



Walmart Inc. (NYSE: WMT)

First Quarter Fiscal Year 2020 Earnings

May 16, 2019

Dan Binder: VP, Investor Relations, Walmart Inc.

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 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 2020, we utilize a 53-week calendar. Our Q1 reporting period ran from Saturday, January 26, 2019 through Friday, April 26, 2019.

Before we get started, I’d like to remind you that we will report our second quarter earnings on Thursday, August 15, 2019.

Doug McMillon: President & CEO, Walmart Inc.

We're pleased with how we started the year. We have a stronger foundation in place with our stores, and we're making good progress in eCommerce. We're embracing new processes and technologies with the goal of serving our customers even better. During the quarter, revenue was about \$126 billion in constant currency, we leveraged operating expenses, and adjusted EPS of \$1.13 is ahead of what we expected.

As usual, the team has been busy. We now have about 2,450 stores in the U.S. with grocery pickup, which has enabled us to provide same-day grocery delivery in nearly 1,000 locations at quarter-end. In addition to the U.S., we've added 41 locations in Mexico as well as stores in China and Canada.

As we mentioned at our October investment community meeting, we've been mirroring our eCommerce inventory in the U.S. to enable free next-day delivery from Walmart.com. Earlier this week, we launched this service in the southwest and will ultimately cover about 75 percent of the country by the end of the year. Increasingly, we're offering customers more ways to shop with Walmart. In addition to next-day delivery on an assortment of our best sellers, they can shop in our stores, pick up their order, get groceries and an increasing number of other store items delivered same-day, or choose from the two-day free shipping assortment that we've been building.

We've also launched new voice ordering capabilities for grocery and a retail lab in a live shopping environment. We introduced new partnerships with Drew Barrymore in the home category, with Bobbi Brown in health & wellness and with KIDBOX for children's apparel.

We're continuing our transformation to become more of a digital enterprise. At every step along this journey we're staying focused on the customer, and they are noticing. Walmart U.S. delivered strong comp sales growth of 3.4 percent and eCommerce sales growth of 37 percent. Sam's Club continues to execute against its strategy and delivered comp sales of

3.0 percent, excluding fuel and tobacco, and in International, Mexico led the way with comps of 4.7 percent.

We recently hosted our 2019 sustainability milestone summit where we shared some exciting news about new initiatives we have underway, and we marked the two-year anniversary of Project Gigaton. We want to thank our suppliers as well as our advisors such as The Environmental Defense Fund and The World Wildlife Fund.

As part of our broader plastic waste reduction goals, we announced new goals to support recycling in our private brands packaging in Walmart U.S., Canada and Mexico. These new goals include making our private brand packaging 100 percent recyclable, reusable or industrially compostable by 2025, setting a target to have 20 percent recycled content in our packaging, and making it easier for customers to recycle by including customer-friendly labelling on product packaging, and challenging all of our branded suppliers to set similar targets.

Two years ago, we announced an ambitious goal of working with suppliers to avoid 1 billion metric tons – a gigaton – of emissions from global value chains by 2030 and with a growing list of more than 1,000 participants, we're making great progress. In fact, since we launched the initiative our partners are delivering results and report avoiding more than 93 million metric tons of emissions. We also used the summit to announce Walmart Canada is joining the platform, making it our third market outside of the U.S. to work with suppliers towards emissions reductions.

We're making a difference for our planet, our business and our customers. I encourage you to take a closer look at the progress we're making in areas such as associate opportunity or emissions reductions, among our many other accomplishments, by accessing our recently published Environmental, Social and Governance report.

Now, let's move on to highlights from our operating segments. I'll start with Walmart U.S.

Strong comps helped us gain market share in key categories, including food and consumables, and we delivered good results during the Easter holiday period. Operationally, we're making the shopping experience at Walmart faster, easier and more efficient through new ways of interacting with us. As merchants, we're on a never-ending journey to provide customers with the items they want. We've made good strides in fresh and continue to make progress with the quality of our private brand offering, especially in food where penetration increased 156 basis points during the quarter. Additionally, you may have seen the recent announcement about our leading role in a new Angus beef supply chain that will bring premium meats to about 500 stores by early next year.

In eCommerce, we're pleased with the top-line growth we're seeing and the progress we're making to improve contribution profit. We continue to add new brands, in addition to the relationships I mentioned earlier, and we're improving other experiences, including a new baby registry that's more personalized. As we think about new revenue and income streams, we know we can do more in the advertising space. Last month we acquired the Silicon Valley-based startup, Polymorph Labs. The technology they've developed will make advertising with Walmart easier for brands while delivering more relevant digital ads to customers.

Our incubator, Store No8, recently launched an exciting new project called the Intelligent Retail Lab. This lab allows us to explore the possibilities AI can contribute to the store experience through real-world solutions. The team will initially focus on inventory and shelf availability, and we'll be in data gathering mode early on. I'm excited to see what we'll learn and how we'll scale those learnings to benefit customers across our business.

At Sam's Club, good momentum reflects the team's focus on serving a target member and adhering to the fundamentals of the club model. We've made investments in people, products and digital offerings, and members are responding. We like the trends we see in overall member sign-ups and renewals for Plus members, and we now have more

members at Sam's than we did prior to our club closings at the end of fiscal 2018.

In our International division comps were positive in seven of our markets, and net sales increased 1.2 percent in constant currency. Reported net sales declined 4.9 percent in the period as the effect of foreign currency translations presented a headwind of \$1.8 billion.

Walmex continued to perform well, particularly in Mexico where we saw consistent growth across the country. Earlier, I mentioned the progress we're making with online grocery, and we're also expanding convenience for customers through self-checkouts in the Bodega format in addition to the launch of our first pickup tower. We're still in early stages with eCommerce in Mexico, but we're growing quickly as sales increased 49 percent in the period.

In Canada, comp sales were good in grocery and fresh but were less than we expected in general merchandise and apparel. The mix of sales towards lower margin categories pressured gross profit and operating income. We're confident that our focus on the customer, as evidenced by gains in satisfaction scores, will enable us to improve our performance during the year.

In the U.K., we are disappointed that the proposed merger of Asda with Sainsbury's isn't happening because it would've been good for customers and the businesses. Asda continues to focus on delivering against our strategy and has built momentum in the business, which is impressive.

I got to visit our teams in India and China a few weeks ago. I continue to be excited about the opportunity I see with Flipkart and PhonePe. I'm impressed with the team and their ability to innovate for customers with speed. In China, the Sam's Club business continues to be a highlight for us. We also have the ability to get fresh product, and more, delivered to the customer's doorstep in about 40 minutes through our network of stores and partnership with JD Daojia.

I'll close today by saying thank you to our associates. You delivered another good quarter by staying focused on the customer and embracing change. In the coming weeks, we'll host our annual shareholders' meeting and associate celebration, and I look forward to meeting many of you during that exciting week. Thank you all!

Brett Biggs: EVP & CFO, Walmart Inc.

We're pleased with first quarter results as operating income and earnings per share were better than expected, and sales in the U.S. were very solid. In particular, Walmart U.S. had a very strong first quarter.

As we execute our strategic plan and elevate the omni-channel shopping experience in markets around the world, we're encouraged by how customers are responding. We're reducing friction in their lives while leveraging unique assets and financial strength to drive profitability over time and create sustainable long-term competitive advantages. This is most evident in the U.S. where we're seeing strong comp sales, improved operating income growth and market share gains, according to Nielsen and The NPD Group. We continue to deliver solid near-term results while positioning the business for the longer-term.

Here are several highlights from our consolidated Q1 results.

We had solid top-line growth as total constant currency revenue grew 2.5 percent to \$125.8 billion, with currency having a negative effect of approximately \$1.9 billion.

Walmart U.S. comp sales grew 3.4 percent, including strong eCommerce sales growth of 37 percent. This was achieved despite the SNAP headwinds we called out in our Q4 release, as continued momentum across the business and a strong Easter holiday benefitted sales. We estimate the negative effect from SNAP on Q1 Walmart U.S. comp sales was similar to the benefit we experienced in Q4.

Walmart International's net sales grew 1.2 percent in constant currency, including positive comp sales in three of our four largest markets. As expected, the Easter calendar shift negatively affected sales growth in several markets and adjusting for it would have resulted in positive comp sales in all of our largest markets.

Meanwhile, Sam's Club had solid comp sales growth of 3.0 percent, excluding fuel and tobacco, driven by strong comp transactions and eCommerce sales growth of 28 percent.

Consolidated gross profit margin declined 27 basis points versus last year due primarily to pressure in International from mix changes in some of our largest markets as well as the inclusion of Flipkart in this year's results.

We're pleased with the expense leverage delivered this quarter of 14 basis points reflecting strong Walmart U.S. sales and store productivity as well as leverage from International and Sam's Club.

Operating income was better than expected, down 4.1 percent on a reported basis and 3.0 percent on a constant currency basis. Walmart U.S. operating income grew 5.5 percent, as the gross margin rate was better than expected due to several factors including better merchandise mix in both the stores and eCommerce, and less pressure from transportation costs, partially offset by continued price investments. This improvement was offset by some pressure from International results, including the dilution from Flipkart, which was expected. The deconsolidation of Brazil benefitted first quarter results.

Net interest expense increased 28 percent due primarily to the company's bond issuance related to the Flipkart transaction.

The adjusted tax rate was modestly lower than expected for the quarter at 24.2 percent, benefitting EPS by about \$0.01 versus plan. As a reminder, the adjusted tax rate excludes the effect of the value change in our investment in JD.com.

Adjusted EPS declined 0.9 percent to \$1.13 and GAAP EPS was \$1.33.

Operating cash flow was \$3.6 billion, but declined \$1.6 billion versus last year due in part to increased inventory in the quarter, primarily at Walmart U.S., some working capital timing and a decrease in operating income.

Walmart U.S. total inventory increased 5.9 percent, which is higher than the recent past. This is due in part to some accelerated buying in certain categories, timing of sales for summer seasonal merchandise, and increased mirroring of inventory in our eCommerce fulfillment centers, which has been a priority. We feel good about the quality of the inventory position and expect quantities to normalize as the year progresses.

During the quarter, the company returned \$3.7 billion to shareholders through dividends and share repurchases. Our level of share repurchases increased significantly year-on-year in Q1 as we lapped last year's suspension of buybacks in anticipation of the Flipkart announcement.

Before providing more details about segment performance, I want to highlight a change we made this quarter related to our definition of comp traffic, which we will now refer to as "comp transactions." Beginning this quarter, we refined the methodology for calculating transactions to include eCommerce transactions that were previously reported in ticket. As a result, going forward, when we refer to transactions, it includes transactions in our stores and clubs as well as our eCommerce businesses. You can find more details on our investor website including a prior year comparison using this updated methodology.

Now, let's discuss the quarterly results for each operating segment in more detail.

Walmart U.S.

Walmart U.S. had a strong quarter, including a strong Easter selling period. Comp sales, excluding fuel, grew 3.4 percent in the quarter and 5.5 percent on a two-year stacked basis, and operating income grew 5.5 percent.

Comp transactions increased 1.1 percent and ticket was up 2.3 percent. E-commerce sales were robust at 37 percent growth and contributed 140 basis points to the segment comp. Online grocery remains a meaningful contributor to eCommerce growth. The U.S. business continues to benefit from a healthy economic environment, but we're also pleased with customers' response to our integrated omni-channel offering. Market share gains this quarter in key grocery and general merchandise categories reflect our progress.

Comp sales growth reflects strength in grocery, including private brands. The category delivered a mid-single digit comp increase despite the headwinds from accelerated SNAP funding. Net of our price investments, food inflation remained negligible this quarter, but we did see a modest increase in consumables inflation. Health & wellness comp sales increased a mid-single digit percentage as a late flu season and modest inflation benefitted results. Meanwhile, general merchandise comp sales increased by a low-single-digit percentage with strength in home, lawn & garden, toys and wireless.

In eCommerce, we continue to focus on improving the Customer Value Index, which increased nearly five percentage points since the beginning of the year due to progress on metrics such as delivery, display and pricing. The team also made progress on increasing sales in key areas including home and apparel which helped gross margin rates this quarter. Our focus remains on improving the assortment with new key brands and driving efficiency in our delivery capabilities.

We were pleased to continue adding popular brands like Olly vitamins & supplements, Diamond Pet Food, and JuJuBe baby to Walmart.com during the quarter. In addition, as Doug mentioned, we've improved speed of delivery to customers with our announced launch of free next-day delivery without a membership fee, which was included in our assumptions in the guidance provided in February.

Customers continue to really appreciate our grocery pickup and delivery offerings as we scale them across the U.S. We have about 2,450 stores that offer free grocery pickup and nearly 1,000 stores that offer same-day grocery delivery. We're on track to offer same-day grocery delivery from 1,600 stores while also offering grocery pickup from 3,100 stores by year-end, providing coverage to approximately 50 percent and nearly 80 percent of the U.S. population, respectively. Customers want product faster than ever before, and Walmart is the best positioned in the industry to deliver grocery same day.

Walmart U.S. gross margin rate was better than expected, increasing six basis points year-over-year due primarily to better merchandise mix including strength in private brands, less pressure from transportation costs, and improved margins in eCommerce, partially offset by continued price investments.

Expenses leveraged by 10 basis points as productivity improvements and strong top-line flow through in physical stores were partially offset by eCommerce's growing mix in the segment. Both the stores and eCommerce leveraged expenses, with the stores leveraging by a significant amount. The Walmart U.S. stores team has leveraged expenses for nine consecutive quarters, and the productivity loop is certainly alive in this part of the business. There's opportunity to do more and we're continuing to accelerate innovation and evolve processes to operate more efficiently while enhancing our customers' shopping experience.

Overall, we're very pleased with the quarter. We're monitoring the tariff discussions and are hopeful that an agreement can be reached. Our goal is to always be the low-price leader, and we will actively manage pricing and margins as warranted with our customers and shareholders in mind. Our merchant teams have been focused on this for months and continue to execute appropriate mitigation strategies.

Walmart International

Moving to International, while seven of 10 markets had positive comps in the quarter, we're managing through political and economic headwinds in several of our International markets, which contributed to a bit weaker results this quarter than we've had recently. In addition, as Doug mentioned, we were disappointed in the CMA's decision in the U.K. We're focused on continuing to execute the strategy to strengthen Asda's long-term success, including the potential of an IPO at some point in the future. We'll be thoughtful and measured in our approach. We remain focused and confident in our International strategy of building strong local businesses powered by Walmart.

International net sales increased 1.2 percent in constant currency, but declined 4.9 percent on a reported basis due to the negative currency effect. The deconsolidation of Brazil was also a sales headwind partially offset by the inclusion of Flipkart sales. Of our major markets, we saw positive comps from Walmex, Canada and China in the quarter. The Easter calendar shift negatively affected several of our markets, including Asda where comps declined 1.1 percent, but would have been positive without the Easter flip.

Walmex delivered solid results with net sales up five percent and comp sales up 3.6 percent. In Mexico, results were strong again with comp sales growth of 4.7 percent, despite difficult comparisons. On a two-year stacked basis, comp sales were up 14.7 percent, and we grew faster than the market in key transaction-driving categories, including food and staples, according to ANTAD. We also continued to expand omni-channel capabilities adding more than 40 new online grocery locations to reach more than 230 stores with this offering. Customers are responding well to omni-channel initiatives in Mexico driving year-over-year eCommerce sales growth of 49 percent.

Against a challenging backdrop in the U.K., Asda comp sales declined with the Easter flip, but comp transactions were positive as customer experience scores continued to improve. The Asda team is

making progress on key strategic priorities. For example, price competitiveness improved this quarter and private brand penetration grew. In addition, online grocery sales were strong with a 10 percent increase. It's a competitive market, but Asda is making steady progress in its positioning.

In Canada, net sales increased 1.3 percent and comp sales increased 1.2 percent. Food categories continued to perform well as we invested in price and remained focused on winning key seasonal events, but general merchandise sales were soft. Meanwhile, customer satisfaction scores continue to increase. Profitability was soft in the quarter as gross margin was pressured by merchandise mix changes and apparel markdowns. We started to see early signs of improvement in apparel late in the quarter with good customer reaction to the new summer seasonal assortment. On expenses, the team is embracing SmartSpend and remaining disciplined to manage the pressure caused by minimum wage increases.

Turning to China, net sales increased 1.4 percent and comp sales increased 0.4 percent. We were up against difficult comparisons in the quarter, but on a two-year stacked basis, the comp was up 4.4 percent. Sam's Club continued to perform well and fresh results were good across formats and channels. Hypermarkets experienced softness in general merchandise. We're pleased with our omni-channel initiatives and expanded the one-hour delivery service through Dada-JD Daojia, which is now available in nearly 300 stores.

International operating income was down 38 percent in constant currency and 42 percent on a reported basis. A large part of the decline was due to dilution from Flipkart, which was expected, partially offset by the deconsolidation of Brazil. The timing of Easter also negatively affected operating income versus last year. The full year earnings dilution related to Flipkart is still in line with expectations.

Sam's Club

Sam's Club delivered comp sales growth of 0.3 percent, excluding fuel, and 3.0 percent when excluding fuel and tobacco. Club comp transactions continue to be strong with a 4.7 percent increase and eCommerce sales grew 28 percent. Investment in fresh categories, price and free delivery for Plus members continue to resonate and are contributing to transaction increases and comp sales growth. Membership income increased 0.9 percent year-over-year. We're encouraged by what's happening with membership trends as we're seeing strong Plus renewals and membership sign-ups, and overall membership counts are now higher than the levels prior to closing about 10 percent of our clubs at the end of fiscal 2018.

Sam's operating income increased 39 percent due in part to lapping last year's lease termination charges related to club closures. Sam's Club also saw strong productivity gains. Gross margin benefitted from a reduction in sales of tobacco and lapping costs associated with closed clubs partially offset by investments in eCommerce. Excluding last year's lease termination charges of approximately \$50 million related to club closures, operating income would have increased about 19 percent.

In summary, Sam's continues to focus on strategic priorities to build a healthier business that provides strong value and convenience to the target member. This includes a compelling and edited product assortment, competitive wholesale club pricing, and easier checkout, all at an industry low membership fee. We are pleased with the progress and members are responding favorably, but there's more work to do.

Closing

Our first quarter results put us in a good position to achieve full-year goals. Although we face tougher sales comparisons in Q2 due to the timing of weather-related benefits last year, the underlying business is strong and the omni strategy is working. Similar to last quarter, currency

will likely be a headwind in Q2. Based on current exchange rates, we estimate sales will be negatively affected by about \$1 billion, higher than anticipated at the beginning of the year. As is our practice, we will update certain full year guidance with our second quarter release.

With that, I want to say thank you to our associates for the great work they do and to our shareholders for their support during this exciting time of transformation. I look forward to seeing many of you in a few weeks at our Annual Shareholders' Meeting activities.