courtney Reagan, CNBC: Hi there. Thanks for doing this call as always. If I can actually just jump into Anne's question just a little bit and perhaps also ask, who in particular was doing the shopping? As far as new customers, current customers spending more because of things like a stronger economic backdrop and taking advantage of what you're doing? Or certain parts of the country strong? I think we're just trying to figure out exactly *who* was buying all these things – new customers, old customers buying more - if you could just go into any of that, that would be great.

Greg Foran: Good morning, Courtney. I'll have a shot at that again. Again, it was very, very broad. There's no doubt that as we expand our online grocery offering, we are attracting some new customers, but we're also seeing existing customers actually put an extra item in their basket. I'm seeing that pretty much whether I'm in the North, the South, the East or the West, and I'm seeing that whether I'm in

Neighborhood Markets or whether I'm in Supercenters, or even in Puerto Rico, Alaska, Hawaii, so the business feels solid. The foundation feels good. I'm not seeing any particular areas outperforming any others. I think it's a combination of some new customers and existing customers and its broad.

Courtney Reagan, CNBC: Got it. And if I could just ask another potentially clarifying question – in the release, you talked about how apparel and grocery were both strong. I know you just talked about the online grocery offering, so I guess I'm wondering, within apparel and grocery again, was it the new brands in apparel online or in store? Was it the grocery pickup and delivery option? Was it a particular program or offer within those categories that helped to drive those?

Greg Foran: So, the answer is nothing in particular. I am pleased with the way the new brands are going. I'm pleased with the Wonder Nation, Terra & Sky, George, have all performed. In terms of grocery, pleased with the performance we're seeing in private brands, but that doesn't mean we can't sell national brands as well. I'm pleased at the price reductions, a program that we've been on now for three years, continues to roll out in a very sensible, measured cadence. That really is just seeing the big warm up, I think will start to turn. So, nothing in particular – a combination of a lot of things.

Courtney Reagan, CNBC: Got it. Thank you.

Sarah Halzack, Bloomberg: Hi, thanks for doing the call. One small thing - I wonder if you could just repeat the point you made a moment ago about expanding baby assortment? I just wanted to make sure I heard that correctly. And then my other question was around price. We've heard conversation from Procter & Gamble and Kimberly Clark about taking price in brands like Huggies and Pampers and just wonder if you can talk us through how you're looking at that, whether you'll pass that price increase onto consumers going forward or whether you plan to absorb that.

Greg Foran: Okay. Thanks, Sarah. Maybe I'll just pick up on the second part of your question and then we'll come back to baby. Look, we have supplies coming into this building every day, all day, pricing, all those other things. What we're seeing in the marketplace at the moment regarding any of that is something that we're well-versed in dealing with and our objective is really clear on this and that is: we want to make sure that people save money so they can live better. We believe in that and frankly, we drive our prices down. So, if I go to a question, which I haven't got yet but probably will around inflation, there really wasn't any meaningful inflation in our Q2 results, and that's because we are working really hard to continue to keep prices down for our customers. So, it's an ongoing discussion that we have in our business and something that we pride ourselves on doing.

With regards to baby, a critical category for us both in stores and online and the opportunity for Marc and I to make sure we're aligned and create the best experience is an important category for us. We feel that we are starting to get some good momentum in there in terms of pricing and assortment, and Marc, you in particular, you've launched some new activity online, have built out the site some more and are trying to get some more brands in there.

Marc Lore: Yes, it's definitely an area of focus. We've added about 30,000 new products this year and just recently launched the new nursery destination. So yea, it's a big area of focus and certainly is core for busy families.

Sarah Nassauer, The Wall Street Journal: I was wondering Marc if you could give us an update from [sound malfunction] something I'd be curious hearing about is how the idea of [sound malfunction] unattended delivery is going some of things you were doing in August and latch and Jet previously, how consumers are embracing that [sound malfunction - call dropped].

Nandita Bose, Reuters: Hi, thanks for taking my question. We've seen some really good, strong numbers this quarter, but I was hoping you could talk a little bit about margins because we've continued to see margins shrink for at least five consecutive quarters now. Brett and Greg had talked about factors driving price and eCommerce, but with the threat of tariffs looming, how are you planning to stabilize margins in the coming quarters?

Greg Foran: Thanks. In terms of margins, the three things we have called out in terms of margins, you've already got onto them. The biggest one is we continue to invest in price. That's part of our playbook now and continues to be. We are seeing some increased transportation expense coming through and also the mix in the business all move around a bit as eCommerce grows and online grocery grows. So those are the three areas. We are very thoughtful and planned about how we look at margin and at this point, we feel that we have a good handle on how we're managing that, both today and moving forward.

Brett Biggs: Nandita, this is Brett. Obviously, and we've talked before, there are a lot of things that go on inside our P&L and across the company and one of the things we've talked about are our expenses. I'm proud of the performance on expenses this quarter. As we get expenses where they need to be, that allows us to have more flexibility on margin and to continue to be very competitive on price and always lead in price. That's all about the P&L fitting together and there's so many levers including with tariffs, and we're monitoring that, it's managing all of those things together that frankly takes up most of our time and certainly a lot of my time during the day and how we manage that. The great thing about a company of our size, is that there's a lot of different ways that we can get to the same answer.

Nandita Bose, Reuters: Okay, and I had another question on the pilot with Alphabot that was recently announced. I was wondering if Marc and Greg could comment on how a lot of this automation in the backend will impact traffic and, in this case, as you expand the test, as you automate more and more, will you be hiring less or will you hire more associates for making deliveries?

Greg Foran: Thanks for the question. Yes, Alphabot is beginning to ramp up in terms of test mode and over the next sort of six to nine months, we'll be able to get a good handle as to how that is going to play out. And it certainly can give us some efficiency and let us scale the picking of groceries, whether that be in a store or any other facility. What does it mean in terms of labor? We have lots of moving parts in terms of labor happening in our stores at the moment, so if you think about it, as we're sort of automating some parts of our business, and Alphabot's a good example, there are other areas we are investing in labor, such as personal shoppers going around taking customers' orders. Net-net, how it all is going to run out, it's difficult for us to project all of these things because some of them are being invented literally quarter-to-quarter, but what we are doing is setting ourselves up to win in the future.

Nandita Bose, Reuters: Thank you.

Matt Boyle, Bloomberg: Hey, guys, thanks for taking my question. This is for Marc. Marc, you confirmed that the online losses are going to be greater this year than last year and you also said you're not getting the margins you desire online. My question is: what needs to happen there to get to the margins you're after in eCommerce? Do you need to bring in more higher margin brands? Do you need to boost the average basket size? Or is it a matter of reducing costs further in that part of the business? Can you talk about specifically sort of what you're doing and what really helps move the needle there?

Marc Lore: Sure, sure. It is definitely moving in the right direction. Our variable cost per unit is coming down. We're adding more brands, which helps with mix. It's just taking a little longer than we had hoped, but it is moving in the right direction. We feel confident about the strategy. We've added 1,100 new brands since April. So, yea, we feel good about the progress.

Matt Boyle: Can I ask, Marc, why is it taking longer than you hoped?

Marc Lore: It's just taking longer to add brands. It takes a long time.

Matt Boyle: Okay, got it. And finally, are you expanding Jetblack to any more cities this year?

Marc Lore: No, we're focused on New York City.

Matt Boyle: Okay, thanks.

Tonya Garcia, Marketwatch: Hi, thanks so much. I was hoping you could give a little feedback, maybe what you've been hearing from the customers about what they like most about the new website revamp and all of the things you guys have been adding an changing there.

Marc Lore: Ya know, we're hearing feedback from customers and also brands, and a big important part of our strategy is to bring on board brands that previously did not want to be on Walmart.com and to see that momentum happen, change – brands that we didn't think fit on Walmart now coming to us and wanting to talk, so it's definitely been great so far for both customers and brands. And then we're seeing increased traffic as well to certain parts of the site.

Tonya Garcia, Marketwatch: And separately, totally different topic, but I just wanted to confirm: I thought Greg that you said that the grocery was the best in nine years? If you could just make sure I got that right and maybe if you could describe how the average customer basket has changed in the last year, if there's been any differences in what customers are buying based on what you're seeing or hearing?

Greg Foran: Yes, sure. It is the best performance we've seen in grocery in nine years and it's been across the box, so Fresh has performed well whether it's produce, bakery, meat. We are seeing good strength in frozen foods. We're seeing good strength in grocery. And we continue to perform well with our private brands, whether that be the Marketside brand in Fresh or Great Value or Sam's Choice in dry. So, there is nothing that has stood out. It has been balanced, as I've mentioned before, we are getting some new customers and we're getting existing customers to put an extra item in. So, pretty balanced across the board.

Randy: And I think we are almost at time, so we've got time for about one more question.

Phil Wahba, Fortune: Good morning. Just a question on the apparel brands you guys launched in February – a little bit snazzier than your usual apparel brands – can you tell us a little bit about how they're doing? Their role in generating traffic and Marc, maybe your thoughts on how those private label brands are doing online?

Greg Foran: So yea, we've got four out there, Time and Tru, Terra & Sky, and Wonder Nation. Pleased with how they all landed. They've kicked off really well through this particular quarter and pleased with the momentum that we're seeing. Our focus has been on providing a great assortment for the customer. We've been very conscious about maintaining fantastic quality, great prices, on-trend, on-color, better fabrication, and we're also backing that up with improved operational performance in store and we still have more work to do on that and you'll see us lean into that over the next 12 months. We're just pleased with the progress. We're not there by any means yet. We've just begun this journey and got more work to do. It's kicked off well.

Marc Lore: We are equally pleased with the progress online in apparel. It's definitely been an area of focus and Lord & Taylor and the new site experience is all moving in the right direction and we will stay focused on building that apparel business.

Phil Wahba, Fortune: And any sense of whether the Walmart brands are bringing in new customers you didn't have before or customers you didn't have before? Or is it still too early to really know that?

Greg Foran: Yea, too early to call that one at this stage, Phil, but I think it's a combination of things happening in our business at the moment. Nothing in particular, but it will certainly be a help.

Randy Hargrove: Thanks everyone for joining us and for your interest in the company. We will be seeing you again for third quarter earnings.

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