



**WAL-MART STORES, INC. (NYSE: WMT)  
Third Quarter Fiscal Year 2016 Earnings Call  
November 17, 2015  
Management call as recorded**

**Pauline Mohler  
Wal-Mart Stores, Inc. Investor Relations**

Welcome. This is Pauline Mohler, senior director of global investor relations for Wal-Mart Stores, Incorporated. Thanks for joining us today to review the results for the third quarter of fiscal 2016. The date of this call is November 17, 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](http://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.

Global unit count data is also on our investor's website. 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 Q3 reporting period ran from Saturday, August 1 through Friday, October 30, 2015.

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

- Doug McMillon, president and CEO of Wal-Mart Stores, Incorporated, will provide his thoughts about our results in the context of our overall strategy.
- Claire Babineaux-Fontenot, EVP and treasurer, will cover the financial details.

Next, we'll begin 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 details on guidance for the fourth quarter and the full year.

Now, I'd like to introduce our CEO, Doug McMillon. Doug...

**Doug McMillon**  
**President and CEO**

Thanks, Pauline, and good morning everyone.

Thank you for joining us to hear more about our third quarter earnings, as well as the strategy we shared at our annual meeting for the investment community last month.

Overall, we had a good quarter. We delivered earnings per share well within our guidance range, recorded our fifth straight quarter of positive comps at Walmart U.S., and had solid international sales and profit growth on a constant currency basis. At the same time, we still have plenty of work to do, and there are areas of our business that must perform better.

Our earnings per share were \$1.03, and we posted total revenue of \$117.4 billion. I want to highlight that, on a constant currency basis our total revenue would have been \$122.4 billion. That's growth of \$3.4 billion or 2.8 percent on a constant currency basis, which is solid growth. Even if the percentage doesn't sound high because we have such a large denominator, not many companies grow by this amount in a quarter. I call this out because I don't want the currency impacts to obscure the strength of our business. We are a growth company - and we're growing.

As we expected, operating income continued to be pressured by our decision to invest in our front line associates. To improve the store experience for our customers and create a bridge to our future where digital capabilities will play an increasing role in our stores, we're making a \$1.2 billion planned investment in our people this year that we understood would impact near-term operating income. This is by far the biggest driver of the decline in consolidated operating income.

Before going into the details, I want to take a step back to talk about our strategy. At our investor meeting last month, we shared more detail than usual about the next three years of our growth plan. We've never been a company that manages only for the short term, and that's certainly true during this period of change. Although investments in our people and technology impact near term earnings, they will help us deliver sustainable growth and returns to shareholders over time.

We're confident these are the right steps because we know where and how we're going to win. We will be the first to deliver a seamless shopping experience at scale. No matter how you choose to shop with us - through your mobile device, online, in a store or a combination - it will be fast and easy. Online retailers are testing physical store experiences because they recognize the same customer desire that we do. There's a race to do this right, but only Walmart can bring together a dense network of stores, supported by a supply chain and systems like ours, with an emerging set of digital capabilities to win with customers.

As we create this seamless experience, we're positioning for growth in five key areas:

- First, we'll continue to win on value. We've won on value in the past and that won't change.
- Second, convenience is increasingly important as customers want to save both money and time.
- Third, we will always work to be great merchants - whether in stores or online.
- Fourth, we're focused on the key geographies for customer growth, which are North America and China.
- Finally, we want to appeal to a blend of income levels. The way we're approaching e-commerce, Neighborhood Markets, Sam's Club, grocery pickup, and other areas will appeal to value-conscious customers of all demographics. We already serve customers from all income levels around the world but we have an opportunity to get even stronger.

By taking these steps, we will grow the company faster. We will add between \$45 - 60 billion dollars of revenue to the company in the next three years. That's a lot of growth; it just happens to be on a big base.

Returning to this quarter's results, one of the most important takeaways is that our U.S. stores continue to improve, with total net sales up nearly 4 percent. In addition to positive comp sales, Walmart U.S. had its fourth straight quarter of positive traffic. We're now lapping positive comp sales and building on our progress. Our customers are telling us that our efforts around clean, fast and friendly are resonating. Neighborhood Markets continued to show strong sales, led by our newer stores, and have posted positive comps for 19 consecutive quarters. A key part of creating a seamless shopping experience is to have great stores, and we feel good about where we're heading.

We also made strides in the U.S. on adding critical capabilities to our supply chain. In the third quarter, we opened a new e-commerce fulfillment center in Atlanta with more than one million square feet of space. This is our fifth next-generation fulfillment center.

As we build out our e-commerce capabilities, we are deepening our digital relationships with our customers. We've accelerated our expansion of online grocery pickup, and we've seen that customers who start using online grocery spend nearly 50 percent more than similar customers who shop only in stores. This is the customer we're going after - the shopper in our "sweet spot" who accesses Walmart in multiple ways.

We also began the chain-wide use of a mobile service that can tell us when a customer is coming to pick up an online general merchandise order - before they even walk into the store - and we launched a new digital wish list that you can build at home or simply by scanning items in a store. We expect more than 210 million visits to our app in November and December - up from 18 million in 2012.

Last month, we told you about our longer-term plans to grow e-commerce sales and GMV. That plan anticipates ebbs and flows along the way, but we are confident in our targets. We continue to expect to grow mid-to-high teens for this fiscal year. During the third quarter, Global eCommerce sales and GMV growth both came in at around 10 percent. This was due primarily to continued economic challenges in our major international markets, including Brazil, China and the UK. In the U.S. where we have seen good growth for the year, we continue to make progress on key initiatives, but we know we have more work to do. I was pleased that Samsclub.com continued to deliver strong growth.

In Walmart International, we're pleased with the solid 3.2 percent sales growth on a constant currency basis. Operating income grew faster than sales at 8.5 percent, excluding currency. Our North American markets delivered strong performance, and Mexico in particular is starting to fire on all cylinders. I'm pleased with our momentum in these markets. We continue to face specific challenges in the U.K. and Brazil.

China remains a huge long term opportunity. We started in China in 1996. We've grown the business, reached profitability years ago and grown our level of profitability. We obviously learned a lot about Chinese customers and the market and that's an asset. A few weeks ago, I was back in Beijing and Shanghai walking stores, clubs and visiting our e-commerce offices. We now have a total of 12 Sam's Clubs open and they're performing very well. Our stores have clearly improved operationally in recent years, in particular, and now they're supported by a supply chain that positions us to win. We see that e-commerce, online grocery and convenience are critical in the dense urban areas that make up so much of the Chinese opportunity. That's why our Yihaodian acquisition is of such strategic significance. We also recommitted to our work on food safety, environmental sustainability, and empowering women during my visit, announcing another investment in the China Women's Development Foundation. With the improvements we've made to our stores and clubs and the full acquisition of Yihaodian, we have a unique opportunity and a plan to put it all together to win in China.

While positive, our U.S. Sam's Club comp sales, without fuel, were at the low end of our guidance. We were pleased with the growth in membership income, but we can do better with our overall results. Sam's Club did take important steps this quarter to deepen digital relationships with our members through Club Pickup, expanded mobile check-in capabilities, and extended drive-thru or curbside options. Roz will share more about our strategy going forward in a moment.

In addition to releasing earnings, today is a big day around our Home Office. We are holding a Sustainability Milestone Meeting to celebrate ten years of progress on sustainability since our then-CEO Lee Scott delivered a landmark speech titled "21<sup>st</sup> Century Leadership." In those remarks, Lee laid out three big goals for Walmart - to be powered by 100 percent renewable energy, to create zero waste, and to sell products that sustain people and the environment. It was a defining moment for our company. By looking through the lens of sustainability, Lee realized we could think about problems in creative ways, make our business more efficient, and bring renewed passion to our work. It was and is inspiring to be a part of this journey.

Today, we'll mark how far we've come and what we've achieved. For example, the savings we've generated from reducing waste, running our truck fleet more efficiently, and pursuing energy efficiency has been good for society and good for our shareholders. We're getting excited to take the next steps in this journey early next year. In true Walmart fashion, we're looking at ways to make a difference in the world, serve our stakeholders, and drive our bottom line.

Let me reiterate that we are excited about the unique opportunity we have to create a seamless shopping experience for our customers and ensure sustainable growth for the business. We're making critical investments to better serve our customers, associates, and shareholders, and we are on the right path.

As I close, I want to pause to thank Charles Holley for his years of outstanding service to Walmart. As you know, he has made the decision to retire. He's been a huge asset to the company and a great partner to me and the leadership team. This is his last earnings call, and he will be missed. Thank you, Charles.

Now, I'll turn it over to Claire. Claire...

**Claire Babineaux-Fontenot**  
**Consolidated financials**

Thanks, Doug.

Today, I'll provide commentary on the company's consolidated financial statements. Further details are available in the accompanying presentation posted with this transcript.

Prior to discussing our results, let me talk about an item that, although immaterial, impacts comparability against last year.

As we disclosed in the second quarter, we conducted a global review of the accounting treatment for leases, which included a focus on 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. In the third quarter, we finalized this review and recorded an immaterial cumulative adjustment. On a consolidated basis, the immaterial adjustment increased total assets by approximately \$1.7 billion, which was primarily an increase in property under capital lease and financing obligations, increased total liabilities by approximately \$1.6 billion, which was primarily an increase in current and long-term capital lease and financing obligations, and it positively impacted earnings per share by approximately \$0.04.

Let's now move to our results for the quarter. Diluted earnings per share from continuing operations attributable to Walmart - EPS - were



\$1.03, which includes the item mentioned above. Additionally, there were significant items that negatively impacted EPS, including investments in wages and training in the U.S. of approximately \$0.10 and currency exchange rate movements totaling \$0.04. Last year's EPS was \$1.15.

Total revenue reached \$117.4 billion. Currency negatively impacted net sales by approximately \$5.0 billion. On a constant currency basis, total revenue was \$122.4 billion.

Operating expenses as a percentage of net sales increased 91 basis points compared to last year, primarily as a result of investments in store wages and labor hours in the U.S. Additionally, FCPA and compliance-related costs were approximately \$30 million, comprised of \$22 million for ongoing inquiries and investigations, and \$8 million for our global compliance program and organizational enhancements. Last year, FCPA and compliance-related costs were approximately \$41 million.

The company's consolidated operating income decreased 8.8 percent to \$5.7 billion. Excluding the impact from currency of approximately \$214 million, operating income decreased 5.4 percent, primarily related to the factors that increased our operating expenses.

I'll close today's discussion with a few comments on returns. At Walmart, we remain committed to providing good returns for our shareholders. During last month's meeting for the investment community, we announced a new share repurchase authorization of \$20 billion, and said that our intention is to utilize this authorization over a two-year period. The company repurchased approximately 6.1 million shares for \$437 million during the third quarter.

Return on investment, ROI, for the trailing 12 months ended October 31, 2015 was 15.9 percent versus 16.4 percent for the prior comparable period. The decline in ROI was primarily due to our decrease in operating income, as well as continued capital investments.

Thank you for listening, and now I'll turn it over to Greg. Greg...

**Greg Foran**  
**Walmart U.S.**

Thank you, Claire.

Last month, at our annual meeting for the investment community, I spoke in detail about how Walmart U.S. will execute our part of the plan to be the first to deliver a seamless shopping experience at scale. We will drive growth and deliver shareholder returns by winning with stores, delivering value, being great merchants, and providing our customers with a convenient shopping experience that is fast and easy. Although we're in the early stages of our journey, we're confident in our plan, and we're executing against it.

Now, let's talk about our Q3 performance. As we've said before, we continue to measure our success in terms of traffic, in-stock, and customer experience. Overall, we're pleased with the momentum in the topline. Net sales increased \$2.7 billion, or 3.8 percent. Unit sales picked up, and traffic strengthened, improving 40 basis points from Q2 to 1.7 percent. This is now the fourth consecutive quarter of positive comp traffic growth for Walmart U.S. Our comp sales growth of 1.5 percent was solidly within our guidance, despite minimal food inflation. In-stocks improved, while comp store inventory declined.

Our customers told us they're happy with the improvements we're making in their shopping experience, as reflected in our customer experience scores. To date, 70 percent of our stores have achieved the initial goal we set for them, and we'll raise the bar for next year. We also saw some progress this quarter in gross margin, with the work we've put in on pharmacy, markdowns, and shrink. However, as we've discussed before, the investments in our stores and our associates are significant, and will continue to pressure the bottom line.

All formats in our portfolio had positive comps this quarter. And, we're happy with the progress we've made in our supercenters, which saw continued traffic growth, and positive comps across all areas except entertainment.

Our traditional-format Neighborhood Markets delivered an approximate 8 percent comp in the third quarter, a 70 basis point acceleration from our Q2 comp, and aided by strong performance in our less mature stores. New technology and processes are improving in-stocks, and we're working hard on providing the best associate coverage to most effectively serve our customers. Most importantly, fresh remains a key focus. We're encouraged by our newest prototype, which features better sightlines and displays. We've seen fresh penetration expand in this store relative to its peers. We've made solid progress this year, but we still have a ways to go to ensure we're creating the best experience for our customer while simultaneously improving the profitability of this format.

In e-commerce, we made strides on deepening the digital relationship with our customer. This quarter, we accelerated our online grocery pickup offering to 85 additional locations. We now have almost 140 locations across 25 markets that offer the customer the ability to order their groceries online and conveniently pick up at a time of their choosing. We also launched a new mobile service which alerts us when a customer is coming to pick up their online general merchandise order, even before they walk into the store. And just in time for the holidays, we introduced a digital wish list that can be built at home or by simply scanning items while at the store. E-commerce sales and traffic were softer than we would like. We'll continue to strive to balance sales growth and profitability. Overall, e-commerce sales contributed approximately 15 basis points to our comp.

From a merchandise perspective, we saw growth across most of the store, particularly in our apparel, hardlines, home, and seasonal businesses. While warmer weather somewhat slowed performance in October, solid back-to-school and Halloween seasons, along with new

launches such as Pioneer Woman and Star Wars, drove mid single-digit comps across each of these departments.

Continued growth in prescription count and branded drug inflation drove mid single-digit comps in health & wellness. OTC was also strong, as better in-stocks, particularly in vitamins, helped drive sales.

In food, we saw our best topline results of the year, despite minimal inflation, which negatively impacted our total box comp by approximately 90 basis points. Momentum from a solid Labor Day weekend continued through to Halloween. We're particularly pleased with the results in fresh, where we brought in new products, developed strong price leadership through strategic buys, and promoted locally sourced and organic product.

While most of the box continued to grow, we still have considerable headwinds in entertainment. A slow adoption of new technology in televisions and the shift from post-paid to installment wireless plans contributed to disappointing sales results. We're working on improving our operating model in this area, both in terms of service to our customers, and in the layout of the department. We've made some progress this year, including the recent remodel of the Rogers, Arkansas supercenter we showed you last month, but it will take time to get this department where it needs to be.

Moving on to the remainder of our financials...gross margin increased 32 basis points versus last year. Gross margin rate improved in food, general merchandise, and consumables but was somewhat offset by declines in health & wellness. Reimbursement levels continued to pressure pharmacy profits; however, we've made some strides across several initiatives that improved margins in this department versus Q2. Additionally, we remained focused on our urgent agenda items, including better management of markdowns to zero. Finally, while only just beginning to show in our results, we are pleased with our efforts thus far on addressing shrink, which has been a significant headwind for us this year.

As we've said before, our top priority this year is to provide a better customer experience in our stores. We're committed to actions that help accomplish this goal, as we've invested this year in our associates and in improving our stores. These investments are substantial, and continue to reflect in our bottom line performance.

Specifically, in the third quarter, we intentionally added store labor hours above our initial plans, and incurred significant maintenance expenses related to the customer-facing areas of the store. These investments, along with the wage increases and store structure changes implemented earlier this year, drove the majority of the 116 basis point deleverage in operating expenses.

As the store experience is being addressed and efficiencies are created through new tools, technology, and processes, we've begun calibrating labor hours against these improvements. Over time, as the productivity loop begins turning faster, we know we can create a strong balance between experience and profitability.

We did benefit this quarter from the immaterial lease accounting cumulative adjustment that Claire mentioned in her earlier remarks, which favorably impacted operating expenses by \$74 million.

As a result of our focus on improving customer experience, along with our ongoing investments in e-commerce, and somewhat offset by the lease accounting adjustment I just mentioned, operating income declined 8.6 percent. Excluding the impact from the lease adjustment, operating income declined approximately 10 percent.

Moving on, in the third quarter total inventory grew around 1 percent, which was less than half the rate of sales. Inventory declined approximately 1.9 percent in comp stores, as new processes and technology have reduced inventory across the store, while simultaneously improving in-stock levels. We're proud of the progress we've made this

year on improving inventory levels across our network, but we have room to improve, and we remain focused on these efforts.

Finally, on the real estate side, we opened 15 supercenters in the third quarter, including relocations and expansions, and 35 traditional format Neighborhood Markets. We're working hard on improving both of these formats to ensure we have the best customer offering alongside strong operating efficiency. We'll continue to test ideas, honing in on the best options for each of these formats.

Shifting now to the fourth quarter, the holiday season is upon us. Our associates have been working hard all year to prepare, and we're ready.

We have the best value on great merchandise for the entire season - without gimmicks. Our merchants have done a terrific job of listening to our customers on what they're looking for this season. We're excited about programs such as Chosen by Kids and our exclusive One Hour Guarantee event, and this holiday, we're working to bring our customers an improved shopping experience, whether they're in the store, online, or using our mobile app.

We know the holidays will be competitive. Additionally, we expect food inflation to remain low relative to last year, and we'll lap last year's significant drop in fuel prices, which will make the comparison for the fourth quarter more difficult. But we're confident in our strategy and in the actions we're taking, and believe they'll help offset some of these pressures.

Therefore, for the thirteen-week period ending January 29, 2016, we expect a comp sales increase of around 1 percent, which would represent a 50 basis point improvement in our 2-year comp stack from third quarter. Last year's fourth quarter comp was up 1.5 percent, our strongest comp performance of fiscal 2015.

Now, I will turn it over to Dave for an update on Walmart International. Dave...

**David Cheesewright**  
**Walmart International CEO**

Thanks, Greg.

We had a solid quarter with sales growth accelerating slightly from last quarter and operating income growing faster than sales, both on a constant currency basis. Comp trends in Mexico and Canada continued to be strong, which more than offset weaker sales performances in the U.K., Brazil, and China, where we continue to experience various competitive and economic challenges.

Our markets remain focused on the strategic priorities discussed earlier this year, which include:

- Actively managing the existing portfolio
- Delivering balanced growth, including e-commerce
- Being the lowest cost operator
- And, building solid foundations, in terms of talent, trust, and technology

Let me touch on some of the progress we've made.

We've continued to take action this year to drive simplicity and focus in our portfolio. We sold a portfolio of properties under development with our shopping center joint venture partner in Canada and exited our bank operations in Mexico. We're currently pursuing the sale of a portfolio of shopping centers in Chile and we're closing our business-to-business sales operations in the U.K. At the same time, we've looked for ways to enhance our portfolio in core markets, which we've done by taking full ownership of Yihaodian in China and acquiring 13 stores and one DC from a former

competitor in Canada. We'll continue to review our portfolio to simplify our operations and help our teams stay focused on running great businesses.

Our markets continue to invest heavily in price, quality, and service, aimed at driving comp sales. Our overall trend is improving, as seven of our 11 markets have now delivered positive comps for six straight quarters. We're delivering value and providing convenience that is attracting customers to our stores, clubs, websites, and apps across our markets.

I'm pleased with the innovation we're driving in e-commerce, led by online grocery, and I'm excited about the potential we have to access a broader customer segment. We continue to learn from our online grocery business in the U.K., as we test and roll out similar initiatives in Mexico and Canada and build a strong platform for growth in China. As Doug mentioned, the continued economic challenges in some of our major markets impacted our overall global e-commerce sales growth this quarter. We still have work to do, but I'm confident we're executing against this key strategic priority.

Now, let's discuss our overall results. In the third quarter, net sales grew 3.2 percent on a constant currency basis. Reported net sales declined 11.4 percent, impacted by an approximately \$5.0 billion currency impact from the continued strength of the U.S. dollar. Fluctuations in currency exchange rates continue to negatively impact our reported results, so it's important to emphasize that our business, on a constant currency basis, is maintaining steady growth.

We had strong positive comp sales in Mexico and Canada. The U.K., Brazil, and China posted negative comps, although the comps were slightly better in Q3 versus Q2. In each of our other markets, we had solid comps of at least three percent.

Operating income grew faster than net sales at 8.5 percent on a constant currency basis, driven in large part by excellent performance in Mexico and Canada. In addition, as Claire mentioned earlier, there was an



immaterial lease accounting adjustment this quarter, which favorably impacted operating expenses by approximately \$49 million on a constant currency basis. With the currency exchange impact, operating income decreased 6.4 percent.

On a constant currency basis, inventory grew faster than net sales at 7.0 percent, primarily driven by our decision in Mexico to flow inventory through our import network early for the upcoming holiday season. On a reported basis, inventory declined 10.0 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 begin with the U.K. Challenging competitive conditions persisted throughout the quarter as the market continues to experience rapid structural change. Customers have now benefitted from more than 12 months of continually falling prices and the market has grown by less than one percent for six consecutive months, despite a healthier overall economy, according to Kantar. The big four grocers continue to lose share to the discounters.

U.K. net sales declined by 3.2 percent and comp sales, excluding fuel, were down 4.6 percent. Large store traffic and food remain the primary challenges, while online grocery continues to grow. The online business is focused on improving its core service offering and is performing above target on key internal performance metrics. Operating income increased, driven by reduced expenses, as well as lapping some organizational restructuring costs from last year.

The U.K. is focused on rebuilding momentum in its core business. Last month, we launched Project Renewal, an 18-month project that reaffirms the direction set out in the five-year strategy, but prioritizes investments more clearly on price, quality and service in large stores, while putting non-core expansion, such as remote petrol stations, on hold.

Greater focus on driving out inefficiencies across both buying and operations will enable the U.K. to build on its well-established value credentials and strengthen its competitive position.

Let's now discuss Mexico, which released their earnings on October 27. 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 7.4 percent, with strong comp sales in both Mexico and Central America. Mexico sales grew 7.6 percent and comp sales increased 6.3 percent, driven by solid comp growth in both self-service and Sam's Club. In self-service, we achieved mid-single digit growth in groceries and high-single digit growth in GM and apparel. Self-service continues to gain share and delivered a 220 basis point improvement in market share, according to ANTAD. Sam's Club is maintaining its steady improvement in comps, aided by ongoing events and campaigns to drive traffic and grow membership. We leveraged expenses in the quarter and grew operating income significantly faster than sales.

Our e-commerce business in Mexico is growing in line with the market, driven by strong growth in general merchandise. Under the Walmart banner, we're significantly expanding our assortment of ship-from-store items. We're rapidly growing store coverage for online grocery and customer orders are increasing. At Sam's Club, we've soft launched our new website, while maintaining healthy growth with our existing platform.

In Canada, we continue to maintain solid growth and gain share in a competitive and low-growth environment. Net sales grew 5.7 percent and comps were up 4.3 percent, driven by strong performance in our core grocery business, as well as stronger performance in our GM business. In the quarter, Canada saw share gains in food, health & wellness, consumables, and infants, for the 12 weeks ended October 29, according to Nielsen. In addition to strong top line performance, the team continues to focus on our low cost operating model to drive a sustainable price advantage. Canada grew operating income faster than sales.

We continue to invest in expanding customer access. We recently began a partnership with 7-Eleven and are piloting Grab & Go lockers at some of their convenience stores in the greater Toronto area. We are pleased with the progress that our online grocery business has made since our pilot launched in July. Overall, I'm pleased with our results in Canada, and I expect reliable growth to continue.

In Brazil, the economic challenges are largely unchanged as high inflation and unemployment continue to impact consumer confidence and consumption levels. Net sales were down 0.4 percent and comps were down 0.6 percent, driven by a decline in the hypermarket format, mostly offset by strong sales growth in our wholesale business. General merchandise, primarily electronics, accounted for the largest portion of the hypermarket sales decline. These economic challenges are impacting both our store and e-commerce sales.

Operating income declined faster than sales, due to increased labor claims, continued high utility costs, and higher markdown activity, which helped us improve our inventory position going into the fourth quarter.

Let's now shift to China, a key growth market. This quarter, sales grew 2.9 percent, driven by new store openings. Comp sales declined 0.7 percent amid slower consumption growth. In the Hypermarket channel, we gained share for an 11<sup>th</sup> consecutive quarter. We'll continue to invest in physical and digital to deliver a seamless shopping experience.

We continue to drive efficiency in stores and at the home office. Operating income grew faster than net sales. 'We Operate for Less' productivity initiatives remain a focus, allowing reinvestment in labor and customer experience, particularly in fresh.

Yihaodian, our e-commerce business in China, is focused on further leveraging Walmart's global and local assets. The business improved margins and balanced marketing spend, amid intense competition on price.

While I'm not satisfied with recent results, I'm confident in the actions we're taking in China that position us to achieve success for many years to come.

Now, let me recap. We had a good quarter with solid sales momentum in our underlying business, driven by healthy comp sales in a majority of our markets. In addition, we delivered a relatively high level of constant currency operating profit. Our strategy remains focused and our priorities are clear and we're well positioned for future growth.

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

**Rosalind Brewer**  
**Sam's Club**

Thanks, Dave.

Today, I'll share details about our third quarter performance, along with comp guidance for the fourth quarter. Members are at the center of the decisions we make, and I'll talk about our ongoing efforts this year to deliver value for them. I'll also share with you specifics around our strategy, which is based on an in-depth review of the business that we've conducted this year.

Before I get started, let me recognize Charles Redfield for his many contributions to Sam's Club over the last 3 years as our Chief Merchandising Officer. His passion for merchandising was experienced throughout the organization. We are excited for Charles as he takes on his new role as head merchant for food in the Walmart U.S. business. With Charles' transition, we are thrilled to have John Furner back at Sam's Club as our new Chief Merchandising Officer, after having served as the Chief Merchandising and Marketing Officer in China for nearly three years.

Let's move on to a few specifics around our third quarter results. Unless otherwise noted, today's financial discussion will exclude fuel for

purposes of comparability. For results with fuel and additional information, please refer to the accompanying presentation posted with this transcript.

Comp sales for the third quarter were at the low end of our guidance. In key food categories we faced comparisons to last year's steep inflationary environment, and in our wireless business we continued to experience headwinds from changing industry dynamics. We saw positive results in areas of the business that introduced more newness, such as health & wellness and consumables.

Net sales grew 1.6 percent, as comp sales increased 0.4 percent. Slide 10 provides the components of our comp increase. Ticket grew 70 basis points during the period. Positive momentum in traffic from Savings members continued, but softness from our Business member negatively impacted our results.

Our gross profit rate increased 46 basis points from last year, due to a disciplined focus on product acquisition costs, a favorable mix and logistics benefits.

Operating expenses deleveraged during the quarter as we continued to invest in people and technology. We are confident that these are the right choices to make for our business, and the benefits of these investments will help us deliver sustainable growth over time. Earlier you heard Claire talk about an immaterial item related to the company's accounting for certain leases, which resulted in a benefit to operating expenses of approximately \$27 million for Sam's Club.

We were pleased with the growth in membership income during the quarter, which increased 5.4 percent. Investments in the Cash Rewards program for Plus members resulted in improved Plus renewal rates, and Plus penetration is at an all-time high. The impact of social media campaigns was also a contributing factor.

Turning to our merchandising categories, let me talk about a few areas that had the most impact during the quarter. Please see slide 11 of the accompanying presentation for the comp performance of the remaining categories.

Our fresh/freezer/cooler business faced significant headwinds as deflation in key areas including fresh meat and dairy weighed on our comps. We were pleased with our performance in produce.

Technology and entertainment was pressured during the period, led by a decline in wireless. The industry shift to installment plans continued to negatively impact the category. In electronics, imaging and audio performed well, and we continued our efforts to refine the assortment.

Health and wellness & consumables benefited from innovation and newness. In pharmacy, the free/4/10 prescription program continued to drive growth in script counts. New items in OTC led to a solid performance in the quarter, and products like protein powder drove good results further supporting our initiatives around 'healthy for you.' Our consumables business benefited, as several new items were launched, and we continued to gain share in tabletop, as the focus on private brands and quality resonated with members.

In e-commerce we continued to make progress with integrating digital efforts to transform how members shop and interact with our clubs. Business members have enjoyed the convenience of pre-ordering merchandise for pick up at the club for more than a decade. Now, through advances in technology, along with innovation from the e-commerce team, all of our members can enjoy similar access with an improved digital experience.

This year's roll-out of Club Pickup to all of our clubs has been well received and represents the fastest growing area of our business. Sales in this space increased 50 percent during the third quarter. We have also added features along the way. During the quarter, we completed the

implementation of mobile check-in capabilities to provide members with a better experience and shorter wait times. We introduced geo-fencing technology that alerts our associates when members drive onto the parking lot. We extended drive-thru or curbside options to more clubs, and members love the convenience. These new features build on earlier advances in Club Pickup, including easy reorder and a pre-paid option.

Now, let me move on to guidance for the fourth quarter. As we move into the quarter, we will face last year's inflationary environment and a tough comparison. As a result, we believe comp sales, without fuel, for the 13-week period ending January 29, 2016 will be flat to up 1 percent.

Members are at the center of the decisions we make. We've worked diligently this year to deliver on what we know they want. They expect offerings that are relevant and convenient. They want excitement and newness. They want a seamless shopping experience that integrates the best of digital and physical. We see success where we are delivering on these expectations.

For example, you've heard us talk about the expansion of organics in our assortment. Members asked for an improved selection - and we are delivering. Over the summer we launched 'Shocking Values' online, which has helped to instill a treasure hunt mentality with members. And, the innovative 'Free/4/10' prescription program is providing real savings to Plus members and helping to lift the overall health and wellness category.

I'm pleased with the steps we've been taking throughout this year to deliver for members. We know we must do more with member-relevant merchandise and new member growth. Today, I'm excited to share with you the plans we've developed as we look ahead.

We have been focused on developing a strategy at Sam's Club that will deliver our business into the future and build long-term sustainable growth. The four key elements of our strategy include:

- Growth through higher household-income members and high-value business segments.
  - Relevant merchandise and increased value for our members.
  - Acquiring and retaining the right members and increasing the spend.
- And,
- Integrating digital to transform the club experience.

In order to better align the business as we move forward, we made organizational changes and enhancements. John Furner is returning to Sam's Club as the Executive Vice President and Chief Merchandising Officer. John has rejoined the team after nearly three years as Chief Merchandising and Chief Marketing officer of Walmart China, where he led Merchandising, Procurement, Marketing, Supply Chain, Financial Services, and Mobile Commerce for the Hypermarket division. Prior to moving overseas, John was senior vice president of Home & Apparel merchandise and Global Sourcing for Sam's Club.

In addition, we've reallocated resources pertaining to merchandising and have created new positions in critical areas including data and analytics, fresh food, regional buying and proprietary brands. We also created a new leadership position dedicated to business member merchandising.

Moving forward, we will continue to serve both Savings and Business members. We have clarity around the categories of members we will target. Data will drive our decisions, and I'm confident we are focused on the right opportunities.

As I close, let me summarize today's thoughts:

- As we look back at the third quarter, we acknowledge that we need to improve our sales. Where we introduced new merchandise, we delivered strong results. We continued to make strategic investments in people and technology, as these are critical enablers of our strategy. We're also pleased with our efforts to further integrate digital and physical retail.



- Our members are at the center of all of our decisions. We are making progress across the club and through online and mobile commerce capabilities to deliver value for them. Whether it's saving them time with Club Pickup or saving them money on their prescriptions with Free/4/10, we continue to find new ways to innovate. And, lastly
- We're confident the strategy and enhancements to our organizational structure will propel our business into the future.

Now, I'll turn the call over to Charles. Charles...

## **Charles Holley**

### **Guidance**

Thanks, Roz.

I'd like to start by highlighting that we are pleased with the sales increases we experienced in Walmart U.S., as well as in our international business, when considering constant currency. Stronger traffic in our Walmart U.S. stores and a fifth consecutive quarter of positive comp sales indicate that we are taking the right steps to win with customers, grow sales, and deliver a seamless shopping experience at scale. From an e-commerce standpoint, we have long-term plans in place to grow our business. We are making progress on several of our key initiatives and recognize we have more work to do.

As expected, the investments we are making in people and technology impacted both operating expenses and profits in the quarter. However, we delivered earnings per share well within our guidance, and remain confident that these investments will better position Walmart for the future.

Now, let's turn our attention to guidance for the fourth quarter and the full year.

Last quarter, we indicated that we expected our full year fiscal 2016 earnings per share to range between \$4.40 and \$4.70.

Today, we are narrowing our full year earnings per share guidance to range between \$4.50 and \$4.65, including a range of \$1.40 and \$1.55 for the fourth quarter. These ranges include the assumptions we provided in the second quarter, which consist of the impact of our investments in wages, training and additional labor hours in our stores, the incremental investment in Global eCommerce, and the headwinds in the U.S. from pharmacy margins and shrink.

Currency remains a significant headwind for us. As I indicated at our analyst meeting last month, we expect our total net sales growth to be relatively flat for fiscal year 2016. It's important to note that if we were to exclude the impact of currency, our total net sales growth would be around 3 percent for the year.

Now, assuming currency exchange rates remain at current levels for the remainder of the year, we now expect the full year impact to earnings per share to be approximately \$0.16, up \$0.01 from last quarter's revised guidance of \$0.15.

Our effective tax rate is expected to range between 31 and 33 percent for the full year. As we have indicated in the past, 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. Now, as I mentioned at our analyst meeting last month, we are monitoring progress in Congress with respect to the extension of certain U.S. income tax legislation that expired at the end of calendar year 2014. If the legislation is passed, we'll end up closer to the lower end of the updated range that we've provided.

As I mentioned at the October analyst meeting, we will continue to review our portfolio including stores and clubs. As in prior years, we may have charges related to closing businesses or stores and clubs. These charges would not be included in our guidance.

This is my last call as the chief financial officer, as I will be retiring effective January 31. I feel fortunate to be a small part of the Walmart story. I have enjoyed working with all of you over the past few years. Brett Biggs will take over as chief financial officer for Walmart, effective January 1. You're in very capable hands and I am proud of the strong team that we've left behind that Brett will be leading in the future.

With that, thank you for listening today and for your interest in our company. And, on behalf of the management team and our associates worldwide, we thank you for your support this year and wish you a happy, healthy and safe holiday season.

### **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 and forecasts as to, and expectations for:

#### **With respect to Walmart as a whole:**

- Walmart's earnings per share for all of fiscal 2016 and the fourth quarter of fiscal 2016;
- the total amount of Walmart's investment in people in fiscal 2016 and that such investment will impact near term operating income;
- Walmart's positioning of itself in five key areas, with such steps driving faster growth;
- Walmart adding \$45-\$60 billion of revenue in the next three fiscal years;
- Walmart's total net sales growth for fiscal 2016 and Walmart's total net sales growth for fiscal 2016 calculated excluding the impact of currency

- exchange rate fluctuations;
- the impact of currency exchange rate fluctuations on Walmart's earnings per share for fiscal 2016;
- the range of growth of Walmart's e-commerce sales and gross merchandise value in fiscal 2016;
- the range of Walmart's effective tax rate for fiscal 2016, the area in such range in which Walmart's effective tax rate will fall if certain legislation is passed, Walmart's effective tax rate fluctuating quarterly and factors that may affect such effective tax rate;
- Walmart's investments in people and technology helping to deliver sustainable growth and returns to shareholders over time;
- Walmart utilizing its \$20 billion repurchase authorization over a two-year period;
- Walmart's goals of being powered by 100% renewable energy, creating zero waste, and selling products that sustain people and the environment;
- the number of visits to Walmart's mobile shopping app in November 2015 and December 2015;

**With respect to Walmart U.S.:**

- Walmart U.S.'s comparable store sales for the thirteen-week period ending Jan. 29, 2016;
- Walmart U.S.'s plan to be the first to deliver a seamless shopping experience for its customers at scale;
- Walmart U.S. driving growth and delivering shareholder value by winning with stores, delivering value, being great merchants and providing its customers with a convenient shopping experience that is fast and easy;
- Walmart U.S.'s investments in its stores and associates continuing to pressure Walmart U.S.'s bottom line;

**With respect to Walmart International:**

- a project in Walmart International's operations in the U.K. reaffirming the direction set out in the five year strategy, prioritizing investment more

clearly on price, quality and service in large stores, and putting non-core expansion on hold;

- Walmart International continuing to review its portfolio to simplify its operations;
- Walmart International's operations in Canada continuing to have reliable growth;
- Walmart International continuing to invest in its physical and digital retail operations in China;

**With respect to Sam's Club:**

- Sam's Club's comparable club sales, without fuel, for the thirteen-week period ending Jan. 29, 2016;
- the benefits of Sam's Club's investment in people and technology helping Sam's Club deliver sustainable growth over time;
- Sam's Club's strategy for delivering its business into the future and building long-term sustainable growth, including the strategy's four key elements; and
- Sam's Club continuing to serve both Savings and Business members.

Assumptions on which any guidance or forecasts as to, 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 forecast or 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 and market 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;
- changes in market levels of wages;
- initiatives of competitors and 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;
- trends in consumer shopping habits around the world and in the markets in which Walmart operates;
- consumer enrollment in health and drug insurance programs and such programs' reimbursement rates;
- commodity prices, including the prices of oil and natural gas;
- market prices of Walmart's stock

**Operating factors:**

- the amount of Walmart's net sales and operating expenses denominated in the U.S. dollar and various foreign currencies;
- the financial performance of Walmart and each of its segments, including the amounts of Walmart's cash flow during various periods;
- 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;
- consumer acceptance of and response to Walmart's stores and clubs, e-commerce websites, mobile apps, initiatives, programs and merchandise offerings;
- the availability of goods from suppliers and the cost of goods acquired from suppliers;
- the effectiveness of the implementation and operation of Walmart's strategies, plans, programs and initiatives;
- the mix of merchandise Walmart sells;
- transportation, energy and utility costs;
- the selling price of gasoline and diesel fuel;

- Walmart's gross profit margins, including pharmacy margins and margins of other product categories;
- the amount of shrinkage Walmart experiences;
- supply chain disruptions;
- disruption of seasonal buying patterns in Walmart's markets;
- 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 size of and 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, including the enactment of laws and the adoption and interpretation of administrative rules and regulations;
- governmental 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 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.

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