



**WAL-MART STORES, INC. (NYSE: WMT)
First Quarter Fiscal Year 2017 Earnings Call
May 19, 2016
Management call as recorded**

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Wal-Mart Stores, Inc. Investor Relations**

Hello and thank you for joining us today to review the results of our first quarter of fiscal 2017. This is Pauline Mohler, senior director of global investor relations for Wal-Mart Stores, Inc. The date of this call is May 19, 2016.

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- Press 4 and the # key to rewind playback 20 seconds.
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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 information provided by that Act. A cautionary statement regarding forward looking statements is at the end of this call.

Today, you will notice some changes with our earnings materials and Brett will cover the details regarding these changes later in this call. The earnings release, transcript and accompanying slide presentation are intended to be used together. The slide presentation has been enhanced to include financial highlights for each operating segment, additional context on merchandise categories and market level highlights.

All of this information, along with our store counts, square footage, earnings infographic and other materials are available on the investors' portion of our corporate website - stock.walmart.com. We look forward to hearing your feedback on these changes.

With this year being a leap year, today's results, including International comparable sales data, reflect the extra day in our first quarter. Leap year does not affect the 4-5-4 comp sales reporting for the U.S. businesses. As a reminder, for fiscal year 2017, we utilize a 52-week comp reporting calendar. Our Q1 reporting period ran from Saturday, January 30, 2016 through Friday, April 29, 2016.

As previously announced, our Annual Shareholders' Meeting will be held Friday, June 3 on the University of Arkansas campus in Fayetteville. The meeting starts at 8 a.m. central time and is also available for viewing via webcast through our website, stock.walmart.com or via Walmart's free Investor Relations app. Also, on October 6, we will hold our annual meeting for the investment community in Northwest Arkansas.

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

- Doug McMillon, president and CEO of Wal-Mart Stores, Inc., will provide his thoughts about our results for the quarter in the context of our overall strategy.
- Brett Biggs, Walmart's CFO, will share the overall financial results along with highlights for our three operating segments (Walmart U.S., International and Sam's Club). He will wrap up with guidance for the second quarter of fiscal 2017.

Now, I'd like to turn it over to our CEO, Doug McMillon. Doug.

Doug McMillon
Wal-Mart Stores, Inc. President & CEO

Thanks, Pauline, and good morning everyone. Thank you for joining us to hear more about our first quarter results and an update on our overall strategy.

We're off to a good start to the fiscal year. For the first quarter, EPS was \$0.98, which is above the top end of our guidance. Excluding the \$3.5 billion currency impact, we delivered total revenue of \$119.4 billion, which is growth of \$4.6 billion, or 4.0 percent, over last year. On a reported basis, total revenue increased 0.9 percent to \$115.9 billion. We exceeded both our EPS and Walmart U.S. comp sales guidance.

As we described in October, we're improving our stores, adding critical capabilities, and deepening relationships with customers. We are encouraged by the Walmart U.S. comp and believe it's attributable to real improvement in our store experience. Our customers are giving us positive feedback. I'm seeing it myself on store visits and you can see it in the traffic numbers.

We delivered comp sales of 1 percent in Walmart U.S. due to continuing traffic increases, which improved 1.5 percent this quarter. This was our 7th consecutive quarter of positive comp sales, and our 6th consecutive quarter of positive comp traffic.

It's exciting to see the improvement in core retail fundamentals. For example, I'm encouraged by the progress we're making on inventory. That progress is important in its own right and for cash flow purposes, but it can also help create a virtuous loop. When combined with our investments in training and associate education, wages, and store structure, it's giving our associates more time on the sales floor to serve customers.

Our customer satisfaction scores have continued to strengthen and our in-stock has gotten better. Our associates are responding and I'm proud of them, Greg Foran and the entire U.S. leadership team.

In the quarter we did a better job of managing costs. SG&A discipline improved, as our store teams did a good job of more closely aligning expenses with sales growth. Better expense management in the quarter gave us increased confidence to initiate our next phase of U.S. price investment earlier than planned. Over time, we intend to lower prices further in a deliberate, strategic way to drive our productivity loop. Doing this in a sustainable way takes time and we're seeing progress.

Globally, on a constant currency basis, e-commerce sales and GMV grew 7 percent and 7.5 percent, respectively. Growth here is too slow. The U.S. number is better than the global number but neither is as high as we'd like. We can see progress against several of the necessary capabilities we need to win in e-commerce but we're still working on a few others. We need them all to come together to see stronger growth. For example, our marketplace is ramping up but it takes time to build the assortment to the point where customers realize the depth of assortment. We now offer more than 10 million SKUs on Walmart.com and we are growing that number through a combination of first-party and third-party items. It makes sense that perception will trail reality and we'll work on both during the course of this year.

We'll build on the successes we've seen around the world, including in the U.S., and we'll continue to work through the challenges we've experienced in key markets like Brazil, China and the U.K. where our e-commerce and mobile commerce sales are softer.

We're pleased with our e-commerce operating system and happy to have our new e-commerce fulfillment centers operational. Those are necessary building blocks. I'm excited about the ways we're using technology to deepen our relationships with customers and help them save both money and time.

Our grocery pickup service in the U.S. continues to receive high marks from customers, and we're continuing to expand it. I'm pleased to share we're announcing 9 new markets today, bringing our total number of markets to nearly 40 by the end of this month. In addition, in some markets, we'll double the number of stores that offer the service locally in May. We expect to continue to quickly expand to new markets.

The Walmart app is also allowing us to serve customers in convenient ways, whether it's by finding an item in store, researching a product, or refilling a prescription. Walmart Pay is enhancing our ability to provide a seamless shopping experience as customers quickly pay with their phone. A few weeks ago we began to expand this service nationwide, and we're on schedule to complete the rollout by the end of June.

Walmart International had a strong start to the year, with ten of our 11 markets posting positive comp sales and nine of those markets growing comp sales by more than four percent on a constant currency basis. In particular, Walmex and Canada continue to perform well, with strong sales, market share gains, and solid profit performance. China remains a strategic market for our future and is now our 4th largest international market from a sales standpoint. We recently held a board of directors meeting in China, and while visiting stores and e-commerce operations, I continue to be encouraged by the pace of operational improvements made by our team in China.

A highly competitive environment, and food deflation in the U.K. continued to challenge the market, significantly impacting traffic and comp sales trends in our business. We're focused on making strategic investments to improve our position in the market and invest in price, while being diligent in managing our bottom line and cash flow.

At Sam's Club, we are pleased with the growth in membership income. Plus member penetration is near an all-time high, and we like the trend we're seeing. It's clear that members recognize the value that a Plus membership brings. Comp sales for the period were in-line with our guidance, but we know we can deliver stronger results. Leading in digital is a focus area for Sam's, and the team is doing a good job of delivering for members as we continue to see strong growth in Club Pickup.

Finally, we look forward to welcoming many of our shareholders, investors and associates to Northwest Arkansas in a few weeks for our annual meeting. This is one of my favorite weeks of the year, as we get a chance to connect with you and share more of our thinking about the business. We also bring in associates from around the world, it's inspiring to see them and hear their stories. We hope you'll join us for a great meeting.

In summary, we are continuing to do what we said we'd do on our strategic plan, and we are getting traction as a result.

Now, I'll turn it over to Brett.

Brett Biggs
Wal-Mart Stores, Inc. EVP & CFO

Thanks Doug and good morning everyone.

As Pauline mentioned, our earnings materials are a little different this quarter. Our intent is to continue to provide you with a high level of transparency and information, but in a more efficient and concise manner. For example, we've added specific comments and highlights on the performance of each of our operating segments within the financial presentation, instead of being spread out among several parts of a lengthy transcript. Therefore, it's important that you review the financial presentation in conjunction with the comments from Doug and me.

We hope you find this new format more efficient, and we look forward to any feedback you may have.

With that, let's turn our attention to the results for the quarter.

I would like to start by taking a minute to thank all of our associates around the world. Over the past few months, I've had the opportunity to visit with associates in our U.S. stores, as well as in China, Japan, and Brazil, and I was encouraged by the level of dedication they continue to demonstrate. As a company, we are executing against our strategic priorities, and not only delivering short to mid-term improvements, but positioning Walmart for long-term success. We still have work to do, however we are pleased that our first quarter results demonstrate continued progress.

First quarter EPS of \$0.98 was above our guidance range. During the quarter we saw benefit from lower utility and maintenance expenses due to a milder winter in the U.S. and slightly lower costs from store closures announced last quarter.

From a revenue standpoint, excluding the \$3.5 billion currency impact, total revenue increased \$4.6 billion or 4 percent to \$119.4 billion. On a reported basis, our total revenue increased 0.9 percent to \$115.9 billion. Walmart U.S. delivered comp sales of 1 percent due to continuing solid traffic, which increased 1.5 percent. This was our 7th straight quarter of positive comp sales, and our 6th straight quarter of positive comp traffic.

Globally, e-commerce sales increased 7 percent and GMV grew by 7.5 percent in the first quarter on a constant currency basis, which is not as strong as we wanted. We are pleased with the ways we're using technology to deepen our relationships with customers and helping them save both money and time. For example, our grocery pickup service in the U.S. will be in nearly 40 markets by the end of this month, which is up from 22 when we started the year. Advances we have made in fulfillment capabilities, including our most recent center in southern California, mean customers can get the items they want fast and at Walmart prices.

Although we are making progress on several of our key priorities, we have more work to do, particularly in some of our largest international markets.

Gross profit increased 60 basis points during the quarter, primarily driven by gross margin improvements in the U.S., which I will discuss in more detail shortly.

During the quarter, we were more disciplined from an expense standpoint. However, as anticipated, total SG&A increased compared to the first quarter of last year, primarily as result of our previously announced wage rate increase which took effect in February.

As you review our financial statements, you will notice a reduction in interest expense as well as an increase in net income attributable to non-controlling interest. As a reminder, the primary reason for the year on year variances is related to the sale leaseback accounting correction we made in Canada during the first quarter of last year, which impacted these line items and had a de minimis overall impact on operating income and EPS.

Along with solid operating performance, disciplined working capital management allowed us to generate approximately \$4.0 billion of free cash flow, which compares to \$2.2 billion generated in the first quarter of last year. We also returned \$4.3 billion to shareholders in the form of share repurchase and dividends. During the quarter we repurchased nearly 41 million shares for a total of \$2.7 billion.

With that let's now turn our attention to the results for each of the operating segments.

Walmart U.S.

Walmart U.S. had a good first quarter with comp sales ahead of guidance, driven by solid traffic growth. We continued to steadily execute against the plan we laid out a year ago, and we're seeing positive results from these efforts. Our customers continue to tell us they are happy with the changes we're making in our stores, as evidenced by our customer experience scores, which rose again this quarter versus last year.

Comparable sales were up 1 percent in the first quarter, despite continued impacts from deflation in Food, which we estimate impacted our total comp by approximately 60 basis points relative to last year's first quarter comp. Customer traffic increased 1.5 percent. E-commerce contributed approximately 20 basis points to the overall comp. In addition, our Neighborhood market format also delivered a comp sales increase of approximately 7 percent. We have good momentum in the business, as on a 2-year stack basis, comp sales for Walmart U.S. were up 2.1 percent.

We saw strength in General Merchandise, driven by solid sales growth in Hardlines, Home & Seasonal, and Apparel. While Entertainment continues to be a sales headwind, we did see some improving trends in Electronics. Branded drug inflation and script growth drove pharmacy sales, while better in-stock levels and a focus on the right assortment drove sales growth in both Consumables and OTC.

Gross margin improved 44 basis points in the quarter. We delivered improved margin rates in Food, Consumables and Health & Wellness as our continued focus on reducing costs both in how we operate the business and in procuring merchandise provided benefits. In addition, transportation costs benefited from lower fuel prices, we had some improvements in shrink, and we also lapped last year's incremental expenses related to the west coast port congestion.

Operating expenses increased 11.5 percent over last year, primarily due to previously-announced wage rate increases. However, our store teams were more efficient in managing expenses to more closely align with sales growth, and a milder winter drove lower utility and maintenance expenses.

Overall, the SG&A increase was partially offset by improved gross margins, which resulted in an operating income decline of 8.8 percent.

Inventory continues to be a key focus area for Walmart U.S. and we're pleased with the progress we're making toward our goal of stronger working capital management. Inventory declined 3.5 percent in the first quarter, including a 5.7 percent decline in comp stores. The inventory discipline is driving benefits across the store, such as improved in-stock levels and more efficient processes for our associates.

Finally, as we communicated in October, price investment is always an important part of our growth plan. We began the initial phase of additional price investment late in the first quarter, lowering prices on key items in select geographies. As always, we're committed to providing quality merchandise at a great value, using data and analytics to better serve our customers.

Heading into the second quarter, the execution of Walmart U.S.' strategic plan remains on course. For the 13-week period ending July 29th, 2016, we expect a comp sales increase of around 1 percent. As a reminder, the comp sales increase for the 2nd quarter of fiscal 2016 was 1.5 percent.

Now let's turn to Walmart International.

Walmart International

Walmart International had a strong start to the year despite some continuing challenges in certain markets. As a reminder, in all countries except Brazil and China, our financial results are inclusive of our e-commerce performance.

Comp sales remain strong with all markets other than the U.K. posting positive comp sales. Also worth mentioning, 9 of our markets grew comp sales by more than four percent on a constant currency basis. This year, Easter benefited the first quarter some in international, as the holiday last year fell within the second quarter, given the one month reporting lag in all markets except Canada.

Overall, net sales grew 4.3 percent on a constant currency basis. Reported net sales declined 7.2 percent, due to the \$3.5 billion currency headwind, although the impact was slightly less than anticipated.

From an expense and cost of goods perspective, we're pleased with the continued progress we're making on our cost analytics program, which includes fact-based negotiations and new merchant tools. We're now expanding the program beyond the U.K. and Canada, to include Mexico in Q2 and other markets in Q3 and Q4. We're also focused on "We Operate for Less" initiatives across our markets and we're pleased that we leveraged expenses in the majority of our markets.

From a profitability standpoint, operating income increased 22 percent on a constant currency basis, and increased 8.8 percent on a reported basis, driven by solid sales and broad gross profit rate improvement.

On a constant currency basis, inventory grew slower than net sales at 2.2 percent, due to a focus on reducing unproductive and obsolete merchandise, while on a reported basis, inventory declined 6.9 percent.

Within the accompanying financial presentation you will find detailed information for our five major markets. However, I will give some highlights on these markets starting with two which are performing exceptionally well.

Walmex continues to lead the way delivering strong results. As a reminder, Walmex releases results under IFRS and the results discussed here are under U.S. GAAP, therefore some numbers may differ. Sales momentum continued across all formats, divisions, and countries, led by strong results in food and consumables. Total sales and comp sales performance significantly outpaced the rest of the self-service market. Comp sales for Walmex increased 8.6 percent in the quarter. From a profitability standpoint, higher gross margins driven by strong inventory management, reduced clearance and good expense management led to strong growth in operating income.

In Canada, comp sales increased 6.7 percent, driven by strong traffic growth of 4.6 percent. Comp sales have now been positive for eight consecutive quarters. The performance was driven by improvements in our merchandise assortment and price investment, which led to strong customer traffic growth. Our e-commerce business also continued to grow nicely with the expansion of online grocery in the Greater Toronto Area. Even as e-commerce investments continued, our ability to leverage expenses led to growth in operating income that outpaced sales growth.

The U.K. continues to struggle, due primarily to fierce competition. Improvements in price and product availability throughout the quarter were not enough to overcome traffic and food volume declines in our large format stores. However, Project Renewal remains a focus with the aim to simplify and strengthen the customer offer, reduce costs and drive sales. The cost analytics program, which is part of Project Renewal made good progress and delivered savings we were able to invest back into the business.

Our China business continues to grow and is now our fourth largest international market by revenue. Despite a challenging macro-economic environment, a strong performance during Chinese New Year, double-digit growth in gift card loading and continued strengthening in fresh categories led to good sales growth and positive comps.

In Brazil, despite on-going economic challenges, our team is making the right decisions to better position the business for both short and long-term success. We are pleased with the positive comp sales performance in the quarter.

Overall, our international strategy remains simple and focused, and we continue to execute against our key priorities around the world.

Now let's turn to Sam's Club.

Sam's Club

At Sam's Club, net sales, without fuel, grew by 2.9 percent. Membership income increased by nearly 4 percent, as Plus member renewals grew by more than 30 percent, and Plus penetration was near an all-time high.

Comp sales, excluding fuel, increased 0.1 percent in the period as deflation, especially in fresh meat and dairy, continued to be a headwind and negatively impacted comp sales by approximately 50 basis points versus the first quarter of last year. E-commerce performed well and contributed 60 basis points to the comp, including sales through Club Pickup, which grew by more than 30 percent. In addition, our direct to home business experienced impressive growth.

Gross profit rate increased 18 basis points even as we made investments in price and in the cash rewards program. As planned, investments in people and technology led to growth in operating expenses that outpaced our sales growth.

The team at Sam's is in the early stages of executing against the strategy that was outlined at the end of last year. We know we have work to do, and we are on the right path. For the 13-week period ending July 29, 2016, we expect comp sales to be slightly positive.

So let's wrap things up.

Guidance

This is an exciting time for the company and our financial strength positions us to make the necessary investments in the business to drive sustainable long-term results. We are proud of our overall results in the first quarter and there is momentum in many parts of the business.

Based on our views of the global operating environment, and assuming currency exchange rates remain at current levels, we expect second quarter fiscal 2017 earnings per share to range between \$0.95 and \$1.08.

We appreciate your interest in our company. I look forward to seeing many of you at our Shareholders' meeting in a couple of weeks.

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 and forecasts as to, and expectations for, Walmart's earnings per share for the quarter ending July 31, 2016, comparable store sales for the Walmart U.S. segment and the comparable club sales, excluding fuel, of the Sam's Club segment for the thirteen week period ending Jul. 29, 2016, the expansion of Walmart U.S. Grocery Pickup program to a certain number of new markets and additional stores by certain times within the quarter ending Jul. 31, 2016, the timing of the nationwide rollout of Walmart Pay, and Walmart's goals of making strategic investments in its U.K. operations to improve those operations' market position, and invest in price while managing the bottom line and cash flow, and Project Renewal remaining a focus with the aim to simplify and strengthen the customer offer, reduce costs and drive sales, Walmart's goal of stronger working capital management, Walmart's growth plan including price investment, Walmart building on its successes and

working through challenges in key markets, and the Sam's Club segment's focus on leading in digital.

Assumptions on which any guidance or forecasts are based are considered forward-looking statements.

Walmart's actual results may differ materially from the guidance provided, or the goals, expectations or forecasts 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 and changes in market interest rates;
- unemployment levels;
- changes in market levels of wages;
- initiatives of competitors, competitors' entry into and expansion in Walmart's markets, and competitive pressures;
- changes in the size of various markets, including e-commerce markets;
- 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;

Operating factors:

- the amount of Walmart's net sales and operating expenses denominated in 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;
- 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, including the Walmart U.S. segment's Grocery Pickup program;
- 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;
- 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 and the number of associates at various pay levels within that workforce;
- delays in opening new, expanded or relocated units;
- the availability of necessary personnel to staff Walmart's 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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