



**Walmart's Fiscal Year 2013 Earnings Results
Media Call Transcript
Feb. 21, 2013**

Charles Holley, CFO Walmart:

Good morning, everyone. Thanks for joining today. I know you know that we just finished out our fiscal year 2013 with the release of our fourth quarter earnings. Before we start I thought I would just give a few highlights for the quarter. You know we reported our earnings per share at a \$1.67 and that was above our original guidance which was \$1.53 to \$1.58. The beat was primarily related to benefits from tax but even without that we would have been around the high-end of that range. For the year, we reported our earnings per share at \$5.02 which was above our original guidance a year ago which was \$4.72 to \$4.92, that's over 20 years of earnings per share growth which we feel very proud about. That result helped produce \$12.7 billion in free cash flow and we define free cash flow as our operating cash flow less our capital expenditures. That's around \$2 billion more than the prior year. Again, I think a very strong result. This is important because it allows our company to have abundant cash to fund any acquisitions that might arise and provide for shareholder returns through dividends and share repurchases. In fact, we returned a combined \$13 billion last year to our shareholders. I think probably all saw another announcement this morning where we increased our dividend over 18 percent to \$1.88 per share and this is just a strong indication of our cash flow and our philosophy of returning to shareholders. Over the last five years we've returned over \$60 billion in the form of dividend and share repurchases and that is over a quarter of our market cap. We felt that is a very good result for our shareholders. Turning to our business – for the fourth quarter, Walmart U.S. had a really good quarter with a 4.3 percent increase in profit and a 2.6 percent increase in sales. You know, the 2.6 percent increase may not sound like its large, but that's over \$2 billion in new sales. For the year, Walmart U.S. actually increased their revenue by \$10 billion. For the fourth quarter for Sam's Club, they had a very solid, I think, comp increase of 3.6 percent. Their advantage membership increased along with upgraded memberships to the plus category. The fourth quarter profit was down six percent but primarily due to price investment that they had planned. For the year Sam's had a very good result – a sales increase of 4.9 percent and profit increase of 6.2 percent. Turning to International, they grew their sales 6.9 percent for the fourth quarter and profit growing at 6.1 percent. This capped off a year where International grew sales at 7.4 percent and their profit actually grew at 8.3 percent. Although a very good year we didn't finish where we would have liked primarily due to a bit slower holiday season that we had planned and that was pretty much across the board. Looking forward we believe our sales will increase between 5 and 6 percent in the new year and our earnings per share will grow between \$5.20 and \$5.40, that includes an expense increase of our activities in Global eCommerce of approximately \$0.09. Also, this would include an estimate for the first quarter of \$1.11 to a \$1.16. Now before we begin with the questions I know most of you would like some insight



into what is happening with the U.S. customer with all this noise of tax cut reversal tax refunds, the sequester, so I've invited a special guest for everyone today. I've got Bill Simon, the CEO of our Walmart U.S. business here to address your questions and I thought I'd start by asking Bill just a general question. Bill, first of all, thanks for joining us. Could you give a little bit of insight to what really we are seeing with our customer, especially at the end of the fiscal year, the end of January, going on in to our new fiscal year?

Bill Simon, CEO Walmart U.S.:

I will, thank you, Charles. I appreciate being here this morning. As many of you know, there are two separate issues happening to the customer right now related to tax. I think a lot of people get them confused. The first is the delay in the income tax refund. The second is impact of the payroll tax change. I am going to address each of those separately and try to give you as much color as I can. First with the income tax refund delays, because of the late change in the tax law last year, the IRS opened filings later than they did last year and the result of that has been about a three week delay in the start of tax refunds. So, we saw, very near to the end of the fiscal year last year into first few weeks of February, the impact of the delay in those income tax refund checks. And just for context, last year we cashed about \$4 billion worth of income tax refunds in our stores. This year, year to date, we have only cashed about \$1.7 billion. So, that will give you context for how big that delay is and the timing that is associated with it. We also know that when a customer received an income tax refund, say the week before the Super Bowl, we had pretty good data that would suggest they would buy a television for example. With the delay in the refund moving into March, and even late March, we don't have any visibility yet to what they might or might not do with those checks. The second issue is the 2 percent impact to the customers with the change in the payroll tax deduction. We hear our customers talking a lot about that right now and making adjustments to what they do and what they buy. But we can't give you any clear vision as to how they will behave over the course of the year with respect to that. I think it will become clearer as we move on in to the year.

Charles Holley:

Alright, Bill. Thank you very much. Let's open it up for questions.

Stephanie Clifford, NY Times:

Thanks. Bill, glad to have you here. Do you have any sense of how the customer is affected by the payroll tax or how they are changing their spending patterns? Are they buying fewer discretionary items or are they changing on basics?

Bill Simon:

We hear them talking about it, Stephanie, more than we are able to detect in the sales patterns just yet. They are aware of it and they are impacted by it, but we haven't seen a measurable trade down or trade over. We haven't seen a real measureable change in traffic patterns yet. I would also note that when the payroll tax credit went in place, the opposite of the change, we didn't see a measureable, perceived, bump up in our business either. I think it is going to be difficult to give you an answer in more detail until we've got a little bit longer run with this. I would say I think the customers know about it and they are adjusting to it.



Stephanie Clifford: And on the delay of tax refunds, your guidance for the first quarter is a little bit lower than I think a lot of analysts expected. Are you guys expecting that delay to continue to affect customers' spending throughout the first quarter?

Bill Simon: We don't know when those checks are going to come. You know, the IRS, in addition to the late start, has added additional fraud checks that they have said will or could delay the refunds even longer. Given that change and the macroeconomic situation that the customer is facing, it is difficult for us to forecast how the customer might spend that check when they get it. What we are seeing is that once the checks started flowing last week, a return to a more normal spending pattern with our sales roughly in the range of what we've been delivering in the past few quarters. If you measure the impact of the first few weeks with that more normal pattern that got you to the guidance we gave.

Stephanie Clifford: Thank you.

Anne D'Innocenzio, AP: Hi, how are you? Can you just tell me a little more about how you would rank, in order, the importance of the biggest financial concerns and how it's changed even from a couple months ago? Unemployment, obviously gas prices are resurging, can you just rank them and give them a little more color? Even talk about gas prices? And of course the payroll taxes?

Bill Simon: I think jobs are still on the top of the list - employment. Inflation and food inflation is bubbling up as well as taxes and I think what you will see making its way up the list is gas prices. The customer is talking a lot about gas prices, particularly over the last couple of weeks.

Anne D'Innocenzio: And are you seeing, in terms of spending around the pay check cycle, are you seeing that any more pronounced or the same as last quarter?

Bill Simon: The paycheck cycle has changed over the last twelve months. A lot of it has been driven by some of the difference states have made and how they are paying benefits. You know, three years ago, most of the states paid their electronic benefits transfers, EBT payments, all on the same day at the same time. Over the last few years, many states have been spreading that over the month so the impact of those dollars is spread out over the month. We noticed that change.

Anne D'Innocenzio: Okay. Thank you very much.

Shelly Banjo, WSJ: Hi. I just wanted to ask how you guys prepared for the payroll taxes and income tax delays. I mean, you knew it was coming, was there anything you did to prepare for it?

Bill Simon: For the income tax delay, we obviously changed the merchandise assortment, staffing patterns to deal with it. For the 2 percent, we're changing some of the items we're offering the customer. We have pretty good data sources about what the customer wants in difficult times, pack sizes and items in different geographies where the customer might or might not be more pressured. We made changes



in merchandise assortment in some of the geographic options that we are providing customers.

- Shelly Banjo:** Is that like changes in pack sizes; good, better, best assortment? Having more of the good?
- Bill Simon:** That is right.
- Shelly Banjo:** Thank you.
- Barney Jopson, FT:** Hi, good morning, everyone. On the corporate tax side, I wondered if you could give us a little more detail on what part of the American tax code you thought, in particular, helped you this past quarter?
- Charles Holley:** The re-up of the R&D credits, the workers' opportunity tax credit, those would have been the primary drivers for us.
- Barney Jopson:** Okay. More generally on fiscal policies and the deals that avoided the fiscal cliff, can you tell us about how you're feeling about that. Because on the one hand, you're benefiting from those corporate tax breaks or benefits, and on the other hand you're suffering indirectly from the effects on consumers and I know Bill made some pretty striding comments on Washington policy making last month. So how do you feel about that as a whole?
- Charles Holley:** Well, first of all, we pay, we think a pretty high tax rate, especially when you compare it to our global competitors. So, it puts us at a disadvantage. You know we pay well above the 30 percent range and have for quite some time. We hope that there would be a broadening of the base and a lowering of the rate. We think that is the right way to go and I think we have been very vocal about that.
- Barney Jopson:** Bill, do you have any other thoughts on the state of fiscal policy making at the moment?
- Bill Simon:** I think Charles said it very well.
- Barney Jopson:** Okay. Thanks.
- Karen Talley, Dow Jones:** Thank you very much. You said you didn't finish the year exactly where you wanted; there is a little more slowness in the holiday season. What do you attribute that to?
- Bill Simon:** The holiday season, the events themselves, were actually pretty good for us. The income tax refund checks impacted the end of January and we saw that pretty substantially. We also saw a lull in sales between Thanksgiving and Christmas that we think was brought about by a very, very successful Black Friday event and an extra week-ish this year between Thanksgiving and Christmas that sort of extended that period.
- Karen Talley:** So it's sort of a slower end to the holiday season?
- Bill Simon:** A slower end to January and a longer period between the two holidays, Thanksgiving and Christmas.



Karen Talley:

Okay, thank you.

Courtney Reagan, CNBC:

Thank you very much for taking my questions. I was just wondering if you are able to provide an update on your testing for same-day-delivery, I know you've been testing it in a hand-full of markets. I was just wondering where that stands and if there is anything new we can discuss there?

Bill Simon:

The test is, for us, has been a mechanical test - a process test is probably a better way to say it - how do we do it, how can we do it? We haven't been aggressive in marketing it as much as we have in the internal processes around doing it. It is still something we believe very strongly in, and we are going to get good at it before we expand it.

Courtney Reagan:

Okay, thank you.

Brad Dorfman, Reuters:

Hi, a couple questions. First, can you give a little more color on what you do to adjust the assortment to deal with the tax return delays? For example, did you actually have fewer TVs on the shelves or things like that?

Bill Simon:

It's more of what you feature and how you feature them - where you put the products. Trying to understand, be prepared for the customers when they have the check in their hand and when they don't.

Brand Dorfman:

And I heard you say that you aren't sure yet how customers are going to react to the higher payroll tax and you talked about the change in the paycheck cycle with benefits now being paid over the year. Is it more difficult at this point than it has been in the past few years to actually anticipate what customers are going to be buying when?

Bill Simon:

I'm not sure I would characterize it that way. We've got historical data for nearly every economic situation that will allow us to put the products the customers want in front of them at the right time. I think the most predictable thing, because of the history, is what our customers want. We have a very good feel for that based on the data we have. We're trying to respond to that. That's our role, to try to find a way to serve the customer regardless of the economic situations around them. Customers are very adaptable. They have found a way to make do with what they have and we are trying to assist them in that.

Hadley Malcom, USA Today:

Hi. Someone else already asked my question.

Andrea Chang, MarketWatch:

Hi. I want to clarify, you said the \$4 billion worth of tax refund last year, is that just year-to-date or is that a total for last year? Also, I just wanted to check if you could clarify Walmart U.S.'s merchandise strategy, because on the call script you said there was an emphasis on value pack sizes but I know at the same time you talked about introducing the smaller pack sizes. So could you clarify on that? And then for Charles, I am curious because Sam's Club customers are usually more high-end customers, but the release talked about how



these things are impacting them as well. So if you could talk a little to that. And on the International side, is it economy that is hurting these markets or is there something else? I am not sure I understand, for instance, the China, regarding the shift from formal to informal markets. Can you elaborate on that one too?

Charles Holley:

I'll go first and talk about Sam's. Sam's saw some softness at the end of January like Walmart, but Sam's wasn't nearly as severe. Just to clarify again, it wasn't nearly as severe as you would have seen. And that would make sense, because the Sam's customer, on average, is probably a higher income than the Walmart customer. Regarding the softness that we saw around our International markets in the fourth quarter – whether if it was a question of us or a question of the economy's. I think first it was the economy's. I think especially if you look in the U.K., their economy, as you know, has really struggled. Our China operation actually did a little bit better than last year - I think some of this is self-inflicted. We are really driving to an EDLP operation there and that is going to take time. We have been very consistent over the last six-months talking about that. We have a lot of work to do there. We did make progress but we have a lot more to go before we are truly EDLP, and EDLP means we are going to have to be very sharp on our prices and our costing. I think overall, there is a softness around the world of economies. Some of it was our sales, like in China.

Bill Simon:

\$4 billion was the approximate number for season-to-date and that includes government checks and what is known as refund anticipation loan checks from a preparer like Jackson Hewitt or H&R Block. The merchandising assortment – both of those are correct. We do larger pack sizes at different times of the month in certain stores and smaller pack sizes at other times of the month in other stores.

Andria Chang:

Okay.

Emily Fox, CNN Money:

Morning. I wanted to ask if what you are feeling from the payroll taxes and the tax refunds is impacting your suppliers and your product orders.

Bill Simon:

I really couldn't give you a view towards that. We haven't had any issues from any suppliers or anything that might impact our business. That would probably be a question for them.

Emily Fox:

Are you placing any different orders because of the slowdown?

Bill Simon:

We haven't to date. No.

Shelly Banjo, WSJ:

I had one more question about your hardlines business that you said delivered its best quarter of the year. How much of that was firearms and ammunition? Is the rationing and inventory issues with the ammunition still happening?

Bill Simon:

Our whole sporting goods category was up, hunting and fishing and several other departments in that category. Our firearms and ammunition sales are mirroring the market run-up right now. We



have a three box limit on ammunition because of the supply thing and we will keep that until the supply situation eases.

- Shelly Banjo:** Is there any type of supply issues with firearms as well, in addition to the ammunition?
- Bill Simon:** There are certain firearms that are very difficult to get.
- Shelly Banjo:** Thank you.
- Stephanie Clifford, NY Times:** On apparel, you said in the first quarter that it was the first positive in seven years. I was wondering, I know you looked at going back to basics, I was wondering if you have made any other changes in the past six months or so? Can you talk specifically to what is performing well in apparel?
- Bill Simon:** It is that strategy about basics and what we call fashion basics, you know the complementary item. We've also not completely walked away from the fashion side of it, but it is less of an emphasis. The bigger impact to the business has been on the overall store strategy which is driving traffic through sharp pricing on food and consumables and then leveraging that traffic to sell basic general merchandise - basic apparel and general merchandise. If you're tight and sharp with your merchandise assortment in apparel, you get an opportunity to leverage the trip that comes from food and consumables. That is the pattern that we are operating.
- Stephanie Clifford:** Okay, great. Then one clarification on numbers - When you gave the figure for the \$1 billion or so in tax refunds this year, does that also include refund anticipation checks?
- Bill Simon:** That is correct.
- Anne D'Innocenzio, AP:** Any learnings that you have from holiday 2012? I know that you said you saw a slow down at the end of the year and you've talked about pushing layaway and you've had all of these tactics like buying more and things like that, but any lessons that you will apply to next year?
- Bill Simon:** Well, I think preparation for that selling season, you can't begin to prepare early enough. We are already well underway in preparation of our plans for the next holiday season. We will, given that time to prepare, have something very special for the customer.
- Anne D'Innocenzio:** This is my last follow up question. The slow down though, was really because of the delays in the tax refunds, not so much the payroll hike? You haven't seen major effects yet?
- Bill Simon:** That is correct.
- Anne D'Innocenzio:** Okay. Thank you.
- Charles Holley:** Thank you everybody.
- Bill Simon:** Appreciate it very much.