WAL-MART STORES, INC. (NYSE: WMT)
Second Quarter Fiscal Year 2016 Earnings Call
August 18, 2015
Management call as recorded

Carol Schumacher
Wal-Mart Stores, Inc. Investor Relations

Welcome. This is Carol Schumacher, vice president of global investor relations for Wal-Mart Stores, Inc. Thanks for joining us today to review the results for the second quarter of fiscal 2016. The date of this call is August 18, 2015.

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This call 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 statements provided by that Act. Please note that a cautionary statement regarding the forward-looking statements will be made following Charles Holley’s remarks later in this call.

All materials related to today's news are available on the investors' portion of our corporate website – stock.walmart.com. The terms used in today's release including EPS, constant currency, gross profit, gross profit rate and gross merchandise value, are defined there as well. We recommend that you review the earnings press release in conjunction with the transcript of this call and the accompanying slide presentation. The slide presentation has a lot of the financial data that previously used to be included in the transcript.

Global unit count data is also on our investor's website. Now, when we refer to "traditional Neighborhood Markets" in Walmart U.S., we're discussing those that average 42,000 square feet of retail space. The smaller Neighborhood Markets range in size from 12,000 to 16,000 square feet.

As a reminder, for fiscal 2016, we utilize a 52-week comp reporting calendar. For this year, quarter-to-date and year-to-date comps will be based upon 13- and 52-week periods, respectively. Our Q2 reporting period ran from Saturday, May 2 through Friday, July 31, 2015.

Now, let's get on to today's call.

- Doug McMillon, president and CEO of Wal-Mart Stores, Inc., will provide his thoughts about our results in context of our overall strategic investments.
- Neil Ashe, president and CEO of Global eCommerce, will update you on the progress we've made in e-commerce around the world.

We'll begin with our operating segments with…

- Greg Foran, president and CEO of Walmart U.S., followed by
- Dave Cheesewright, president and CEO of Walmart International, and then
- Roz Brewer, president and CEO of Sam's Club.

Last,

- Charles Holley, Walmart's CFO, will wrap up with some financial analysis and details on guidance for the third quarter and the full year. He'll cover a few of the items that Claire Babineaux-Fontenot, EVP and treasurer typically shares. Travel commitments have precluded Claire from participating this quarter.

As a reminder, our annual meeting for the investment community will be in New York City on Wednesday October 14. It will be held at the New York Stock Exchange, and we all look forward to seeing you there.

Now, I'm pleased to introduce our CEO, Doug McMillon, to kick off the call. Doug…

Doug McMillon
President and CEO

Thanks, Carol and good morning everyone. Thank you for joining us to hear more about our second quarter earnings and get an update on how things are progressing relative to our strategy.

We just returned from our Walmart U.S. holiday meeting in Denver. As you may know, we gather all of our store managers and market managers to talk about the plan for the holiday season and take stock of where we are as a business. I can tell you that the feeling in the room was as good as it's been in years. Our stores in the U.S. are getting better, our associates are happier, and our managers are leading it.

I talked with our managers about how our company has always changed to serve customers, and we're in another period of change right now. I shared an article from Fortune magazine that I keep in my office titled "Can Walmart Get Back the Magic?" It's a pretty strong indictment of our future, and the fun fact is that it was written in 1996.

Just as it was in 1996, we will win the future of retail if we make the right choices as a business. We have a strong point of view on what that future will look like. Through technology, data and mobile, we have incredible new ways to serve customers today, and the opportunities are only growing. We believe the winners in retail will be those who can bring together the best of the offline world with the best of online to serve customers however they want to shop, and we believe Walmart has unique competitive advantages in this race. We're moving forward on our enterprise strategy to position ourselves to win, playing offense, which is the only way to play in retail. This is true around the world. It's not just a U.S. opportunity.

The changes we need to make require investment, and we're pleased with the steps we've taken. We made continued progress towards our plan this quarter. Even if it's not as fast as we'd like, the fundamentals of serving our customers are consistently improving, and it's reflected in our comps and revenue growth.

Our strategy starts with running great stores and clubs. In Denver, we talked about the choices we're making as a business. As you know, in the first quarter, we initiated a comprehensive multi-year plan to increase starting wages and training for associates in our U.S. stores and clubs. During the second quarter, we implemented the next phase of changes to our Walmart U.S. store structure, including adding department managers. Our focus on running better stores that are clean and well-stocked, have friendly associates and an efficient checkout is resonating with customers. They've always counted on Walmart to have great prices. Now, we're building their trust with better in-stock and delivering an enjoyable shopping experience.

As a result, Walmart U.S. delivered its fourth consecutive quarter of positive comp sales, as overall net sales grew nearly 5 percent. Customer traffic was strong again this quarter. Lower gas prices have helped. I continue to be encouraged by the sales momentum that we're seeing, especially in general merchandise, and I'm confident that customers are benefitting from the investments we're making in our stores and associates. Obviously, we'd like to see it ramp higher and faster. We also recognize it won't be a linear path up and to the right, but we like the trend line.

Although we grew top line sales, we did fall short on managing the bottom line. During the quarter, operating expenses were higher than expected and our gross margin was lower than planned. We are not pleased or satisfied. For the back half of the year, we will manage these items closely with a continued commitment to efficiency, cutting costs where appropriate, even in a period of investment.

Similar to the first quarter, Walmart International constant currency sales growth was solid this quarter, with Mexico and Canada delivering strong comps. We're also excited about the opportunities we see in China, despite slower economic growth and currency pressures. Our position is improving -- we're gaining market share in the hypermarket category, Sam's Club continues to perform well, and we have great opportunities in e-commerce. Brazil and the U.K. remain challenging markets, but for different reasons.

I'm pleased that our U.S. Sam's Club comp sales improved this quarter and membership income was up close to 6 percent. Members are recognizing the enhanced value in our Plus memberships, which drove continued growth this quarter, both in club and online.

Another piece of our plan to win is to build and run great e-commerce. We've made a lot of progress improving our mobile and e-commerce capabilities this year, with several important milestones in the second quarter. You'll hear more details from Neil shortly about the investments that we've made in Pangaea, our global technology platform, and the progress on opening our four new fulfillment centers in the United States. These investments are designed to give customers the ability to find what they want more easily and get what they want faster, while enabling us to fulfill orders in a more cost effective manner.

Another important milestone in the quarter was our acquisition of the remaining stake of Yihaodian, our e-commerce business in China. We're extremely excited about the growth potential of Yihaodian and the opportunity it presents over time to deliver for customers in a seamless manner.

In the second quarter, Walmart's worldwide e-commerce sales grew approximately 16 percent on a constant currency basis, led by solid results in both of our U.S. businesses – Walmart and Sam's Club.

The third leg of our strategy is to innovate the future of retail by bringing online and offline together. Here, we can see the pieces starting to come together.

In the U.S., the response to our grocery home shopping offering has been strong. I'm particularly pleased with the number of repeat customers we have, and the strength of our average ticket. Anecdotally, I can share that customers have told us it's changing their perception of the shopping experience at Walmart. In stores, we've been aggressively pursuing store pick-up options, and Pickup, while on a very small base in Walmart terms, is growing very quickly.

At samsclub.com, we're also seeing stronger sales, as members appreciate the convenience of our Club Pick-up. We are also focused on leveraging data to bring exciting, member-relevant merchandise to our clubs and online with an eye towards growing our share of members from the higher income household demographic.

Internationally, one of the encouraging signs we're seeing in Mexico and Canada is that customers are not only purchasing more in our stores, but are also driving sales through e-commerce and mobile commerce. In China, we're expanding our omni-channel offerings with the new test of in-store pickup of online orders in a number of our Shenzhen stores. Chinese customers increasingly value the choice of both picking up their online orders in a local store, and having it shipped to their homes, and we've started integrating our digital and physical offerings for these customers.

Winning in the future requires change. Change, in this case, requires investment, and investment pressures short-term earnings. Our strategy is designed to create robust and sustainable growth that will deliver returns to shareholders. We obviously want to do that in the short- and long-term -- and it all starts by winning with customers. The good news is that our short term investments help build a bridge to the mid and long term.

In the second quarter, Walmart generated more than $120 billion in revenue and delivered earnings per share of $1.08. I'm encouraged by the improvement in our constant currency sales and recognize that our bottom line results should have been better. We had margin pressure from pharmacy reimbursements and higher shrink than we expected during the quarter. These impacts, coupled with higher wage investments, impacted EPS.

Walmart U.S. is the driver of our bottom line results. With the headwinds I just mentioned continuing the rest of the year, and the level of investments we have, our operating income will continue to be pressured. We have a strong balance sheet, one that allowed us the opportunity to invest significantly in our business, and the acquisitions like Yihaodian. You'll hear more on the impact of these investments from Charles when he updates EPS guidance.

In the short-term, we expect Walmart U.S. comps to accelerate, as the service from our associates gains even more traction with our customer experience. When all of our e-commerce fulfillment investments come online, we expect them to lower our distribution costs in the mid-term, starting in the fourth quarter and having a larger, positive impact next year. Over the longer term, we believe we'll continue to grow in key markets around the world and further integrate our store and e-commerce offerings. We know that to deliver for our shareholders in a sustainable way, we must first win with our customers and associates. So, I'm confident that these are the right decisions to position Walmart for the future.

Finally, I want to mention an important moment we'll observe this week. Nearly 10 years ago, our customers and associates on the Gulf Coast were impacted by Hurricane Katrina. Throughout the devastation that the residents of this region faced, Walmart associates demonstrated extraordinary courage and passion for these communities. I often think how simple acts of kindness can have a dramatic impact. Our people really do make the difference at Walmart; not only for our customers, but also for the communities we serve. I look forward to joining our associates and community leaders in New Orleans later this week to look back at this event and to discuss how to get better at disaster resiliency and response.

Now, I'll turn it over to Neil. Neil…

Neil Ashe
Global eCommerce

Thanks, Doug. We delivered a lot during the quarter – at Walmart U.S., at Sam's Club and in our key markets around the world, all possible because of the groundwork we laid over the last few years. As a quick recap…

- We've re-platformed both our technology and physical distribution network for e-commerce.
- The technology platform Pangaea is consistently improving the customer experience and conversion for walmart.com, which has led to solid sales growth.
- We've created a U.S. grocery home shopping business that is getting great reviews from our customers;
- And, we've developed e-commerce at Sam's Club, and in key markets around the world, notably in Brazil and in China.

All of this was made possible because we have built a talent-dense internet technology company inside of Walmart. We're now able to create new experiences for customers across digital and physical.

Overall, Global eCommerce constant currency sales grew approximately 16 percent. GMV or gross merchandise value grew approximately18 percent on a constant currency basis. The highlight was solid growth in the walmart.com and samsclub.com U.S. businesses, while international was soft, due to economic challenges in several of our key markets. Because of the softness in International, we are resetting our global e-commerce sales growth forecast for this fiscal year from the mid-20s to a range in the mid-to-high teens.

As I mentioned, both businesses in the U.S. are going very well. A great example of how everything came to life was our walmart.com "Dare to Compare" event that we kicked off in July. This event created a perfect opportunity to highlight that customers can trust us to offer them the assortment they want at low prices every day, not just during a one-day sale. We were able to use our technology platform and sophisticated pricing algorithms to help us track and deliver lower pricing than competitors. Given that we've tripled our assortment in the past three years, we had more items for customers to shop. Customers could then choose how to get their purchases in the most convenient way for them. We offered customers the option to get orders shipped to their door, or to a store with same-day pick-up. In fact, it led to our biggest day of the year so far for same-day pickup. The flexibility of our new platform allowed us to move very quickly, and the new site delivered a better, faster shopping experience to customers. And, those customers who were shopping on mobile devices had an improved experience thanks to the responsive design we rolled out in the quarter.

We are using e-commerce to bring both new customers to Walmart, as well as to deepen our relationship with our existing customers. On the largest day of our "Dare to compare" event, we saw more than double the number of new customers to walmart.com than a typical day.

During the second quarter, we had a number of milestones for Walmart U.S. We migrated 100 percent of customers to the new cart and checkout, based on our new technology platform. We delivered responsive design to dynamically adjust the site to whatever device was being used. We started rolling out a significantly-enhanced store search capability on mobile. We opened two new automated online fulfillment centers, each bigger than 20 football fields, and we have two more coming this quarter. These fulfillment centers are strategically located across geographies and will begin to serve our customers this holiday. They will be cornerstones of our fulfillment network going forward. We also started a targeted test of an unlimited free shipping program, priced at $50 for one year.

I'm also pleased with the expansion and progress on grocery home shopping in the U.S. We're in five markets and sales continue to grow because customers, especially moms with children, love the convenience of ordering online and having their car loaded at a pick-up location. In addition to expanding pick-up in stores, we are offering customers remote pick-up points that are convenient to them, including their corporate campuses. In fact, we launched one here at our campus in San Bruno.

We have also made great progress at Sam's Club, where we have been tightly aligned with clubs to deliver a better member experience, which has helped deliver high growth on samsclub.com. Sam's delivered new club pick-up options that make it easier and more convenient for members to shop online and pick up at the club. Pre-paid club pick-up rolled out across the country, and we started testing mobile check-in and drive-through in several clubs. We have also improved the assortment and pricing online. Knowing that members love the treasure hunt, we launched "Shocking Values" on samsclub.com that gives members access to special items at outstanding prices for a very limited time. Our enhancements to mobile have also built on our member experience and we've seen double digit growth in mobile.

As I mentioned earlier, sales in our international markets were softer during the second quarter than we've seen previously. While still growing, grocery home shopping in the U.K. has slowed down, commensurate with the market. Asda opened 14 petrol stations during the second quarter, and these were enabled with click & collect lockers for both grocery and general merchandise items.

In Brazil, the overall economic environment is very challenging, but we have continued to take share in this down market. We are growing sales faster than the market and we are continuing to see growth in GMV. Our team has used this opportunity to build a lean and nimble operating model that can succeed in any market condition.

As Doug mentioned, we acquired the remaining shares of Yihaodian in China. In 2012, we became 51 percent owners, and we have seen strong growth since that time. Yihaodian now has about 100 million registered customers, more than twice as many as when we first invested. Our primary goal is to continue to accelerate Yihaodian's core e-commerce business and maintain strong local Chinese expertise. Now that we are the sole owners, we will be expanding our leadership team from within the Yihaodian business, from within Walmart and from the e-commerce industry in China. We will also leverage Walmart's global reach and scale to better benefit Yihaodian, including global sourcing. Wang Lu, who joined us earlier this year to lead Global eCommerce in Asia, is overseeing Yihaodian. He brings a strong background in developing digital businesses in China. China is an exciting, dynamic, large and competitive market. We are excited about our long-term opportunity in China.

We are delivering important e-commerce capabilities around the world, and ultimately these capabilities are enabling experiences that impact the stores and clubs as well as e-commerce. Customers see us as Walmart and Sam's Club, not a collection of shopping channels. We are delivering experiences on apps and sites and in stores and clubs that come together to differentiate us in the eyes of our customers and members. To remain in a leadership position, we must continue to invest in technology and people to deliver the customer and member experiences.

Now, I'll turn it over to Greg. Greg…

Greg Foran
Walmart U.S.

Thank you, Neil.

As Doug mentioned, we are encouraged by our top line growth, particularly traffic. Our bottom line came in substantially below what was planned. Three major factors contributed to our underperformance: a decline in gross margin, primarily related to lower than expected pharmacy reimbursements and accelerating pressures in shrink, as well as a higher than planned investment in store hours, which was essential to improving the customer experience.

I want to be straightforward: These issues will present continuing profit challenges for the remainder of the year. We are certainly disappointed. But we are not standing still. We know we can do better, and we will.

For the Walmart U.S. business, doing better means staying focused on an aggressive strategic plan to improve the customer experience in our stores, and deliver sustainable top and bottom line growth for the long term. This strategic plan includes a number of large, specific projects that fit within our broader focus on assortment, price, access, and customer experience. This plan requires significant investments, and we are confident we are making the right decisions for our customers and our business.

Amid the investment, we're focused on growing sales and controlling costs – as you would expect from Walmart. We are staying true to our roots. However, we are committed to improving the customer experience and we will protect the investments necessary to achieve this goal.

Let me dig in a bit on details. I'm pleased to report that we've seen progress on our top line, as net sales for the second quarter were up 4.8 percent, and comp sales increased 1.5 percent. We also improved inventory, meeting our goal to grow inventory less than sales growth.

Additionally, we've seen improvements in traffic and customer experience from these actions. Each decision was in line with the strategy we laid out, and progress has been steady and consistent. Let me share with you some of our accomplishments in the first half of this fiscal year, many of which occurred during the second quarter.

First, across all our formats, we're focused on improving the shopping experience for our customers. We've continued our "Checkout Promise" initiative, ensuring more registers are open during peak shopping hours. We've invested in providing customers with a cleaner, better-maintained shopping environment, and we've added approximately 1,700 items, primarily in grocery, to warehouse stock, driving faster replenishment times to the stores and ensuring the product is available for our customers.

Second, we're investing in our associates. This April, we raised the minimum starting wage in our stores to $9.00 per hour, resulting in over 500,000 associates receiving a raise. This new wage structure is expanding our applicant pool. We are also introducing 8,000 new department manager positions, a more focused role that allows the associate to be trained and become more knowledgeable with the areas they support, providing our customers with a better experience in the store. Additionally, we are continuing to focus on career development for all of our associates. Finally, we've increased the amount an associate will receive upon being promoted into higher levels of responsibility. These changes gave pay raises to an additional 150,000 associates who are critical to improving the in-store experience.

Alongside wage improvement, and to support career development, we're rolling out new training programs designed to help associates grow their careers at Walmart and provide a better experience for our customers. These programs, which will be rolled out this fall, are hands-on, instructor-led, and tailored specifically to a position, ensuring the training is relevant to an associate's current role, or to a future role they aspire to achieve. And we're piloting new scheduling tools that allow associates to select shifts that work best for them, while ensuring the store is staffed appropriately for customer demand. This program is reducing associate absences and turnover in the pilot stores, and providing managers with better visibility to coverage gaps.

Lastly, we're investing in operational improvements. In the second quarter, we began an overhaul of our inventory management systems, routines and schedules.

The Customer Availability Program, or CAP, will supplant decade-old processes with modern technology and new routines that keep associates on the sales floor rather than in the stockroom. Processes for truck deliveries at peak times and for stocking shelves have been significantly simplified, freeing more associates to be on the floor during peak customer traffic. We've also begun rolling out MC-40 technology to all department managers. This smaller, more intuitive hand-held tool allows us to replace the current devices with one that can provide enhanced technology. This will simplify how our associates work in a way that was not possible before. Additionally, this month, store managers are receiving mobile tablets that will help them stay connected to the business, while keeping them on the sales floor to help our customers and associates.

As a part of our focus on EDLC, we've reduced supplier marketing funds that have traditionally offset a portion of our advertising expenses, as we work towards better product costs. This will translate into lower prices for our customers. As a result of this reduction, we've lowered our second quarter print advertising count from 20 pieces last year to just 4 pieces this year. Moreover, since June, we've been working on amending terms and allowance agreements with our suppliers, driving consistency and simplification across our business. We've also reinstated our shrink training program for our asset protection and store management teams as part of our efforts to improve in this area. And finally, we've reduced feature and modular changes across the store, ensuring there is space for each feature and associate hours to make these changes. Along with this reduction, we've moved some feature and modular decisions back to the stores, allowing them to set features that best align to their local customer needs and preferences. Whilst there are numerous initiatives being landed across our business, these are being executed in a coordinated and systematic fashion to allow us to achieve our full potential.

We're pleased with our progress in the first half of the year, but we recognize that we still have a lot to do to meet our long term goals, and that it will take time to get where we want to be. I recognize these actions have and will continue to pressure our bottom line. But they are already driving meaningful improvements. Over the past year, we've seen growth in store traffic and comp sales. Additionally, our customer satisfaction scores continue to improve. Every day, a sample of customers in every store rate us across a number of metrics, including providing a fast checkout, friendly service, and a clean store environment. Based on the ratings from these surveys, we can see that our stores are making significant improvement from their baseline and we expect that trend to continue. Improving the customer experience is fundamental to our success.

Finally, we're proud of the impact these decisions have had on our associates. Nearly 80 percent of our 1.2 million U.S. store associates participated in our annual associate survey, administered during this quarter. Our associates' engagement has increased approximately 100 basis points this year, after remaining static for the prior two years.

We remain committed to the strategy we laid out for you earlier this year, ensuring we're making the right decisions to benefit both our customers and our associates and to drive long-term, sustainable growth. We know we will continue to face considerable challenges. But our goal for the back half of this year is to build on the improvements in top line and customer experience, and our list of things to accomplish is even longer.

Now let's cover the details on our financial performance for the second quarter. Net sales increased $3.4 billion, or 4.8 percent, versus last year. Comparable store sales were up 1.5 percent, and driven by strength in traffic, which increased 1.3 percent. Traffic was particularly strong on the general merchandise and softlines side of the box. Seasonal categories resonated well with customers, and changes in replenishment strategies ensured product was on the shelves when and where customers needed it. Finally, e-commerce sales contributed approximately 20 basis points to our overall comp. Neil shared the details on our progress on technology infrastructure and fulfillment for walmart.com orders. We are pleased that these efforts will position us even more competitively for the back half of the year. Our grocery home shopping pilots remain under way in five key markets, and we're happy with increased customer counts in these areas.

All formats delivered positive comp sales growth this quarter. In particular, comps in Neighborhood Markets were up approximately 7.3 percent. We remain encouraged by the performance of this format.

As mentioned, the general merchandise and softlines side of the supercenter performed well this quarter, driving strong traffic and sales growth through relevant offerings and better in-stock positions. While warm weather, particularly in July, helped propel sales in seasonal categories, our ongoing focus on the basics across apparel, indoor home, and hardlines drove momentum throughout the quarter. Additionally, while we saw a shift of back-to-school sales into August as several states adjusted the timing of their tax free weekends, early indications are positive.

Health & wellness benefitted from continued growth in pharmacy scripts, along with new brands in optical and a focus on better in-stock positions in OTC.

And, while we saw improved trends in our entertainment business from better in-stocks and stronger online sales, comps continued to run negative, pressured by ongoing industry declines and a shift from post-paid to installment wireless plans.

On the grocery side of the box, consumables had positive comps, driven by a strong base business. New products, particularly in chemicals, drove additional momentum. More notably, continued pressure in food from declining inflation negatively impacted our total box comp by approximately 60 basis points.

Moving on to the remainder of our financials…gross profit rate declined 41 basis points this quarter. As I said before, this was driven by a handful of key issues. Let's talk about pharmacy. Reflecting industrywide trends, we are seeing reduced reimbursement rates from Pharmacy Benefit Managers, which is negatively impacting gross margin.

We are also seeing a lower mix of higher-margin cash transactions, reflecting a marketplace shift in which more customers are now benefiting from greater drug insurance coverage. While we are taking a number of actions to lessen the impact, we expect to have pressure on pharmacy for the rest of the fiscal year.

Additionally, inventory shrinkage was meaningfully higher than plan for the quarter. We are reviewing the end-to-end inventory management process with a special focus on shrinkage and working to close gaps. Investments are being made in training programs for store and asset protection associates as well as investments in staffing in high shrink areas of the store. But it will take time to see results, so this will impact us versus plan for the rest of the year.

Operating expenses deleveraged 50 basis points to last year, primarily due to our higher-than-planned investments in customer experience.

These investments included the planned wage rate increases and structural changes I mentioned earlier, as well as additional associate hours needed to improve customer service. This quarter, we thoughtfully added back hours to specific areas of the store, such as the front end and stocking positions. This was a strategic decision to invest where we can drive the most benefit for our customers. These adds were significant, and more than we had planned. But we felt it was the right decision to meet the goals we have set. And we've started to see the investment translate into better top line performance.

The focus on customer experience, along with ongoing investments in e-commerce and the reduction in gross profit rate, led to an operating income decline of approximately 8.2 percent versus last year.

Moving on, in the second quarter, total inventory grew slower than the rate of sales, at 2.2 percent. Comp store inventory declined by 2.4 percent versus last year. The majority of this improvement came from decisions we made regarding replenishment strategies whereby we strategically moved inventory for certain items upstream from our store back rooms to our distribution centers. Additionally, we continued our focus on clearing our back rooms of excess inventory, improving operational efficiency in the stores. These actions, along with better management of seasonal inventory and reducing modular changes and feature shipments to the stores, allowed us to reduce comp store inventory, while improving both in-stock levels and sales. Inventory management will continue to be an ongoing focus for us.

This quarter, we opened 16 supercenters, including relocations and expansions. Additionally, we opened 22 traditional-format Neighborhood Markets, and the final 6 of our smaller-format Neighborhood Market test locations.

As we think about future store openings, we'll continue to focus on quality versus quantity. Having opened more than 350 Neighborhood Markets in the past two years, we have a better understanding of what customers value most, from the choice of location, to the size of the box, to the product offerings. Based on these learnings, we've decided not to pursue a number of potential locations, as they would not provide the type of quality experience customers expect from a Neighborhood Market. We now expect to open a total of 160 to 170 Neighborhood Markets in fiscal 2016, including the 51 locations already opened. Our previous forecast was to open between 180 and 200 Neighborhood Markets. We're still on track to build approximately 60 to 70 Supercenters this year, which was our original forecast.

We know that we still have a lot of work to do to achieve the long-term goals we have set for our business. The investments we're making, along with the headwinds we've mentioned, will weigh more heavily on operating income than initially forecasted.

Amid the pressures, we are thoughtfully evaluating every decision and use of company resources as we go through the back half of the year. But we are confident in the direction we are headed. We're seeing improvements every day, from sales and traffic growth, to increased customer satisfaction, to more engaged associates.

For the third quarter, we expect our ongoing investments in stores and customer experience to drive further sales momentum, offset partially by continued deflationary pressures in food, especially in meat and dairy. For the 13-week period ending October 30, we anticipate a comp sales increase of approximately 1 to 2 percent. Last year, our comp sales for the period were up 0.5 percent.

Now, I'll turn it over to Dave for an update on Walmart International. Dave…

David Cheesewright
Walmart International CEO

Thanks, Greg.

The International business had a fairly solid quarter, given tough economic environments in certain markets and ongoing currency impacts. In Q2, we saw accelerating sales growth in Mexico and Canada, offsetting ongoing challenges in the U.K., Brazil, and China. Overall, I continue to be enthusiastic about our long-term prospects to profitably grow our international business in a controlled and disciplined manner.

Similar to last quarter, the performance in Mexico and Canada continued to be solid. Our Mexico team has done an excellent job re-energizing that business, driving strong performance across all formats. We continue to see significant growth opportunities in Mexico, along with the improving core business. In Canada, we continue to gain market share, driven by our fifth consecutive quarter of positive comps. These two markets will continue to play a key role in our back half performance. I'll provide more details on key market performance in a few minutes.

Now, let's jump into our overall results. In the second quarter, net sales grew 2.8 percent on a constant currency basis, despite headwinds in Latin America from lapping last year's World Cup and the timing shift of Easter. The U.S. dollar remains strong, which led to a currency impact of $4.2 billion, resulting in a 9.6 percent sales decline on a reported basis. Comp sales were positive in Mexico and Canada, while the U.K., Brazil, and China posted negative comps. All other markets had positive comp sales.

Operating income declined 1.5 percent on a constant currency basis, negatively impacted by increased employment claim contingencies and higher than expected utility rates in Brazil, as well as continued investments in global e-commerce. This was partially offset by gains from the sale of the bank operations in Mexico and certain properties in Canada. Excluding the impact of these items, operating income would have grown faster than sales. With the currency exchange impact, operating income decreased 14.2 percent.

On a constant currency basis, inventory grew faster than sales at 4.2 percent, driven primarily by slower sales in the U.K. On a reported basis, inventory declined 10.5 percent.

Now, let's discuss market results, presented on a constant currency basis, for our largest markets. In all countries except Brazil and China, financial results are inclusive of e-commerce.

Let's start with the U.K. The market remained highly competitive during the second quarter, with significant ongoing vouchering from Asda's competitors. Grocery deflation remained at near record levels, as prices decreased 1.7 percent versus last year for the 12 weeks ended June 21, according to Kantar. The total market declined 0.1 percent, a reversal from a slight growth in Q1, in part due to the timing of Easter.

U.K. sales declined 4.1 percent and comp sales, excluding fuel, were down 5.2 percent, driven by declining traffic, especially in fresh food categories. Grocery home shopping sales continued to grow, and we remain focused on driving improvements to our customer metrics. Operating income increased year over year, mostly driven by the timing of Easter and margin improvement in non-food categories from a favorable mix shift.

For the rest of the year, we're focused on strengthening the assortment in private label and improving pricing on national brands. We will continue to drive aggressive cost reduction initiatives supporting our £1 billion, five year price investment strategy. We're investing to improve store standards and on-shelf availability and to maintain recent improvements in grocery home shopping service metrics. In addition, we launched our new branding and marketing campaign based around adoption of the Walmart 'Save Money, Live Better' mission to help build brand and quality perception. Collectively, these actions are designed to address some of the challenges we face in store traffic and fresh food.

Let's now discuss Mexico, which released their earnings on July 21st. Please note the Walmex release is under IFRS and the results here are under U.S. GAAP; therefore some numbers may differ.

Consolidated Walmex net sales increased 7.2 percent, with solid comp sales in both Mexico and Central America. Mexico sales grew 7.4 percent and comp sales increased 5.4 percent. We continue to see strong comps across all formats, including Sam's Club, which delivered 4.6 percent comp growth. Self-service continues to gain share and delivered a 190 basis point improvement in market share, according to ANTAD. General merchandise performed very well at 4.9 percent comp growth, despite a tough year-over-year comparison from last year's World Cup. Operating income grew faster than sales.

The sale of our banking unit in the second quarter, along with the Vips restaurant divestiture last fiscal year, helps us focus on our core business, which is our strength. We are intent on being the most relevant retailer for our customers through excellent prices, great assortment and consistent execution. We remain confident that the steps we have in place to improve Walmex are working and will serve as a catalyst for our business over the long-term.

In Canada, sales grew 5.4 percent and comps grew 3.9 percent in a low growth economic environment, driven by strong performance in food, health and wellness, home, and toys. We're investing in price and value, as we look for opportunities to lower costs in our business. We continued to gain share in our core categories of food, health & wellness and infant categories, as per Nielsen data for the 12 weeks ended July 18th. Additionally, our Canadian e-commerce business grew sales at more than 40 percent, albeit on a small base. In July, we successfully launched our online grocery business, starting with 11 store pick-up locations in the Ottawa area. In addition to top line performance, we remain focused on our low cost operating model. Operating income grew significantly faster than sales.

In the quarter, we finalized the acquisition of 13 stores and one distribution center from a former competitor. Seven of the stores are planned to open by the end of this fiscal year and the remainder will open next year. In May, we also closed the sale of a portfolio of properties under development with our shopping center joint venture partner, which generated the previously mentioned gain. Overall, I'm pleased with our results in Canada and expect consistent, profitable growth to continue.

In Brazil, the country is facing a prolonged recession and the highest inflation rate in 12 years, driven in part, by electricity rate increases of more than 50 percent versus last year, which is driving a cautious approach to consumption. For Walmart Brazil, net sales declined 0.9 percent and comp sales were down 1.0 percent, largely impacted by the World Cup event held during the same period last year and the timing of the Easter holiday. We experienced a decline in the hypermarket format, driven by electronics, but are pleased with the double-digit comp sales increases in the wholesale business.

Brazil operating income declined for the quarter, driven by the previously mentioned employment claims and rapidly rising utility rates compared to last year. The management team is making progress on the operational, people, and legal fronts to address ongoing employment claims as they work through a challenging business environment. In addition, they are focused on key leverage initiatives to increase store productivity and help offset inflationary pressure.

We continue to make progress on converting stores and distribution centers to standardized systems, which provides better visibility to business results, leverages costs, and reduces compliance risk. Last year, we integrated all of our stores in the South region. This year, we're focused on converting the south dry DC network, as well as approximately 100 stores in the northeast. Next year, we plan to convert the remaining northeast stores and dry DCs to this unified platform.

Despite challenging market conditions, the e-commerce business in Brazil continues to perform well. Sales grew double digits and outpaced the Brazilian e-commerce market. Market share rose from 8.0 percent to 8.5 percent in Q2, according to eBit, an e-commerce research firm, with share gains in several categories, including babies, toys and games, and auto parts. Marketplace sales growth was also strong.

Last, let's discuss China. Walmart China's sales grew 1.2 percent, while comp sales declined 1.4 percent. Walmart increased market share in fast moving consumer goods in the hypermarket channel and maintained share in the modern trade channel, which includes smaller format stores, for the 12 weeks ended June 28, according to Nielsen.

While there are ongoing market headwinds from slower economic growth, we're confident we'll continue to deliver sustainable growth in China. Walmart continues to outperform the market and gained market share in hypermarkets for the 10th quarter in a row. We're focused on driving efficiency, reducing expenses and strengthening our portfolio through 'We Operate for Less' and 'We Buy for Less' initiatives. These actions contributed to operating income growing significantly faster than sales. The team continues to set the foundation for our business, positioning it for increased growth and profitability in the future.

Throughout the quarter, we made significant progress in our omni-channel efforts. Walmart China launched "Walmart To Go" in 23 stores in Shenzhen, bringing customers the convenience of ordering through the Walmart app and the choice of pick up in store or delivery to their home. We're also testing ways to bring added payment choices and the convenience of mobile payment to our customers in our stores.

In addition, as Doug and Neil mentioned, we increased our ownership of Yihaodian, our China e-commerce platform, to 100 percent. We're excited about the opportunities to deliver new experiences to customers in China and further leverage Yihaodian and Walmart's global and local assets. In the second quarter, Yihaodian grew sales double digits, driven by strong growth in orders and continued improvement in conversion rates. Mobile contributed more than 55 percent of orders.

As I wrap up the International portion of today's call, I'd like to express how pleased I am with our associates around the globe and their efforts in driving consistent and solid performance in the first half. We're growing comp sales across the majority of our portfolio and stepping up investments in e-commerce, while setting our business up for long-term success.

We expect continued economic challenges in the U.K. and Brazil, but also expect continued strong performance in Mexico and Canada. We're optimistic about our growth prospects in China despite a softening economy and will continue to invest in that market.

Now, I'll turn it over to Roz for an update on Sam's. Roz…

Rosalind Brewer
Sam's Club

Thanks, Dave.

We were pleased that our investments are contributing to the improvements in Sam's Club. In the second quarter, we grew comp sales, without fuel, 1.3 percent and net sales 2.8 percent. Our square footage also grew due to 3 new clubs openings during the quarter. We are accelerating our efforts to strengthen the Sam's Club member value proposition.

Since last year, our investments have been targeted to better merchandise assortment, membership acquisition, engagement and retention, new programs to enhance member value, and our investment in e-commerce. By staying on a consistent path and driving these priorities, we continue to simplify our business. We saw the benefits in improved membership trends and higher traffic during the second quarter. What is most important is the overwhelmingly positive feedback we're hearing from our members, not just about our clubs, but also about improvement in the e-commerce experience. I'll provide some examples shortly.

Now, on to the numbers… With fuel, operating income declined by 13.4 percent to $428 million. Fuel profitability improved from Q1, but is still below planned levels and below last year's dollars. For additional results with fuel, please reference the accompanying presentation.

Net sales, without fuel, grew 2.8 percent. Comp sales without fuel, were up 1.3 percent, with ticket contributing 80 basis points and traffic 50 basis points. Savings member traffic was positive, partially offset by a decline in business member traffic.

Our gross profit rate declined 38 basis points versus last year, driven in part by our ongoing cash rewards investment, increased seasonal markdowns and industry headwinds in pharmacy prescriptions similar to those referenced in the Walmart U.S. business.

Operating expenses as a percentage of net sales increased by 13 basis points, due to continued investments in new clubs, technology and e-commerce. Membership and other income grew 6.1 percent, with membership income up 5.8 percent, driven in large part by Plus upgrades. As a result of both of these factors, operating income declined 9.7 percent versus last year.

We continue to manage our inventory appropriately. Inventory, without fuel, grew by 3.4 percent, driven in part by new clubs.

In our merchandising areas, let me start by highlighting two of our stronger categories -- home and apparel and health and wellness.

Home and apparel delivered low single-digit comp sales, with strength in apparel, offset by softness in kitchen electrics, domestics and furniture.

Health and wellness posted mid single-digit comps, driven by generics and by increased member adoption of our Free/4/10 prescription program. Since the launch of this program last quarter for Plus members, we see that those who utilize the program transfer on average two-thirds of their scripts to Sam's Club. We are optimistic that these trends will continue to drive traffic.

Our fresh/freezer/cooler business was softer than expected, due to deflation in key dairy commodities such as milk and cheese, along with higher costs in areas such as meat.

Grocery and beverages delivered low single-digit comps, with dry grocery delivering solid comp sales.

The consumables business also delivered low single-digit comps, driven by laundry and tabletop categories.

Our technology, entertainment, and office businesses, albeit posting negative comps, saw improvement from Q1 levels. We saw acceleration in certain key categories such as tablets. That was offset in part by our wireless business, which has been negatively impacted by the industry shift to installment plans.

We continue to make progress in e-commerce to build the most convenient club in the industry. We're pleased with our ongoing integration of digital and physical. E-commerce contributed approximately 60 basis points to our club comp performance during the period, and traffic to our site was up just over 20 percent. We delivered new club pick-up options that make it easier and more convenient for members to shop online and pick up at the club. Pre-paid club pick-up rolled out across the country, and we started testing mobile check-in and drive-through in several clubs. The number of members trying it for the first time during the quarter exceeded our expectations, and we expect ongoing acceptance of this service.

We have also improved the assortment and pricing online. Knowing that members love the treasure hunt, we launched “Shocking Values” that give members access to special items at outstanding prices for a very limited time. Shocking Values products are carefully chosen based on members’ interests, top trends and items from the company’s most popular shopping categories. In addition, our enhancements to mobile have also built on our member experience and drove double-digit growth in traffic.

Membership income was up versus last year, with growth driven by social media campaigns, as well as strong Plus renewals and upgrades, due to the benefits of cash rewards. We also continue to emphasize our award winning Sam’s Club 5-3-1 MasterCard, which allows members to save inside and outside the club. We’ve received very positive feedback from our members on this program.

We recently hosted our annual supplier summit here in Bentonville, and we were pleased with the excellent attendance and engagement. Our suppliers are very interested in the work we’ve done to ensure their great items are getting in front of our member base. They are supportive of the innovation and merchandising transformation we have in place. We have great items coming for the holidays.

We are focused on further progress in the Sam’s Club business for the back half of the year. For the 13-week period ending October 30, 2015 we expect comp sales, without fuel, to be between flat and up 2 percent.

Now, I’ll turn things over to Charles. Charles…

Charles Holley
Guidance

Thanks, Roz.

I'll start with the top line. We're pleased with the sales increases we saw in the U.S., as well as in our international businesses, when considering constant currency. We believe traffic and comp sales increases for Walmart U.S. show we are on the right track with our investments. Walmart U.S. now has had positive comps for four straight quarters. As expected, these investments impacted both operating expenses and profits. In addition, Walmart U.S. experienced gross margin pressure from pharmacy and shrink that we had not expected.

Looking forward at the rest of the year, operating profit will be pressured more than we originally planned. This is primarily driven by the headwinds to Walmart U.S. gross margins that I just mentioned. We will continue to scrutinize and evaluate how we manage our capital in order to optimize both the customer experience and returns.

Before I turn to guidance, let me cover some other items.

You may have read in our earnings release that we are reviewing leases across all of our segments. This is part of a comprehensive ongoing lease review. One item that we are focusing on, and may need to be corrected, relates to leases where our payment of certain structural component costs during a lessor's construction of the leased store causes us to be deemed the owner of the property for accounting purposes. This results in us capitalizing these leased assets on our balance sheet. We don't know the impact to our financial statements, but believe it mostly to be a balance sheet issue at this time. We will provide more information once the review is complete.

Turning to cash, during the quarter, we spent approximately $760 million to acquire the remaining shares of Yihaodian, a strategic acquisition for e-commerce growth in China.

In addition, we continued to provide shareholder returns in the form of dividends and share repurchases, and in the second quarter, we paid approximately $1.6 billion in dividends and repurchased approximately $1.0 billion of shares. This represents our largest share repurchase activity in the last four quarters. As always, we will remain opportunistic with share repurchase throughout the year. As of the end of the second quarter, we had approximately $9.0 billion remaining under our current $15 billion authorization.

Membership and other income increased 13.9 percent to $899 million. Other income primarily benefited from the gain on the sale of the bank operations in Mexico.

FCPA and compliance-related costs were approximately $30 million, comprised of approximately $23 million for the ongoing inquiries and investigations, and approximately $7 million for our global compliance program and organizational enhancements. Last year, FCPA and compliance-related costs were $43 million in the second quarter. We expect FCPA-related expenses to continue to trend down, so we now expect our full year FCPA-related expenses to range between $130 million and $150 million. This compares to our guidance in February of $160 to $180 million.

Return on investment for the trailing 12 months ended July 31, 2015 was 16.2 percent, which compares to 16.7 percent last year. The decline in ROI has primarily been due to continued capital investments, as well as our decrease in operating income.

Earlier Greg mentioned that as part of our commitment to EDLC, we are working on amending terms and allowance agreements with our Walmart U.S. suppliers to drive simplicity and consistency across our business. We began this effort in June, and discussions will continue over the coming months. On a constant currency basis, inventory grew slower than sales. While we are pleased with the progress in managing our inventories, working capital is still an opportunity for us to generate stronger free cash flow.

Now let's turn our attention to guidance. In February, we indicated that we expected our full year fiscal 2016 earnings per share to range between $4.70 and $5.05.

Today we expect our fiscal 2016 earnings per share to range between $4.40 and $4.70, including a range of $0.93 and $1.05 for the third quarter. This new range includes the following updated assumptions:

- First, the impact from our investments in wages, training and additional hours in our stores will be approximately $0.24, including approximately $0.08 in the third quarter. Through the first half of this year, we have incurred approximately $0.10 of the expected full year impact. This compares to our original guidance in February of approximately $0.20. As you heard from Greg earlier, our decision to increase associate hours beyond our February plan to areas of the store such as front end and stocking positions, are intended to drive the most benefit for our customers.

- Next, the incremental investment in Global eCommerce will range between $0.06 and $0.09. This is unchanged from our guidance in February. In the third quarter, we expect the impact to be approximately $0.02. Through the first half of this year, we have incurred approximately $0.04 of the expected full year impact.

- Third, we expect a full year impact of approximately $0.11, including approximately $0.03 in the third quarter from the unplanned headwinds that I discussed earlier. The headwinds are primarily in

Walmart U.S. pharmacy margins, as well as higher than expected shrink continuing through this fiscal year.

Assuming currency exchange rates remain at current levels for the remainder of the year, we now expect the full year impact to be approximately $0.15, up $0.02 from last quarter's revised guidance of $0.13.

Our effective tax rate is expected to range between 32 and 34 percent, unchanged from our guidance in February. Now, as a reminder, our tax rate will fluctuate from quarter to quarter and may be impacted by a number of factors, including changes in our assessment of certain tax contingencies, valuation allowances, changes in law, outcomes of administrative audits, the impacts of discrete items, and the mix of earnings among our U.S. and international operations. And, in any given quarter, our effective tax rate could be higher or lower than the full year.

We will host our annual investment meeting in New York on October 14. As we have in prior annual investment community meetings, we will provide an update on our capital plans at that time. We look forward to seeing you there.

Thank you for your interest in Walmart, and have a great day.

Detailed Cautionary Statement Regarding Forward-Looking Statements

This call included certain forward-looking statements intended to enjoy the safe harbor protections of the Private Securities Litigation Reform Act of 1995, as amended. Such forward-looking statements relate to management's guidance as to and forecasts and expectations for:

With respect to Walmart as a whole:

- Walmart's earnings per share for all fiscal 2016 and fiscal 2016's third quarter;
- assumptions regarding the impact on Walmart's earnings per share for all of fiscal 2016 and fiscal 2016's third quarter with respect to:
  - investment in wages, training and additional hours in Walmart U.S.;
  - incremental investment in Global eCommerce; and
  - unplanned expense headwinds, primarily Walmart U.S.'s pharmacy margins and higher than expected shrink continuing through fiscal 2016; and
- the impact of currency exchange rate fluctuations on Walmart's earnings per share for all of fiscal 2016;
- Walmart's effective tax rate for all of fiscal 2016 and the fluctuation of Walmart's effective tax rate from quarter to quarter;
- comparable store sales of the Walmart U.S. and comparable club sales, without fuel, of Sam's Club for the 13-week period ending Oct. 30, 2015;
- the revised range of the overall percentage growth of Global eCommerce sales in fiscal 2016;
- Walmart continuing to grow over the long term in key markets and further integrating its stores and e-commerce offerings;
- Walmart's consolidated operating income for fiscal 2016's last half being pressured more than originally planned, primarily by Walmart U.S.'s expense headwinds, investments in its operations and shrink;
- the effects of investments in Walmart U.S. on Walmart's results;
- the expenses to be incurred for FCPA-related matters during all of fiscal 2016 and expenses incurred for such matters continuing to trend down;
- Walmart remaining opportunistic with share repurchases throughout fiscal 2016;
- Walmart's sales trends not being linear, up and to the right;
- Walmart managing operating expenses and gross margin and cutting costs where appropriate in fiscal 2016's last half;
- Walmart making the difficult decisions to close stores in the future;
- pieces of Walmart's strategic plan being to build and run e-commerce operations and integrating its online and offline retail operations;

- Walmart's strategic plan being designed to produce robust, sustainable growth that will deliver returns to Walmart's shareholders;

With respect to Walmart's Global eCommerce operations:

- two new fulfillment centers being opened in fiscal 2016's last half;
- the new e-commerce fulfillment centers being cornerstones of the Global eCommerce operations' fulfillment network and starting to serve customers in the fiscal 2016 holiday season;
- all fulfillment centers being on line lowering distribution costs in the mid-term, starting in fiscal 2016's fourth quarter, with a larger positive impact in fiscal 2017;
- the goal of continuing to accelerate Yihaodian's core e-commerce business and maintaining strong local Chinese expertise;
- leveraging Walmart's global reach and scale, including global sourcing, to benefit Yihaodian;

With respect to the Walmart U.S. segment:

- lower gross margin from lower than expected pharmacy reimbursement, accelerating pressures from shrink, and higher expenses for investment in store hours presenting continuing profit challenges for Walmart U.S. for the remainder of fiscal 2016;
- Walmart U.S. protecting its investments necessary to improve its customer experience;
- Walmart U.S.'s comparable stores sales accelerating as service from its associates gets more traction with its customer experience;
- Walmart U.S.'s strategic plan to improve customer experience and deliver long-term growth, including projects focusing on assortment, price, access and customer experience, which plan requires significant investments;
- Walmart continuing to face considerable challenges and goals for fiscal 2016's last half of building on improvements in top line growth and customer experience;
- investments by Walmart U.S. and expense headwinds weighing more heavily on Walmart U.S.'s operating income than originally expected;

- continuing pressure on pharmacy during fiscal 2016's second half, including from reimbursement rates and a shift from cash transactions to drug insurance coverage;
- shrink having an impact in fiscal 2016's last half greater than original plan;
- supplier marketing funds reductions translating into lower customer prices;
- Walmart U.S.'s investments in stores and associates and other actions continuing to pressure Walmart U.S.'s operating income;
- Walmart U.S. having inventory management as a continuing focus;
- the effects of Walmart U.S.'s investments in stores and customer experience and the deflationary pressure in food on sales momentum;
- the number of Neighborhood Markets and Supercenters to be opened in fiscal 2016;

With respect to the Walmart International segment:

- Canadian and Mexican operations playing a key role in Walmart International's performance for fiscal 2016's last half;
- the focus in the U.K. operations to be on strengthening the assortment in private label and improving pricing in national brands;
- continuing to drive aggressive cost reduction initiatives in the U.K. operations; new store openings in Canada in fiscal 2016's last half and fiscal 2017;
- consistent, profitable growth to continue in the Canadian operations;
- goals for conversion of store and distributions centers in Brazil to certain standardized systems in fiscal 2016's last half and fiscal 2017;
- continuing growth in the operations in China;
- continuing to invest in China;
- continued economic challenges for the U.K. and Brazil operations and strong performance for the Mexico and Canada operations;

With respect to the Sam's Club segment:

- trends in member utilization of the Free/4/10 prescription program continuing to drive traffic for Sam's Club; and

- ongoing acceptance of Sam’s Club’s pre-paid club pick-up service by members.

Assumptions on which any guidance as to, or forecasts and expectations for, Walmart and its segments are based are considered forward-looking statements.

Walmart’s actual results may differ materially from the guidance provided in and the goals and expected and forecast results discussed in such forward-looking statements as a result of changes in facts, assumptions not being realized or other risks, uncertainties and factors, including:

Economic factors:
- economic, geo-political, capital markets and business conditions, trends and events around the world and in the markets in which Walmart operates;
- currency exchange rate fluctuations;
- changes in market interest rates;
- unemployment levels;
- competitive pressures;
- inflation or deflation, generally and in particular product categories;
- consumer confidence, disposable income, credit availability, spending levels, shopping patterns, debt levels and demand for certain merchandise;
- consumer enrollment in health and drug insurance programs and such programs’ reimbursement rates;
- commodity prices;

Operating factors:
- the amount of Walmart’s net sales denominated in the U.S. dollar and various foreign currencies;
- the financial performance of Walmart and each of its segments;
- Walmart's effective tax rate and the factors that can affect that rate discussed earlier in this call;

- customer traffic and average ticket in Walmart's stores and clubs and on its e-commerce websites;
- the outcome of supplier contract negotiations;
- the effectiveness of the implementation and operation of Walmart’s plans, programs and initiatives;
- the mix of merchandise Walmart sells and the cost of goods Walmart sells;
- transportation, energy and utility costs;
- the selling price of gasoline and diesel fuel;
- the amount of shrinkage Walmart experiences;
- supply chain disruptions;
- disruption of seasonal buying patterns in Walmart’s markets;
- consumer acceptance of and response to Walmart's stores and clubs, e-commerce websites, mobile apps, initiatives, programs and merchandise offerings;
- the availability of attractive e-commerce acquisition opportunities;
- Walmart’s expenditures for FCPA- and compliance-related matters;
- cyber security events affecting Walmart and related costs;
- developments in, outcomes of, and costs incurred in legal proceedings to which Walmart is a party;
- casualty and accident-related costs and insurance costs;
- the turnover in Walmart’s workforce;
- delays in opening new, expanded or relocated units for various reasons;
- the availability of necessary personnel to staff Walmart’s stores and units;
- labor costs, including healthcare and other benefit costs;
- unexpected changes in Walmart’s objectives and plans;
- unanticipated changes in accounting estimates or judgments;

Regulatory and other factors:

- changes in existing, tax, labor and other laws and changes in tax rates;
- government policies, programs, initiatives and actions in the markets in which Walmart operates and elsewhere;

- the level of public assistance payments;
- trade restrictions and tariff rates; and
- natural disasters, public health emergencies, civil disturbances, and terrorist attacks.

Such risks, uncertainties and factors also include the risks relating to Walmart's operations and financial performance discussed in Walmart's most recent annual report on Form 10-K filed with the SEC. You should consider the following forward-looking statements in this call in conjunction with that annual report on Form 10-K and Walmart's quarterly reports on Form 10-Q and current reports on Form 8-K filed with the SEC. Walmart urges you to consider all of the risks, uncertainties and factors identified above or discussed in such reports carefully in evaluating the forward-looking statements in this call. Walmart cannot assure you that the results reflected or implied by any forward-looking statement will be realized or, even if substantially realized, that those results will have the forecasted or expected consequences and effects for or on Walmart's operations or financial performance. The forward-looking statements made in this call are as of the date of this call. Walmart undertakes no obligation to update these forward-looking statements to reflect subsequent events or circumstances.