



**Walmart's Fiscal Year 2015 Q3 Earnings Results
Media Call Transcript
November 13, 2014**

Randy Hargrove: Good morning, everyone. Thanks for joining us this morning for our third quarter earnings call. We're going to have about 30 minutes. You'll be hearing from our CFO, Charles Holley and the President and CEO of our Walmart U.S. business, Greg Foran. Charles and Greg are going to give you some brief opening comments and then we'll spend the rest of the time answering your questions. We've got a full list on the phone with us today, so please try to limit your questions to one or two and we'll try to get to everyone. You should have a copy of our management transcript and the press release – if not, it's on the investor relations section of our website. If you need to fact check anything after the call, please let me know and I'll try to help you. The other thing is, for broadcast, we're not recording this call for broadcast, so we're trying to give information that will help you with your stories. With that, I'll turn it over to Charles.

Charles Holley, CFO, Wal-Mart Stores Inc.: Thanks, Randy. And thank you everybody for joining us this morning for our earnings call. I'm going to say a few comments, as Randy alluded to, and then I'll turn it over to Greg for a few comments and then we'll open for questions.

We felt that the quarter was a very solid quarter. As you know, \$1.15 per share – that was right in the mid-point of our guidance of \$1.10 to \$1.20. We had growth across all of our operating units: net sales were up \$3.2 billion, 2.8 percent, to \$118.1 billion. We're very pleased that Walmart reported its first positive comp of 0.5 percent in seven quarters.

International grew operating income faster than sales, although the sales were a little bit lighter than we saw in the second quarter, still a very good, solid quarter for them. We saw comps, positive comps in our major markets of Canada, Brazil and Mexico.

Sam's Club reported a positive comp of 0.4, operating income growth of 5.3 excluding fuel – and that was due to the strong membership income.

And then Global eCommerce continues to grow. It grew at 21 percent. We still expect our full year e-commerce sales to be up around 25 percent. And the annual sales and growth merchandise value growth should even exceed that as we go into next year.

Looking forward to the fourth quarter and for the full year, we expect our earnings per share to be around \$1.46 to \$1.56 for the fourth quarter. That would include approximately three cents of charges that are related to closure of some underperforming stores in Walmart Japan. Our full year guidance would be \$4.92 to \$5.02 – and again that would include the three cents of restructure in Japan.

Our tax rate right now for the full year would be estimated to be between 32 and 24 percent and it would be towards the high end if some of the tax extenders that are out there are not reapproved by Congress, although I think that most companies are expecting – would hope – that Congress would reapprove some of those tax extenders.

With that, I'll turn it over to Greg to say a few words.

Greg Foran, President & CEO, Walmart U.S.: Thanks, Charles. Good morning, everyone. I guess the first thing we'd say is that we're reasonably pleased by coming in with 0.5 comp. It's the first time in seven quarters that we've seen that. But I would also add that we've still got a long way to go. As I get around the business and get into stores – and we've got [more than 4,300] of those in the U.S. – I still see lots of opportunities for us to be really good shopkeepers and retailers and to execute the everyday business better.

Total sales are up 3.4 percent – \$2.3 billion. Neighborhood Markets came in a 5.5 comp, approximately, for the quarter. Our sense is that consumer confidence is reasonable out there, and there's no doubt that lower gas prices are probably giving us a little bit of benefit as well.

As I think about Thanksgiving [and Black Friday], which is a really critical time of year for me, and is actually my first year in this role, I'm excited by what I'm starting to see out there around our business. Yesterday, we had a two hour event with every single store manager online, on video conference, right across the country. And I have to say that the planning that goes into this event by the team – the merchants, the operators and then all the other parts of the business, whether you're in AP or IT – to make sure that we're really geared up for Black Friday, is giving me confidence that we'll do our very best during this critical period. I'm pleased with what I'm seeing in terms of marketing around that event. I'm excited by opportunities, I think, around Site to Store and Pickup Today. We're already seeing some good activity in that area. And, of course, straight after Black Friday we're into Cyber Monday, and I'm also excited about what Neil [Ashe] and the team are pulling together in San Bruno.

The teams are getting organized. We're being thoughtful – and I spoke about this a couple of weeks ago – about how we handle hours in stores so that we can serve our customers and, importantly, get the merchandise on shelves. So we're being thoughtful about how we plan our labor for this fourth quarter and applying the same principles that we did in the third quarter.

Still plenty to do. Cautiously optimistic about how we're feeling about Q4. So, with that – Charles, I'll hand it back to you.

Charles Holley: Alright, why don't we open it up for questions?

Courtney Reagan, CNBC: Hi. Good morning, Charles and Greg. Thank you so much for spending a couple of moments with all of us this morning. It is always very helpful. My first question, basically, just has to do with the traffic patterns. I understand the traffic was negative in the U.S. again for the stores. I'm wondering if you think that those shoppers are going online instead or if they're making fewer trips to Walmart stores? I'm just kind of curious how the consumer is reacting to the additional offerings from the web.

Greg Foran: Thanks for the question, Courtney. I guess a comment I'd make about traffic is, we are seeing an improving trend in the business and that's making us feel better. I suspect that that's probably the benefit of lowering gas prices, as people are prepared to get out and drive a little bit more. I still think there are lots of opportunities for us to do better in terms of traffic, by getting our side counters better in stock and becoming good shopkeepers. But I'm encouraged by what I'm seeing in traffic, but it's still pretty early days.

Courtney Reagan: Thank you very much.

Anne D’Innocenzio, Associated Press: I wanted to talk to you about your Rollbacks and how they’ve been. Can you talk to me about the reaction to that, and also can you talk a little bit about layaway?

Greg Foran: So, in terms of Rollbacks, we’re out there with the sort of programs you would expect Walmart to run. You know, we don’t get caught up with daily and weekly specials apart from what we do for Thanksgiving. I’m encouraged by the results that I’m seeing and tracking in terms of Rollbacks, as we lean into these appropriately in the business. And it’s pretty clear to me as I get to know the U.S. business better that customers here are price-conscious. They know their prices. And when we get that right price on a Rollback and keep it down for the appropriate period of time, I’m encouraged by the results we’re seeing. So we’ll continue that program and lean into that appropriately.

In terms of layaway, I’m happy with what we’re seeing there. I’ve been out in stores – I was in one the other day, I think we had something like over 100 containers in the back of the store. So customers really appreciate that particular service in our business. And it’s something that I’m encouraged that we do, and certainly would want us to continue to do that.

Anne D’Innocenzio: I just had a follow-up question. Are you feeling any effect by Target’s free shipping at all?

Greg Foran: So the answer to that is no. And we actually do a pretty good job in this area and have done for some time. If you’re part of the Site to Store program – and I’m encouraged by the results that I’m seeing out of that, I’m really asking our team to make sure we do a good job with this – so Site to Store is free shipping. We’ve also just recently just introduced free shipping on our top 100 items, which are predominantly toys and electronic items. So that’s available for customers. And, of course, if you spend over \$50 it’s free shipping. So, the simple answer is no. And I’m really happy with the package that we have in place coming into the holiday season.

Anne D’Innocenzio: Thank you very much.

Julie Hyman, Bloomberg TV: Hi, everybody. Hi, Greg and Charles. Thanks for taking my questions. I actually have two questions, if you’ll allow me. The first has to do with price leadership and some of the investments you’re making in staffing and improving the in-stock. I’m just curious if you can give us any commentary around margins for the fourth quarter, given those investments. And the second question has to do with the tax rate in the third quarter, which you said was lower than anticipated. I’m wondering if there’s any color you can give me on why exactly that was?

Charles Holley: This is Charles. I’ll attack the tax rate first. There’s a number of discrete items in there that I think we referred to in our press release. What we’ve always said is, our rate every quarter will probably bounce around. But we try to give good visibility of the range for the full year. And the full year, like I mentioned earlier, will be 32 to 34 percent. I think one of the biggest drivers of where it ends up is going to be whether or not Congress re-passes what we call the tax extenders. And the tax extenders have to do with a number of things for companies dealing with R&D credits and the worker opportunity tax credits, things like that. And the first question was?

Randy Hargrove: Margins.

Charles Holley: Yeah, we don't break out and give forecasts on margins. But what we do point out is earnings per share, and we feel like we'll have a good holiday and a good fourth quarter.

Julie Hyman: Thank you.

Hadley Malcolm, USA Today: Hi. Thank you for speaking with us this morning. I'm just wondering if you can talk about the latest on what you're thinking you'll do with price matching. Because I think I saw somewhere that you are price matching with Amazon. Is that something that you announced?

Greg Foran: Sure. Thanks, Hadley. In terms of what we're doing with price matching, to be really candid with you, about half of the stores I've visited over the past months have already been addressing any customer concerns – in terms of “we've got that item, we can buy it in the store but we've checked the app and the price is X on Amazon; what are you going to do in terms of price matching?” What we've actually done is just formalize that over the last few weeks. We've spoken about that with our 5,000 managers and told them that they absolutely can get out there and do the right thing for our customers in terms of matching not just Amazon but a number of other e-commerce retailers. So that's what we've done. I think it's a really sensible thing to do. As I said, to be honest with you, about half of the stores were doing it anyway. And the same applies for any physical retailers. We stand by that incredibly important part of our DNA, which is lowest price.

Hadley Malcolm: So, just really quickly – who are the other e-commerce retailers that you're matching with?

Greg Foran: It's people like Target, it's people like Best Buy. So, it's people of substance. And at the end of the day the manager has that authority in the store, backed by me and the leadership group, to get on and make the right decision for our customers.

Hadley Malcolm: So basically it was kind of an unofficial thing that was already going on and now you've made it official?

Greg Foran: That's correct.

Note: Online price matching officially begins Friday, Nov. 14 at Walmart's more than 4,300 U.S. stores. Through our Online Price match policy, customers will be able to request the list price at Walmart.com or any online competitor.

Hadley Malcolm: Ok, thank you.

Barney Jopson, Financial Times: Good morning, everyone. Two questions. The first, Greg, is a clarification. You said you were encouraged by traffic trends, but I think traffic was down 0.7 percent in the U.S., so where exactly is the encouragement?

Greg Foran: The encouragement is compared to where we were in the first half. I'm encouraged by the trend that we're seeing. So that's what I was referring to.

Barney Jopson: Ok, so it's not down as much as it was before?

Greg Foran: That's correct.

Barney Jopson: And then, the second question is – your net sales growth in the U.S. was actually higher than the international sales growth. Do you recall when that was last the case and can you talk a little bit about the structural reasons why the U.S. is now growing more than the international business?

Charles Holley: Yeah, you know I can't go into detail right now about all of the dynamics of what we're doing in e-commerce. I will tell you though, we still feel like our China growth and our Brazilian growth are extremely good, and they are generally higher than the U.S. The U.S., though, has been very strong and we think it will even be stronger in the fourth quarter and into next year.

Barney Jopson: So e-commerce is contributing to that faster U.S. growth?

Charles Holley: Yes. I think we said in the press release, it accounts for about 20 basis points of the comp growth in Walmart U.S., which was 50 basis points.

Barney Jopson: Ok, thanks.

Sarah Halzack, The Washington Post: I wanted to ask for a little bit more color around the Neighborhood Markets. I know you had mentioned that pharmacy and consumables were a strong area of growth, but I just wondered if you could provide a little bit more color about what you're noting about that customer, how it's maybe different than the supercenter customer? And what you're learning as you expand this format?

Greg Foran: Sure. In terms of Neighborhood Market performance, I am happy with the overall comp sales result of approximately 5.5 for the quarter. Those two categories that we mentioned in the release are the two categories that are performing strongly. I still see lots of opportunities, to be honest, as I get around those stores, for us to improve in a number of other areas. And I've spoken about this previously – I'm not happy that we're doing as good a job as we need to across the fresh food areas. In terms of customers, the data that I'm seeing would indicate that the customer is actually pretty similar to a customer that shops at a supercenter. I would add that what I'm seeing is that they may be slightly younger and clearly someone who is looking for a little bit more convenience. And that's the way that we think about these Neighborhood Markets in terms of where we locate them. So the distance between the supercenters is such that it makes sense, often, to go and plunk down a Neighborhood Market in between a couple of supercenters. So, encouraged by what I'm seeing but I also see lots of opportunities still to improve that business.

Sarah Halzack: Thank you.

Shelly Banjo, The Wall Street Journal: Good morning, guys.

Greg Foran: Hi, Shelly.

Shelly Banjo: Hi. I wanted to ask you just a little bit about the economic indicators, in terms of why SNAP payments are still a problem as well as inflation and gas and jobs. It seems like gas and jobs should be good for the company, same with inflation for you guys. If you could just comment on a couple of those economic indicators?

Charles Holley: Hi Shelly, this is Charles. I'll try to answer you. I think what we're referring to, we're cycling through SNAP but it's not like you get all of that money back. All it means is you're cycling on a comparable basis. You know, they decreased the benefits out of SNAP on November 1 of last year. Those decreases don't reverse, you just cycle through it. That's still out there on the economy. Gas prices coming down – I think we all know that can help the average consumer. How much? It's hard to know exactly how much it is, but it certainly is, I think, a benefit to the economy right now.

Shelly Banjo: So, in terms of Sam's Club – they put their holiday stuff out early. What kind of sales results did you see from that and is that any kind of indication as to how the rest of the season is going to go?

Charles Holley: You know, we haven't released what those kinds of results would be. But I will tell you that, if we give our members – or our customers at Walmart – a good reason to spend, whether it's new products like the iPhone 6 and 6 Plus or a really good value on electronics or other products, we've seen good results. So you need to give the consumer a good reason to spend the money, whether it's at Sam's or at Walmart.

Shelly Banjo: Got it. If you don't mind my asking one more question – a follow-up on the Neighborhood Market question from earlier. You had pulled back the expansion on the Neighborhood Markets, and also in some of the forward looking statements you kind of warned about the ability to not open as many stores as you wanted to, and also pushed back the openings of the Neighborhood Markets into the fourth quarter. Is this some sort of real estate issue or something like that that's preventing the actual opening of the Neighborhood Markets?

Greg Foran: Thanks, Shelly. The simple answer to that is no. We had a pretty significantly back-loaded opening program for this year. From memory, as of literally a few weeks ago, we had 200 stores to open between now and the end of January. And, having done this for a number of years, when I saw that number I knew that as I started to dig into it, there would be probably a cohort of stores that would be likely to flip into next year. And that is really what is probably going to happen. If you get some difficult weather between now and the end of the year, then that number could flip or flop a little bit further. That's what's driving that particular scenario. In terms of general openings, I'm pretty happy with the number that we're talking about, to be honest. It's still a powerful number next year for Neighborhood Markets – a couple of hundred. And as I said, we've got work to do in terms of developing that format further. And I feel the same in terms of supercenters. I think we said about 65 for next year. That feels right. It's about getting these to be really good quality stores, rather than just quantity. I think it's a sensible approach, as we work through the business.

Shelly Banjo: Thank you.

Kim Souza, City Wire: Thank you. Going into the holiday season, do you think you could characterize a little bit more about consumer behavior compared to last year, provide any color on shopping patterns, impulse buys, use of layaway, appetite for bargain hunting and willingness to shop early given that they're seeing some extra income in their pockets from gas prices?

Charles Holley: This is Charles. I'll say a few comments first, and maybe Greg can say some things, since I was here last year. You remember last year, we were coming off of some of the debt crisis in Congress, which was weighing on the customer. The SNAP reduction was just taking hold on November 1 and the gas prices were higher. There were a lot of things that the

consumers were dealing with last year that they really aren't dealing with this year. I think those three things are pretty important when you look at consumer spending.

Greg Foran: Thanks, Charles. And I wasn't here last year, so it's hard for me to comment. But I can tell you that, as I get around – and even yesterday, as I mentioned, when we were talking to all of our store managers and a number of the associates for a couple of hours – we're cautiously optimistic as we think about the holiday season and heading up towards Christmas.

Kim Souza: Also, one more thing: I know that you're going to be open on Thanksgiving Day along with many other retailers. Have you felt any resistance from any of your associates not wanting to work that day? And do you reward them with things like double time pay or, I know you're giving them a special discount, but how else may you reward those workers who give up that time with their families?

Greg Foran: We get underway at 6 p.m. on Thursday and I'm really happy with that. This is in terms of Walmart U.S. – I know Sam's Club in fact doesn't open, as Costco doesn't. But, in relation to our U.S. business, it's absolutely appropriate that we open and we've done that now for many years. 6 p.m. is a good time for us to get underway. Looking after our associates is absolutely critical. It's part of the DNA of our business. And we spend a lot of time thinking about what we need to do in terms of rewarding them, feeding them, ensuring their safety and security – as we do with our customers. So, you know, I'm really happy with the robust plans that the team have put into place. And I'm really looking forward to what I believe we can achieve. We'll be open 24 hours in just about every store.

Charles Holley: And we've had our stores open since 1988, by the way. This isn't new.

Kim Souza: Do they earn extra - a stipend per hour?

Greg Foran: They do. And in fact, we'll actually be paying out an additional \$70 million in holiday pay. And, as I mentioned previously, we have been thoughtful and planned in terms of how we're going to spend our wages, and we will have more checkouts open right through to Christmas than we ever have. That's a pretty big deal. I wouldn't make the comment if we weren't actually going to do it. We are doing it. And we're investing in it. So, as I said, another \$70 million in holiday pay. They do get extra, we do feed them, look after them. And as well as that, we will actually be deliberately ensuring we've got more checkouts open.

Kim Souza: Thank you.

Randy Hargrove: I think we've got time for one more question.

Phil Wahba, Fortune: Good morning. Thanks. Some analysts are predicting that consumer electronics are going to do better this holiday season, in the aggregate. What's your sense of the prospects for all these electronics given how much of a focus they're going to be in your Black Friday deals and beyond.

Greg Foran: That's a great question. So first of all, clearly it is a big focus. [We get underway at 6 p.m.](#), we do have a number of electronic items in the program when we get underway at 6 p.m. And of course, we've got this pretty nifty One Hour Guarantee – I'm really impressed with the way that operates – because we do effectively ensure that if customers want an item, and often these are electronic items, then providing they're there at a reasonable time, we guarantee them the product. The big [electronics] event gets underway at 8 p.m., and that's pretty

powerful. But as you have a look at the pricing, as you would expect in this category there's deflation, and that's not going to change. So you know, I think electronics will be powerful, but I think it will still bear all the trademarks that we've seen previously. Which is, we're going to sell lots of items, but probably the dollar value will be less than last year.

Phil Wahba: Thank you. Happy Holidays.

Randy Hargrove: Thanks, everyone. We appreciate your time. If you have follow-up questions, let me know and we'll see how we can help you out. We'll see you next quarter.