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Community

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PRESENTATION

Claire Babineaux-Fontenot - *Wal-Mart Stores, Inc. - Treasurer*

Good morning, I'm Claire Babineaux-Fontenot, Treasurer for Wal-Mart Stores, Incorporated and I'm pleased to welcome you to our 21st annual meeting with the investment community.

We sincerely appreciate your interest in our business and we thank you for being here. As is customary in these meetings, we will be making forward-looking statements. I ask you to please take a look at the information behind me or you may view this same information which is posted on our website.

As you can see, we have a full day planned for you. There's two things I'd like to note about today's agenda so first, the common thread that will flow through all of the presentations is our clear focus on the customer.

You'll see that focus in our US presentations and you'll also see that focus across all of our formats in every country in which we operate. Also, you'll see and it'll be clear that fundamental to our strategies of seamlessly integrating digital and physical retail is our understanding of the evolution of our customer.

As that customer grows, as that customer's interest change, we will be evolving and growing with those interests. Another point is different than the way that we've done this in the past, this year, the capital presentations rather than having you go through each of those presentations separately and figure out what our capital plans are through the course of each individual presentation, this year, Charles Holley, our CFO will provide you with the overall view of our capital plans in his presentation.

So, let's get started. With no further ado I'd like to introduce our President and CEO, Mr. Douglas McMillon.

Douglas McMillon - *Wal-Mart Stores, Inc. - President, CEO*

Good morning, thank you, Claire.

We want to start by just thanking all of you for being here. We really appreciate you taking the effort to make the trip and investing your time in learning more about Wal-Mart and we put a lot of preparation into this morning. I think you'll find a lot of benefit from it.

It's been an eventful year. I have been spending my time getting around and getting into stores. I've been in a lot of US markets; have been back to China; to the U.K. a couple times; was in Canada a couple of weeks ago where I saw some great merchandize, [Shelly].

I've been to Silicon Valley to see Neil five times so far this year. He threatened to get me an apartment. I don't think I need that but I will be back in a few weeks, Neil. I've been kind of soaking it in talking to our associates; talking about the future; listening to a lot of smart people help me think about what the future of Wal-Mart looks like.



And one thing I'd like for you to know is that I really believe our future is bright. I'm excited about where retail is going to go and about where Wal-Mart's going to go. There are so many new ideas percolating around about what we can do with our business and today we've got more new tools and tools to help us serve customers in a way that will surprise and delight them.

So this morning, I want to spend a bit of time talking to you about where we are and right now talk about where we're going. And as it relates to the future of Wal-Mart and maybe to some extent, the future of retail, I want to talk to you about it through the lens of the customer. And I'd like to break it into four dimensions

Price, assortment, experience and access.

You can put experience and access together as service but we want to talk about those individually today because we think they're both important. So as it relates to assortment, today our customers want more choice; more items; more assortment than they ever did before.

And they expect from us to be able to find almost anything. When I was growing up, my mom and people who shopped at Wal-Mart would say things like, "If Wal-Mart doesn't have it I don't need it." That population of items in a supercenter was about 120,000 SKUs but in today's world with what's happened with the internet and with mobile and with technology, that thing's just been blown up and what assortment looks like is very different than what it looked like in the past.

So what we've got to do right now is we've got to expand our assortment and we're doing that. So first party, third party inventory online is growing because we want customers to know they can come to us and they can find almost anything. That's how they want to feel. Now, over time, I'll bet you that curation and editing still matter and that being a merchant still matters.

The art and science of merchandising will matter 25 years from now and having a sense for where customers are going; having an ability to pick a color; having an ability to merchandise it digitally as well as physically will matter.

We have always been known for assortment and in the future, we'll be known for assortment. It's an important dimension. Secondly, I want to talk to you about price. Price matters. We serve value conscious customers all over the world. Everybody wants to save money. They come from all walks of life; high income, low income.

Some of the wealthiest people in the world became wealthy because they knew how to save money. Value matters and we have EDLC in our DNA; it's in our core. We care about expense leverage. We care about expense management and we always will. This purpose that we have as a company of saving people money so they can live better is real and it matters to us.

It's one of the things that gets us up every day. We believe in saving customers money so that they can take those savings and invest in whatever they would like; whether it's an education or just making the rent or going on a vacation in the summertime. Those enjoyable parts of life and those important parts of life, customers need to be able to take advantage of and we play a role in helping them do that by keeping our costs down and passing it onto the customer.

We have been the price leader and we will be a price leader across a broad basket of goods in the future. We are committed to price. Let's talk about experience. Customer service. Retail has been a people business and retail will be a people business.

How a customer gets treated matters. We talk about serving customers and frequently think about how Sam Walton did it and how he modeled it for the rest of us and even though he passed away in 1992, even today, you'll see little glimpses of Sam Walton in our associates in the way that they interact with customers in the stores.

I still get great customer letters and some great stories about how our associates have exceeded their expectations. Human relationships matter. As we look forward, our associates though will be changing how they serve customers. They'll be more equipped; will use information to be able to prepare them and technology to be able to prepare them to exceed customer expectations in different ways.

The way the check-out process works is going to change; mobile will have a huge impact. Our data scientists, our engineers will play a role in customer service. They'll invent new ways for us to save people time and money. The customers will have an experience at Wal-Mart that exceeds their expectations. That's always been our goal and that'll be our goal going forward.

This fourth dimension is interesting, access. What does it mean? Well digitally the customer can access our brand around the world in different ways than they used to. Through the website and increasingly through a mobile app, they can access Wal-Mart and our various brands around the world.



But physical access is also changing. Today, not only can a customer buy an item in a store but they can order it online for delivery for their home or from various categories of merchandise; not all of them, but most of them and tomorrow will provide more convenience for pick-up capabilities and have delivery for all product categories where the economics work.

Our pick-up and delivery experience from several markets is encouraging and we see a lot of potential because customers want to save time. Everyone is busy. Time is a currency and we can help customers given our locations and our supply chain better than anyone else.

Convenience means different things to different customers at different times. Sometimes getting something delivered to your home is convenient but other times it's not convenient at all. Sometimes customers want to shop in a store; other times a pick-up experience is more convenient.

And we'll give customers the choices they want and need by integrating digital and physical retail in ways that please and energize them. There's a growing consensus that the future of retail is not just in-store or online. The winners in retail will be the ones that can put them together and frankly, we think we've done the harder part.

Locations matter because convenience matters. We have the stores, the associates, and the expertise in a physical world that others are going to need to build out. But to capture the upside of our strategic advantages, we need to develop a more seamless relationship with our customers; that's one of the reasons why data matters so much.

See, we won't just be a store on the street. We'll support our customers' lives with them in the driver's seat to save them time and money in new ways and we'll win as a business through the combination of our offerings across these four dimensions.

The future looks bright if we make the necessary changes and move within appropriate speed and I know that we will. So let me take a minute to talk to you about the state of the company today. We're in 27 countries; over 250 million customers; 2.2 million associates. Financially, we're growing. We added \$7.5 billion net sales last year.

We generated more than \$10 billion in pre-cash flow. We've returned more than \$100 billion to shareholders over the last 10 years; two would have been better but over the last 10 years in dividends and share repurchase. This is a record that we're really proud of.

And not only does this company have a strong track record financially, but with this meaningful purpose and this very real culture, we see an opportunity to do even more for the communities that we serve around the world.

And this servant leadership culture that permeates our DNA is important to us and so when it comes to matters like integrity, our company was founded on integrity and while we've done some great things that I'm really proud of with compliance over the last few years which is really important as it relates to building trust with stakeholders and we're committed to that, we go beyond it.

We're interested in sustainability. We're interested in using the size of the company to do good around the world so our minds are open to what we can do in areas like hunger or what we do today with disaster relief around the world to help people. It's an important part of who we are and you can count on us to continue to look for opportunities to make a bigger difference.

One of the places where we want to be important for people in in the area of jobs and opportunity. We've got a lot of associates. We've got a lot of jobs and if you want to get started in business and see what you can make of yourself, Wal-Mart's a great place to be.

In the US last year, we promoted 170,000 people; 170,000 people got a promotion and 40% of those were in their first year. We create this ladder of opportunity. I was one of the people and many of the Wal-Mart leaders in the room here today are some of the people who took a chance, got on that Wal-Mart ladder and have over the years been able to climb up and take on greater responsibilities.

I really believe in that purpose for Wal-Mart and that idea of creating a Meritocracy where people can excel and do things they never imagined. As it relates to our leadership team, here's a picture of my direct report group. We call them the executive council. It's a strong team. They're deep in experience. In fact, this group along with myself has gotten over 150 years of retail experience; more than that in just general business experience.

We look pretty good considering, don't you think? Look at that smile on Cheesewright's face. You don't see that very often; keep that one. Not only do we have the experience but we've got passion. Now this year has been a really great year and we've been talking about our strategy going forward and coming together as a team and with Greg and Dave and I being new in role, I think we kind of all took that opportunity to take a fresh look at what we want to be going forward.



So in the past we had strategies that rolled up from markets to countries. In fact, if you go way back, the way we run this company has been bottoms up and we you know pushed down the decision-making as much as we could to department managers and stores and they ran store within a store which I deeply believe and still do to this day and that process played through to our strategy where the markets and the segments developed their plans and we allocated the capital and we went about execution.

This year we took a different approach. We stepped back, went through a process of looking at a lot of information internally and externally and thinking about what the enterprise needed to look like in the future. And the fact that the internet and mobile and technology have become global, has caused the world to change.

Our competitive position has changed. The unity that we have across markets is different because we're all facing some of the same trends and foundational changes so it made sense to take an enterprise wide approach. So we broke it into pieces. The first piece was what we called where to play where we thought about what businesses we want to be in, products, services, which countries, which formats, things like that.

And the second piece was how to win and we really focused on our customer proposition and what it was that we thought we could bring to market which led to the four dimensions that I spoke to you about earlier. The strategy going forward informs our capital allocation and how much we invest in total.

We'll change the mix of our capital spend through reductions in areas where we can be historically invested so that we can fund new growth opportunities. And that enterprise strategy work had to be done so that we can allocate capital in that way, a little longer term, thinking more about where we're going to be positioned with our customer, getting ready for transformation so that we position this company to be ready for the next 50 years.

So today, we're older than 50 and we've become large and if you study retail history you know that retailers come and go and we're going to defy that historic cycle that retailers go through by being thoughtful enough about how we position ourselves for the future and embrace change and be willing to cannibalize ourselves if we need to be so that we can set the stage for the future.

And yes, that'll put some short-term pressure on the company but we believe that you and others will support it as long as you understand the strategy, you know why we're doing it and we do a sufficient job of answering your questions about it.

So we're going to invest a bit less than we would have in stores. We're going to invest more in Ecommerce and overall the capital range that Charles is going to share with you a little later today will be slightly lower than last years but with a mix difference towards more Ecommerce dollars.

In previous years, you've heard us speak to the financial priorities of growth, leverage and returns and I want to clarify where we are right now because we are in this period of transformation. As we pivot towards the future, growth is our top priority. If we're not relevant for customers, nothing else matters.

So we're always going to work to achieve leverage. You don't have to worry about us putting processes in place that make us more efficient or watching our travel costs. We just do that habitually. We will manage cost but the best way to deliver leverage over time is by growing sales.

These things have to work together. You want growth and returns. So do we. But for now, growth is our focus. Our core business will continue to have great returns and we believe the investments that we're making in Ecommerce will help returns over the long term. And don't just think of those investments as being pure Ecommerce but also have this mindset around how the whole thing comes together.

I mean we've managed margin mix across categories for more than 50 years. We're just managing a portfolio of revenue and costs and investments just as we've done in the past; same concept. Now, improving our short-term performance right now is a priority for us across all of our business segments.

The future is important and we will be positioned for the future but in some of those areas, the dollars don't move the total and if we don't deliver our short-term performance, nothing else matters. So let me talk to you a little bit about what that means by segments with kind of a short-term mindset.

In Wal-Mart US we have room to improve and we took leverage a bit too far. Those of you that have watched Wal-Mart for years, you know sometimes we laugh about going ditch to ditch and it's because we do it. Now, when we get focused on something, we deliver it.

And a few years ago, you told us and we agreed that we had to bend the cost curve and get after leverage so we went and did that. But it's a time right now where we need to make sure we're adjusting and in the Wal-Mart US supercenters, what that means is there are places where we need to put more hours in the store and there are places where we need to make price investments.



When I'm in stores and I go into our stores on a surprise basis, almost all the time and every time I get a chance because I absolutely have to see reality, we have room to improve on in-stock on the shelf. We have room to improve on our check-outs. Sometimes people ask me, "What will it take to grow a business that's almost \$500 billion?"

In fact, one of you asked me that last night and my answer is, "I don't know how to do that but every store I go in has room to improve. I mean I can take you to stores right now and take our yellow pad and we can walk out of that store with a list of things that we can go do better. And if we nail those, one store at a time, our short-term performance gets better in Wal-Mart US

So Greg known his role and he and the team are sorting out all the variables and deciding where we want to go invest. It won't happen overnight but we're going to start putting some things in place that we believe will get that productivity loop spinning and then we'll get the sales number going and I know that that's important. We're willing to do what it takes to make that happen.

Now there are some things that are in our favor right now. Low fuel prices. Sometimes we've talked to you in the past about the pressure that our customers are feeling with fuel. That's in our favor right now. We see some of our competitive - our competitions results and they're good.

There's no excuse for us not to be doing better than we are currently in our retail business in the United States. Sure we have some headwinds; healthcare's a real issue; SNAP from the past was a real issue. Those are legitimate but bottom line is we can go in stores and we can see areas where we can improve so we're committed to getting the US supercenter comps to a positive level in a sustainable way.

Neighborhood markets continue to be a bright spot. Customers like the convenience of that supermarket trip and we offer a great value in our neighborhood markets. We're going to build more. Now, as Greg moved into his role knowing how much passion and experience he has with fresh food and some of the ideas that Judith and [Gisele] and Duncan and others have about what we can do with neighborhood markets, I want us to be judicious about how many we grow next year because I'd like to give this team a chance to put their fingerprints on it.

I think the neighborhood market could be even better so we'll share with you today how many we're going to go build and I think it's an appropriate number but I believe that format can become even stronger. Before we end up with thousands of them, I want to make sure that we've got that right.

So Wal-Mart US has some positive things going on and a lot of levers to pull and Greg and the team will give you an update on that in just a minute. In international Dave hit the ground running. With his experience in Canada and his experience in EMEA, it didn't take long at all to come up to speed on Latin America and Asia.

He's got a strategic mindset. He builds strong teams. I really like how he's thinking about the division. It's been fun to watch him do it and I look forward to seeing what he's going to do with it. He's decisive and he'll give you updates on how he feels about the business in just a little bit.

In Sam's club, you've already seen [Roz] and her team make some bold changes. They changed membership awards. They changed the credit offerings. Last year, she made a move to address our cost structure and position ourselves for the future. We've got some merchandising areas that are looking really strong and she and the team are working together to bring it all together to improve our performance in Sam's Club and I know she's got a good update for you as well.

In Ecommerce, some cool things going on. The building out of this platform that we've been working on and updating you on has continued. A lot of that work has been behind the scenes but recently some of our US customers have gotten to see it. You know, we'll tell you about that. The global technology platform is important and an enabler for many other things. We've been investing and we'll continue to invest in the supply chain to support Ecommerce. We're broadening our assortment; just a lot of good tools being developed within our Ecommerce team.

There's real momentum there. And I'm also excited about the fact that the shape of our board of directors is changing. You may have heard recently Kevin Systrom was our latest new addition. Kevin was one of the co-founders of Instagram. He's like 30 years old which is interesting. What an amazing accomplishment on his part.

But as he thinks about the future of business and contributes to our board along with all the other board members that we've got, they're an important part of the equation for us to get this positioning right. It's actually fun and a great year to talk though some of those things.

And so, in closing, I hope you'll take away three key points. First, we're going to position ourselves to do an even better job serving customers. We can do a better job. We can create a customer proposition through the combination of what we do with price, assortment, access and experience.

We'll save them money and time. We know how to win. Second, our priority is growth. Driving demand is the only sustainable way to deliver returns over time. And finally, we'll manage capital in a disciplined thoughtful manner. We'll make choices. We recognize our situation has changed and we're responding accordingly.



As we have many times before, we'll find a way to exceed our customers' expectations and as a result, we will win the new era of retail. It's an incredible opportunity that's here in front of us and we'll going to seize it. So, I'll be back up later this afternoon to answer questions that you have and I hope you get a lot from today.

Before I sit down, I want to ask Greg to come up here. We're going to transition to Wal-Mart, US This is Greg Foran and Greg and I first met six or seven years ago. I went to Australia and was lucky enough to spend a week following this guy around visiting stores, going to competitions, even sat in some of his P&L meetings and learned a lot about him as a leader and then a few years ago, we were able to attract him to our business and he's been leading our Wal-Mart business in China and done an outstanding job.

For those of you that don't know, there's a connection between Wal-Mart and Woolworth's that goes way back. Jack Shoemaker who was our president spent a lot of time in Australia in influencing the Woolworth's business and Roger Corbett who was the CEO of Woolworths is now on our board of directors.

And so, when Greg and I first met and as we walked stores around the world, we have a common vocabulary and a common view of the business. He's a merchant. He's an operator. He's a strong leader of people and I'm really looking forward to seeing what he's going to do with Wal-Mart US. Would you please welcome Greg. Good morning.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

Good morning and thanks, Doug.

You know, I'm really excited to be here this morning, it was terrific, Carol, to go along to the event last night and to get to meet some of you and then this morning, I have a breakfast that had some further chats.

It is just a great opportunity.

You know, as a lifelong retailer, the opportunity to do the gig, the job that I'm doing now is just sort of something that I never dreamed would happen. There is no doubt that for many of us who haven't grown up in the US, when you look at the US, you see Wal-Mart US as really the standard bearer of excellence in this business.

In many ways, I really feel like this is a job that I have sort of had an opportunity to prepare for my whole life. And for some of you who don't know me, I actually started in retail about 35 years ago. My very first job was after school as a 15 year old, as a night stock fellow. A job that many of our associates still do today. And that was in a business called Woolworths, a different Woolworths to the Woolworth that operated here in the US, it has an S on the end, and I actually had the opportunity of running my first store at the age of 19.

After about 20 years in the New Zealand business, I moved to Australia, took the chance, and went across as they colloquially call it, The Ditch, and worked in a business there and had an opportunity to work in general merchandise, consumer electronics, and supermarkets.

And then as Doug just mentioned, to be in China at the last two and a half years is something I never ever thought would happen, but boy, what a learning experience for me.

You know, each business that I have been in has been different and each country is different. You know, in a place like New Zealand, some of you may be surprised to know that we were doing grocery home shopping there in the mid-1990s.

So you can imagine how much of an integral part of -- it is in the business today when you have been doing it for over 20 years in New Zealand.

In China, getting up to speed with some of the things that were happening with Alibaba and Jingdong has been another interesting experience for me. However, in all of those jobs, and each of those countries, I can tell you that I have found certain principles that actually transcend all borders and cultures.

And in fact, I have said to Doug a number of times when he visited me in China, there are actually more things that are the same than there are different, so I found that to be an interesting learning experience for me. Know a bit about retail, and know a bit about customers, but you know, I've still got a lot to learn about the US

So I have been out in stores, listening to our customers, listening to our associates, and I look forward to learning from all of you and getting to know you. As investors and shareholders, you are also customers in our stores and you also study our competitors, other retailers, and I want to hear from you about how we stack up.



The way that I look at our business is that we have many moments of truth. So what do I mean by that? You know, when a customer decides to go shopping and they go out of their driveway, they can turn left and go to Wal-Mart or they can turn right and go to a competitor.

If they turn left and they head to Wal-Mart, how easy was it to turn into the parking lot. When they got out of the car, and they got to the store, could they find a trolley? Were the wheels wonky and or did they work properly, as they ended the store, what did they see? Were we seasonally relevant, did we have to gala apples out there? Did we have gold and delicious? Was the price right? Were they merchandized appropriately? Could they get everything that they wanted when they shopped?

All moments of truth, and of course, the big one is when you go through the checkouts at the end, was it fast? Was it efficient, was it friendly? And no doubt, many of you can think of your own moments of truth when you shop in our stores.

And these are key moments because I have learned over the years that when we get them right, we gain the trust of the customer and with that, advocacy. So every moment counts. Their customers are changing rapidly, they want to shop whenever and however. And we are going to move quickly to serve them with our 1.2 million associates and a great leadership team that is going to enable us to meet the rising expectations.

And I'm fortunate to have my team with me today, and they bring unparalleled passion and experience for the customer. Some of them you know, Duncan, Giselle, Chris, and Kristen. Others, are new in their roles.

Judith who will be up here in a minute has moved over from International prior to that, Asda where she was a COO-CFO, and she is our chief development officer. Jeff, many of you will know, moved over from the treasury role who is now the CFO.

Michael, previously ran our West business unit, and he has now taken on the role as the COO of Wal-Mart dot com, reports directly to Neil, and has a real close relationship with our team.

I have also taken on some additional direct reports, Pam in real estate, and Stephen in marketing. They now report direct to me.

Today, I'm going to take you through some of the first impressions I have of our business and the opportunities to ensure that our customers' needs are met now today.

This will include what's opening over the really important holiday season and then we'll take a look at how we're investing in the new future of retail and how we are looking at things moving forward.

So to start, Wal-Mart US has many fundamental strengths, a distinct national footprint. There are 4,000 stores everyday low prices set us apart and I can tell we have an unparalleled decision with every day low cost.

One point two million associates, our secret source of the cornerstone of our success and innovation and risk taking are part of that DNA. I'm learning more. Let me share with you how I've spent my time during the last few weeks.

The first week I had on the job was in August at our holiday meeting in Denver. My first opportunity to make the store managers, the market managers and many other merchants, about 5,000 of our associates in total.

It was a terrific meeting and Duncan and Gisel did a fantastic job of getting the team motivated and enthusiastic for the coming months. As a leader, I played a great deal of value on Kenda. I often refer with this unabashed.

At the holiday meeting, I took the opportunity of asking store managers and market managers to share with me in an E-mail three ideas on how they thought we could improve our sales during the holiday season and also areas where they felt we had been cutting muscle instead of fats.

You know, the response that we got back was pretty incredible. I've has over 3,000 emails which is an interesting thing meal to wake up to in the morning and deal with 263 that have come in overnight. But I took the opportunity to read them all and I had personally responded to every single one of them.

I can tell you that there's been three things that have occurred. The first thing is there is scene to the energy out there in our because they felt they had a voice and they felt it's being heard.



The second thing is, boy, did I learn some things pretty quickly in this business. I think I could have been here for three years and not found out about some things that we were doing in our business.

And the third point which has been important is that we are actually able to take some action pretty quickly on fixing a few things. The same time we did that, we've got a pretty third diagnostic review under way in the business or as I call it an unbanished appraisal.

So we're digging in deep, understanding exactly what's happening. You know, I also love getting at around stores and I do really love getting at around stores. So over the last few weeks, I've taken the opportunity with my team and also with quite a few of Duncan's advice to jump on a place and hit off.

So first visit off to Springfield, Missouri. Few days later, we hit it off to Dallas. We've been to Atlanta. I've taken the opportunity with Chris to get the three of DCs down in Texas the other day. Last weekend, I was up in Grand Rapids and then we shoved across to Detroit on Sunday.

It's good for me to see what's happening in the store. I see them unbanished and sometimes like you do, Doug, in other cases, people know I'm coming but it's great. I got an opportunity to learn, to teach and to take action.

We changed some of the cadence in some of the meetings that we're doing in the business already. Many of you will know that we always have a Friday meeting, pretty important day for us, something that Sam put in place I guess many years ago.

Why it's important? We talk about what we're going to do Saturday and Sunday, busiest days of the week. So we get some urgency in. What can we do to get those sales going Saturday and Sunday. On Monday, we sit down and we review the week that was, what worked, what didn't, what can we do better.

So what have I seen today right now in the business? Well, first of all, number one, the productivity loop is still part of the DNA and I think that's good.

Secondly, we're expanding our footprint. We got multiple formats out there, different sizes of supercenters, dropped in to a [product 70] the other day on my way back from Atlanta so we've got big ones. So different sizes of supercenters neighborhood markets.

Three, we're expanding brand. Really pleased with what I saw not just at the holiday meeting but how some of these brands starting to come on life in store whether it's Avia in footwear, whether it's Russell Athletic in our sports apparel. I think we should also go wild in every Wild Oats. I'm liking what I'm seeing in terms of the opportunity around private label.

We've made great progress on creating opportunity in communities. So I think most of you know that the initiative around US manufacturing and Michelle and her team were working on that yesterday with veteran hiring and as well as that we're listening and hearing lots from our associates on how we can provide clear pathways to the development and advancement but we've got more to do.

Fifth leg, innovative progress. I was walking in stores the other day and managers were showing me on their handheld devices some of the wonderful things I can do to get sales for this store, stores in the community. But I can tell you one thing that I always get approached on whenever I head to the store at the moment is Savings Catcher. So Duncan I'm going to leave that one to you to check to everyone of that in a minute.

And, of course, we are pressing hard on digital and physical integration. So with it, it's Wal-Mart Pickup Grocery in the grocery. These things are going well in the business where we're talking about them these things happening. We're going to continue to invest and you're going to hear a lot more from Judith and Neil during the day.

Our first half is pretty challenging. Net sales up 2.3% or \$3.2 billion in flat comp. We have to improve traffic and that's got my full attention. We are seeing improvement in soft lines but consumables and general merchandises are still under pressure.

GP is pressured mostly by product mix. There's some price investment in meat, dairy and deli. Operating expenses, we have been purposeful not to over extend wage leverage.

As Doug mentioned, we've also had significant headwinds with healthcare cost and that's driven primarily around enrollments being out. And then finally, utilities were quite tough during the first half of the year as we dealt with some pretty adverse with the condition.

So operating income is down and inventory growing twice the rate of sales. So we've got opportunities and that's the final retail. I never finished a day with less things to do on the list than what I had when I started and retail is detail.



My first focus is on improving the core business, the stores, driving same store sales. I'm encouraged by the positive comp I'm seeing in neighborhood markets. Customers do love the convenience and the format appeals to all of our customers and there's no doubt that pharmacy is a great track driver but we still got opportunity in neighborhood markets.

And the discussions that Judith and I and others have been having as we walk those stores is let's look at what we're doing in deli, let's look at what we're doing in bakery, let's look at that core opening grocery. I know that by leaning in here and getting into the detail, we can improve that offer.

We'll grow our store count next year around 180 to 200 in neighborhood markets and the focus is as always should be on any new stores got to be on quality not quantity. Supercenter should also be delivering positive comps. Can't turn the ship around overnight but this is a focus and we are after it.

We will continue to own the stock up through. It's always going to be an incredibly important occasion for our customers. We'll moderate our growth of supercenters next year. We plan to build 60 to 70 and that includes conversions.

We'll be thoughtful about that growth again focusing on quality not quantity. We need to make sure that we exceed our customers' expectations in these big boxes and it's important for us to really think about these big boxes, how it looks, how it performs, what departments we grow, which ones we can track, what services we add, how do we get close to some of the things that Neil and his team is doing in the dot com space.

We've got to do things that our customers have anything thought off yet. As well as that we've identified some priorities that we are focusing on right now. We call that urgent agenda items and we are executing against this. We're leaning in pretty hot.

As we work thoroughly so I can tell you that we're also identifying emerging initiatives that will take and will consider. Just briefly about these urgent agenda items, four that I'll share with you at the moment, markdowns in inventory damages.

You can imagine in a business like ours, they can be pretty large numbers. So we need to tighten some of that procedures and processes around this. Secondly, inventory. I mentioned previously growing twice the rate of sales.

So we're starting to have a look at what our processes and procedures around things like SKU counts, modular disciplines, PDQs, those pretty damn quick displays that we put into stores. Have we got the disciplines around those that we need?

We're looking at some outlier stores, not outlier stores in terms of total performance but specifically around wages and supplies and we're just being very thoughtful about how we deal with those. But then our whole group stores have done a pretty good job of managing cost here but we have a cohort that we know that we can lean into.

Finally, returns. Again, you can imagine in a business like ours how many mismatched shoes you get, how many returns you get from dot com, what happens in terms of what packages. Simply getting good retail processes and disciplines around this are going to assist us.

We believe that this fourth quarter action will help us sit a portion of the significant headwinds that we're seeing whether it be wages, healthcare cost and, of course, we do have 190 stores to open between now and the end of the year.

As we execute against the urgent agenda items, we're also focused on opportunities with the enterprise strategy in mind. Service to the customer, we're going to be really thoughtful on wages and on opportunity at the same time as we do that to really ramp up the customer experience in our store.

Secondly, in-stock, there's been a slight improvement in that but it's not enough to be noticed at all. I've been in this game long enough to know that's one of the easiest ways of improving your sales, making sure you got the right stock and labels between the backroom, between what's happening with night sales making sure that that is appropriately run and organized. Thirdly, price, we got to work hard in this area to make sure that we've got the get that we want. We cannot let our competition beat us on price.

Fresh, I really do like fresh. I'm a fresh food person. So I see opportunities as I get around that stores with fresh. A factoid, our most loyal shoppers are only spending 40% of their total weekly spend on fresh in our store. Those are most loyal shoppers. So as we lean into and we start to get really the disciplines we were required around fresh, I see great opportunities.



Inventory, I've already covered. It's always a constant in our business. I know when we get our inventory labels right, the rest of the ship starts to sail pretty well. And, of course, integration with e-commerce, already working closely with Neil but we're going to go even harder and faster with where we really are uniquely positioned when you think about it.

A whole set of stores, a great e-commerce business, we just got to get in now and go further and faster, expand assortment, improve mobile internet experience and provide exits when they desire. We've got lots to do but I can tell you I am really excited about the opportunities.

As I conduct the diagnostic review with the teams, we are continuing to find gold nuggets in the business. And I'm confident we're going to have the state of emerging initiatives that anytime as we execute hard against this, we're going to see our business return to comp sales growth.

We're going to get associates engage more than ever because I know that part of the secret associate is to get the army that is Wal-Mart to match. And, of course, we can get customers excited at shopping in Wal-Mart in a digitally and physically integrated environment.

Wal-Mart will remain the standard barrier for excellence in retail for years to come. Right now, we can get pretty excited about what we've got coming for the holidays. We got a great plan to win and I get the opportunity to hand over a pretty exciting path of our business, what we're doing for holidays and what we're going to sell to Duncan. So welcome, Duncan, to the stage. Thank you.

(Video Playing)

Duncan Mac Naughton - Wal-Mart Stores, Inc. - Executive Vice President, Chief Merchandising Officer Wal-Mart US

Thank you, Greg.

Before I begin discussing with you all the great things that we had plan for the holiday season, I want to stop for a minute and take a quick look to remind you about who is our customer at Wal-Mart US

Doug said this, we're in a business to help people save money so they can live better and that applies to everybody. Our customers are not defined by demographics. We serve all of America from young to old, from low income to affluent, from real towns to urban cities across all ethnicities and we believe that all these segments are value driven. Doug said that.

In fact, without proprietary data and Nielsen Homescan panel data, 84% of shoppers have value intent in their behaviors and their attitudes when they go to shop and Wal-Mart is uniquely positioned with our everyday low prices, our broad assortment, our products and brands and that intersection that you just heard Greg talked about between physical locations and digital capabilities to win in the marketplace better than anybody in this business.

So do you want to talk about the holidays? I want to talk about the holidays. It's going to be fun. So as you heard from Greg a minute ago, we're doubling down to make sure that we show price gaps across the marketplace, across United States and across the categories.

And one way that we're doing this is utilizing Savings Catcher. We rolled out Savings Catcher in August 2014 across the country. This reinforces our price leadership message and we have seen an amazing response from our customers.

Using our Savings Catcher app, customers can scan their Wal-Mart receipt for comparison for local marketplace prices in categories and grocery, in consumables, over-the-counter products, health and wellness products and select general merchandise categories.

If a local competitor offers a lower advertised price on any of these items purchased at Wal-Mart, we're going to refund that difference right then on our Wal-Mart eGift Card that they can use on Wal-Mart.com or they can bring in to the store and use on the next basket.

So in our test market, we saw increased trips and increased spend from Savings Catcher users versus non-users. And since the national launch, we've had 5 million people start using this program and almost 3% of all receipts are submitted through this tool.

Now Savings Catcher is about building trust for their customers. It's another way to continue to prove to our customers on our everyday low price guarantee. In fact, less than half of the receipts submitted qualified for a refund.



And the average refund, less than a dollar which I believe is a real testament to our customer that our promise in everyday low prices is living and living well in the marketplace. Additionally, word from our customers, you see down the slide this quote, this app will help prevent you from running from store to store to find the lowest prices because we'll do the work for them.

And finally, this program is a unique example I believe of that intersection between digital and physical. We work very closely with Neil and his team and we've really learned about all the capabilities from Savings Catcher and we're seeing a great digital response.

In fact, this program is driving traffic to e-commerce attracting new customers to our site and to our mobile apps to get this. Last week, 81% of the receipts came through mobile devices. When we launched this in August, this app became number two in the app store within two weeks.

So we've learned a lot from this program. We've learned a lot about our customers. We've learned about how they shop and we're going to continue to learn more, this is how I see it.

Let's take a quick look at a short video that shows you how easy Savings Catcher is.

(Video Playing)

Duncan Mac Naughton - Wal-Mart Stores, Inc. - Executive Vice President, Chief Merchandising Officer Wal-Mart US

It's a great program. I'm really excited about it.

As you heard from Greg, fresh is a big focus for our business this year. Over the past year, we made significant improvements across our fresh business and this is evident by a 40 basis points improvement in our market share according to Nielsen Perishable Data. It also shows up in customers' confidence in their perception that Wal-Mart can in fact provide consistent quality produce for their families.

Now we understand that produce is in fact the traffic driving area in our store and we're committed, being committed to long-term programs that will continue to improve the quality and the consistency of produce in our stores.

Last year, we talked to you about would I buy it program. This training program was designed to give our associates in store expectations and excellence in standards that we expect to see for our customers when they walk in our store.

Essentially, this program puts our associates and the customers' mindset, they just ask their associates and said, if you're not going to buy this product, the customers may not likely to buy it either.

So we've also worked upstream to get more local produce on the shelf and this year, I'm pleased to announce the relaunch of our focus on fresh including our guaranteed buy-me program. We're improving every facet of our fresh business from operational components, from product flow to forecasting, to associate training and development within our stores.

The guaranteed buy-me ensures that every piece of produce, every piece of produce that we place on our shelves is the quality that our customers expect. With these initiatives, we'll also focus in giving more days of freshness to our customer. They have a better eating experience that lasts long in their refrigerator.

To bring this campaign to life, we launched the National Apple Test Campaign that I'd like you to see. Let's take a look.

(Video Playing)

Duncan Mac Naughton - Wal-Mart Stores, Inc. - Executive Vice President, Chief Merchandising Officer Wal-Mart US

Great looking product in our stores now. Please enjoy it. So, hopefully, many of you are out in our stores in a local market recently and if you did, I hope you saw our entertainment relay which we inside the business call project reboot.



You know, last year, as you may recall, we discussed many of the entertainment categories that needed some attention because the industry trends were changing and changing rapidly. Entertainment is a key traffic driving area for Wal-Mart particularly at the holidays and we need to ensure that we're providing our customers with the right assortment, the right products for their ever changing lifestyle needs.

So to do this, we completely re-envisioned the department delivering a new and exciting customer experience. We reallocated this space increasing areas and growth categories like wireless and our accessories business and then reducing the space and physical DVDs and physical music.

We're also interactively showcasing the brands that are relevant to our customers like this Beats headphone setup. Our customers can actually really feel and experience that Beats music experience in the store.

We're also getting in the new categories like the wearable category. We're really pleased with the results we've seen so far from project reboot because we're building prominence with key brands and key products in a great area in our store.

On the food side of the business, we're focused on enhancing the in-store experience, you heard it from Greg. We're going to continue to have our traditional bake center again but this year, we're going to be digitally connected.

Our customers can look at the latest recipe trends right there at the bake center, all the components, how to build that meal right in our store. Our goal is to inspire great holiday snacks and great holiday meals.

We're also launching entertaining at Wal-Mart in about thousand market stores across the country. In our holiday entertaining guide, we're going to show recipes and tips about holiday family gathering's meals, snacks and make the whole event very, very special.

We're going to have demo booths in our stores so that customer can actually interact and see firsthand experience the taste of all those recipes that we're featuring in our entertainment guide. For us, it's about inspiring that inner chef in all of our customers.

We're excited about great merchandise and great prices online and in our stores this holiday season. Before we got the Halloween, I hope you got to see that in the stores as well. I think it looks fabulous.

We're showcasing some great products like our \$16.97 Halloween costume including Disney, DC Comics and Marvel costumes. They look great. They're selling great and the customers are really interacting well with them.

Additionally, we've got a great set of inflatables if you're out in that lawn and gardens. So all the great inflatables that we have for the customers as well with great value relative to the marketplace.

For the holiday business, we'll be ready with seasonal decor for everybody in the marketplace including 100-pound GE LED light sets, wait for it, \$6.98, that's 40% value, 40% value versus our competition. And when the customer brings that light set home, 80% savings versus the traditional incandescent light bulb set.

So save money at Wal-Mart, save money on utility bill. Another fun one, see this Christmas tree up here, GE iTwinkle Pre-Lit 7.5-foot tree, \$249, down \$150 from last year. What's exciting about this? People today like to customize their lifestyle.

So you go in there, you can pick the color of lights. You can pick the light show. You can pick the music, all of which attached from the iOS device or your Android device. Again, being relevant for our customer today.

We'll also have the gifts across the whole family that are available. Great items like Keurig 2.0. We launched that two weeks ahead of the marketplace and we're \$20 below with competition.

What's exciting about a good old coffeemaker? Well, this new technology allows you now to make that perfect cup of coffee. But I work for Greg or for Anne, you need a four-cup drip. So that's what I'm living right now, right Greg? So he likes to drink tea but I drink coffee.

So this is on the shelves right now with support across in the food business, all the coffee, all the teacup, all specialty beverage both merchandise and the home side so the grocery side of the store.



We're also going to have some of the great items on our shelves. Another great item, sorry, I love merchandise, like our Disney Frozen, anybody heard about that? Disney Frozen? If you haven't, you're going to hear about it, all right?

This maybe the best selling item this year, right here. This is Elsa, hopefully, you know Elsa. This is going to be \$28.88, \$11 savings over the marketplace. Now if you have young kids then you know Elsa. If you have grand kids, you might. But this young lady is unbelievable.

(Audio Playing)

Duncan Mac Naughton - Wal-Mart Stores, Inc. - Executive Vice President, Chief Merchandising Officer Wal-Mart US

Now that's going to irritate you all Christmas.

What did you say? She said buy Wal-Mart stuff. So that's going to be something - that's going to sell really well. And for the high tech folks in the family, we'll also going to have maybe a solace in the story yesterday, Vizio 50-inch Ultra HDTV, \$998. Are you kidding me?

So take care of your children, take care of yourself, it's going to be a great holiday season. You know what else? We're also thinking about great fantastic values for items across the store, across our toy section that the decor looks great.

But what we're learning from our customer is their consuming content in all sorts of different ways today, right? They want to be on their phone, they want to be on their tablet, they want to be on social media, digital media.

So our marketing team has built a great framework for advertising this year and this is how we're going to talk to. We call it our Holiday Hub. Take a look.

(Video Playing)

Duncan Mac Naughton - Wal-Mart Stores, Inc. - Executive Vice President, Chief Merchandising Officer Wal-Mart US

I love that. Real-time content, number shared voice will be everywhere in our customers' lives. Stephen, you did a great job with your team.

So we're also going to continue some of the great programs that have been successful in our past. We've already launched in September as you may know you're free Layaway Program that allows our customers to pick up their holiday gifts, put them in on Layaway and pay for them over time before Christmas interest free.

We also once again talked to the kids and say, help us get the best stories for Christmas this year and some of the examples that you're going to see are Zoomer Interactive Dinosaur over here. Unbelievable. Real dinosaur movements, right, eats, runs, chases, some stuff you don't really want to do but it's part of the game.

It has dino sensibilities as well as this one that I really like, this is the Kidizoom Smartwatch, right? This is a camera, this is video, this is video recorder and it's got four learning games on it as well.

So you know how kids love to consume technology. This is going to be another great seller. We also have Teenage Ninja Turtles, they're also very popular for the boys, right, also very popular for the girls. So great products this year for the holiday season.

We're also going to bring back our one-hour guarantee for Black Friday session. This is a program that no one else can match. One-hour guarantee ensures that our customers can come to our store, get the product that they want for the season at a guaranteed price before Christmas, Okay?

We also going to have some amazing products and amazing prices for Black Friday as well as during the holiday but I can't share them with you, not yet. You're going to have to wait to see. We're really excited about our great holiday season.

So what I'd like to do is show you one of the videos that was actually interacting with the kids that helped us pick the best holiday seasons of our holiday and we went back and changed our buying and brought deeper when we saw the kids interact with their toys. Let's take a look.

(Video Playing)



Duncan Mac Naughton - Wal-Mart Stores, Inc. - Executive Vice President, Chief Merchandising Officer Wal-Mart US

Great toys in that video. It's fun to watch kids interact with today. So feel good about the holiday season.

I'm going to turn it over to Gisel to walk you through all the things going on in operations. Gisel?

Gisel Ruiz - Wal-Mart Stores, Inc. - Executive Vice President, Chief Operating Officer Wal-Mart US

Good morning. Thanks, Duncan.

It's tough going after the merchant, right? I have no videos and if I can have it, I plan on not doing the laps back and forth to that corner over there. You know, we share that holiday plan with all of our store managers.

We brought in over 4,000 store managers to Denver at the convention center, shared all everything that Duncan talked about then went out to the floor to talk to store managers and I have to tell you, our store managers are so excited about our holiday plan.

When we went out to the floor at the convention center, some of the things that they were really excited about, first, there was a ton of buzz about Frozen but not just because of Elsa and the movie, the title, but because of the property across all the categories. So they were extremely excited about that.

The store managers were also excited about electronics like some of the new name brands, Beats, Skullcandy, FitBit. And then they were also excited about what I think is the best seasonal Christmas presentation that I've seen in my 23 years with Wal-Mart.

So Duncan extended an invitation, I want to extend an invitation to you too, please make time to get to our supercenters and our stores here in Northwest Arkansas while you here and if not, head to supercenter when you get back home. Please walk the seasonal area and it's sure would be nice if you pick up a couple of items to talk home too. So please come out to our supercenters.

You know for this holiday season, we know that our customers have relentless choices on where they choose to shop and we hear from about a quarter of the million customers each month, it is more important than ever to respond to what we know is on their mind.

So ask yourself, what is on their mind, what do we know about this quarter of a million customers each month that we talk with? It's very simple in operations. In stock, they want to know that we're going to have the item that they're looking for every visit.

They also want help from associates when they need help and where they need help in the store. And we know that they want a fast checkout experience. So what are we going to do about it in the stores and operations?

Let me start with in-stock. Some of you know that we rolled out a new inventory process at the beginning of the year across the entire chain. It was a simplified inventory management system.

You see our associates were spending too much time perfecting the accuracy of the logic versus stocking shelves and we knew we were missing sales. So eliminated nearly every exception process that our associates were involved with out in the sales floor.

We eliminated all the unnecessary counting and business making the inventory management process easier for our associates, we were able to repurpose 20 million hours back in the stocking.

This is year one of the team we rolled out so we've got more work to do. We're going to continue to reinforce execution of the new process while we're still finding even more ways to simplify it and remove unnecessary work for our associates. That way our associates can work on what matters most and that's pretty product on the shelves.

This flip will not end and I want to make sure that everyone in the room understands that it's not just the store action plan. Greg mentioned earlier the urgent agenda items. So what we're doing with the process coupled with inventory reduction in the stores which is one of our four urgent agenda items.



I know that we're going to make a meaningful difference and a meaningful improvement in in-stock. We are committed to improving in-stock.

But being in-stock isn't the only thing that we're working on. It's not enough. We have heard from our customers that we need to get better at customer service. You heard Doug talk about it in his opening comments and we know that that starts and ends with our associates.

We also know that motivated associates help provide better customer service. So I'm happy to report that over the past two years, we have registered the highest associate engagement scores in our company's history.

This year, we're hiring more seasonal associates than ever before. This holiday season, we will hire over 60,000 new associates to help during the holiday season.

And while we were in Denver, we shared our plan with all of store managers to renew our commitment to customer service and this plan includes wanting new training and development programs to all associates.

It includes investing in departments like deli and electronics. It also includes wanting a new dress code. Our associates are sporting new navy blue vest with a spark on the back for a more professional look.

And as I travelled to stores every week, I've had a chance to talk to dozens of associates out in the store since the dress code launched. Here's what they're saying about the new dress code. It's always a little bit nervous to see how our associates respond and react.

This feedback has been overwhelmingly positive. They used words like it's really light or it's cool because it's made out of synthetic performance material. I feel like I look sharp, I look professional.

We even have store management volunteering to wear the new vest. So we're excited about that because for us, first and foremost, the most important thing for our customers is that they're able to identify our associates out on the floor.

To help reinforce the importance of customer service, we also recently implemented a secret shopper program, this is not a gotcha. This is recognition of our associates who are getting it right.

Since the launch, we've already recognized over 150,000 associates and every day that number continues to grow. We are just getting started. There is more to come on our plan to help improve customer service.

Duncan mentioned earlier all the great items that are on our customers' wish list. Well, when I'm travelling in the stores and visiting with customers asking what we could do better, the number one thing on their wish list is fast checkout service.

They don't want to stand in line and that's why we're introducing what we call the Checkout Promise. We all know that when you go shopping in the Wal-Mart store especially during the holiday season, it can be pretty busy.

They want to get in and out of their store quickly. So we decided to accept this challenge and double down during the peak holiday times between Thanksgiving and Christmas. This year, our plan is to open more registers than ever.

Now this Checkout Promise is a big idea and it's a catalyst we think that will help differentiate us during the holiday season and help improve our service - levels of service to a level that our customers need and we know that they appreciate.

The investments that we're making are real, investments to ours and strategic areas at the store that are meaningful to our customers. But I also want you to know that we're finding ways to invest in our associates as well.

We continue to provide access to more jobs than ever and we offer opportunity for associates to grow a first-time job into amazing careers. We made a commitment last year. Greg mentioned it in his opening comments to offer job to any veteran within a year of his or her honorable discharge.

And you might remember that our original projection was the higher 100,000 veterans over the next five years. I am proud to announce that in just a little over one year we've already hired 63,000 veterans at positions at Wal-Mart. Once you are in the door, the opportunity to grow in your hours, in your pay, in your career, those opportunities are real.



This year, we implemented a program that allows our associates to sign up for available shifts putting the flexibility and the options back in the hands of our associates giving them access to more hours. Since the program launched, we have offered more than 39 million hours to our associates.

During that same time period, over 80,000 associates have been promoted to full time positions with consistent paychecks and benefits eligibility. And still today, the majority of our workforce continues to be fulltime which is unusual for the majority of retail outlets.

We also see our associates assuming additional responsibility. I love the fact that Doug included these numbers in his opening comments and I think it's noteworthy so I'll say them again, we promote almost 170,000 associates at higher compensation rates.

And he said this as well and it's important to note, 40% of those promotions that happen every year happened within the first year of them being with Wal-Mart. This is also something that we're very proud of, 75% of our store management team started out as hourly associates.

We've continued that trend this year with over 8,000 promotions from hourly to management. These are jobs that pay anywhere between \$40,000 and \$250,000 a year. Those management positions are all in the field out across the United States.

So as for Wal-Mart, you can go as far as your talent and hard work will take you. We operate over 4,000 stores across the US and just a moment, Judith will talk about how we're continuing to grow.

I am really excited about our focus on customer service on improving the levels of service in our stores and the interactions with our customers. I'm also excited about the career opportunities that we're going to continue to provide for our associates.

Before I wrap up though, I did want to give you a quick update on a topic - two topics that we talked about the last time we were together. We talked about two groups of stores if you remember. We talked about our discount stores and we talked about the bottom 10% stores, underperforming stores.

Last year, we discussed how we weren't satisfied with the performance of our discount stores. You know, keep in mind, this is primarily because of the merchandise mix. Majority of the floor is dedicated to general merchandise and our fresh offering is very, very limited.

Well, we've taken action on about half of the 500 discount stores and that action includes approvals for expansions, relocations, conversions to make sure that we expand our fresh offering in the stores. The other half of the stores, we're continuing to review and we'll have actions set against this.

Last year, we also discussed that we had about 300 stores that were considered underperforming stores, the bottom 10%. They were underperforming in sales and profit. Happy to report that these stores had a comp sales improvement of over 390 basis points.

This is a good improvement but it's not where I'd like it to be and our team will continue to be focused on that outlier stores executing store-specific programs to help improve our operational consistency, will solve for merchandising needs in those stores and we'll continue to close the gap between our best and our underperforming stores.

This is a really exciting time of year for the stores. You've got to get them in to really feel it and understand it. Greg mentioned earlier, we're focusing on improving our core business, that's what the operations team is focused on. And through the urgent agenda item work, we're positioning our business and our team for long-term success.

Now I want to turn it over to Judith McKenna who's going to talk about some exciting new things that are happening across this suite and she's going to cover strategic initiatives that are established within the enterprise strategy. So please help me welcome Judith McKenna.

Judith McKenna - Wal-Mart Stores, Inc. - Executive Vice President, Chief Development Officer Wal-Mart US

Thanks, Gisel, and good morning, everybody.

You heard both Greg and Doug talked about the way that our customers are changing rapidly. What they expect from us as a retailer is evolving and they want more choices in how they shop and when they shop and to be more digitally connected than ever before.



And I would like to talk about just being in a diagnostic review phase that doesn't mean that we're standing still. We're continuing to build on the work that's being done in recent years to meet those changing customer needs to ensure that we still remain relevant. However, as you've also heard, we're being thoughtful about what we do and when we do it to ensure that we're on the right path for all of our stakeholders.

Today I'd like to talk to you about three key areas, about our existing formats, about the tests and pilots that we have underway, and about our focus on providing services.

Let's turn first to formats. Consensus is at the heart of our business and they are critically important. They make it more than 80% of our store portfolio and continue to be on those productive formats. This year, we're forecasting to open around about 120 units slightly ahead of the guidance of 115 units that we gave you previously.

Now you heard from Greg that we want to continue to own the stock-up shop. That's really important. But we recognize that in order to do that, we have to refine supercenter of the future to drive customer traffic to the box and to make sure they have a quality shopping experience once they're inside.

So to do that, you can expect us to be looking at a number of things and a number of initiatives including refining new space to make it easier for customers to find what they need but also what space we did to which categories and which services.

Duncan mentioned project reboot in electronics. That's a great example of where we're roll after this doing this. Taking space or giving space to categories that are fastest growing but reducing the footprint on categories that are perhaps not as relevant to customers as they were say five years ago.

We'll also be looking increasing our digital integration to that seamless customer experience and strengthening our service offerings in ways that will be unique to Wal-Mart. And finally, we'll have a focus on our shopping experience its real quality from the moment you drive into our parking lot to the moment that you leave.

Now let me walk through what this redefined supercenter looks like. We want to be thoughtful about turning it in growth plans. And for that reason as Greg said, our plan is to deliver between 60 and 70 supercenters including relocations and expansions next year. We recognize that we're probably do one of our [largest] in the several years but we want to ensure that we have got supercenters that are fixed to the future.

Let me turn next to neighborhood market. Our 40,000 square foot boxes offering a convenient feeling top-of-shop for our customers with fresh, fuel and pharmacy at the heart of the customer proposition. We're continuing to roll this format out at pace.

This year, we go to guidance that we will open between 180 and 200 units. We're forecasting to be just below that range at 170 but with around about 60% of our opening still to come in quarter four, in fact in December and January. You can imagine we're continuing to track that number very closely and we are really focused on having a strong and great new store opening.

Our plan for next year is to anticipate the program that's very similar to this year, 180 to 200 units and as with supercenters, we're going to be very thoughtful about that number of units.

Our focus will be on quality. We want to ensure we're in exactly the right location to allow us to maximize convenience for the customer. We'll be judicious and disciplined in our rollout plans.

But we are still excited about the future of neighborhood markets and we're encouraged by the strong performance we continue to see. We now have over 15 months of consecutive positive comps and within that, each relevant year group continues to deliver positive comps in their own rights.

And in addition to that, the new store openings we've seen this year are right in line with our expectations. Our focus us now on optimizing this format with areas of work underway in four key initiatives, improving the customer offer particularly in fresh and particularly around bakery, produce and deli.

Improving the operating model, introducing new store processes relevant to small format that helps drive stores efficiently. An increased focus on operational standards particularly on friendly customer service. And finally, creating true stores of the community and bringing services that are really convenient to our customer closer to where they shop. So neighborhood markets are something we remain very committed to.

Let me talk next about our express stores. These are 12,000 square feet smaller format stores and to clarify, none of them that I just talked about some neighborhood markets include any of the 12,000 square-foot stores.



We have 22 expresses open today and we announced last month and many of you asked me about it last night that we made the decision to rebrand these stores as neighborhood markets for all future openings. The decision to do that was actually a very simple one and it was led completely by our customers' feedback.

That feedback on how they shop in the stores and what they expected from them when they were inside. It's a really great example of this learning as we were going along not waiting until the end of the trial to make changes.

And the biggest change that customers will see is not just in the name. We're also changing out the assortment. We're reducing areas such as home wares or picture frames, photo frames, shower curtains but we're actually expanding on fresh and we're increasing the housing power on those things that customers buy every day, water and diapers.

And in addition, we're trying to find ways to make the shopping experience easier. So you'll see us putting more self-service checkouts let's say in those stores that we're rolling out.

Now we'll have all of our test stores by the end of quarter one and that will give us just over 100 of this 12,000 square foot stores to learn from. This is a test and we need to evaluate the results once we have them. So it included no future openings in any of the guidance we've given you today.

Before I leave in formats, let me tell you about one other thing which is an organizational change that we've made which is to support our evolution to a more multi-format business. Now similar to the change that happened when supercenters were developed in the early 1990s from division one stores, we've now created a separate division and sales structure to support small formats.

We completed the restructuring at the end of the September and now have a full field team with over 60 market managers in place specifically dedicated to small formats. The small format stores report up through those market managers and they intend to a dedicated regional and divisional structure. We've also introduced dedicated home office functions inside dedicated home office of functions to certain areas as well. I believe this will make a significant difference in our ability to focus on this format and our ability to deliver global optimization plans.

And having worked and developed a multi-format organization within Asda in the U.K., I'm really excited about the difference that this will make and the focus that it will bring. And we're really pleased that Mike Moore who is previously president of the central business unit is now leading the small format development and operations area.

Many of you will know Mike, he's the retail veteran 30 years almost experience in Wal-Mart and interestingly was part of the one of the first supercenter teams way back in the 90s which just goes to show that everything in retail comes around at some point.

So in addition to format, I want to talk on the test and trials that we have underway at the moment and new operating points and new access. Wal-Mart was built from trying new things. Hypermart evolved into the successful supercenter program and Helen's Arts and Crafts perhaps wasn't quite so positive.

The iteration has allowed us to learn to move forwards and to try new things and I think again we're in a development phase of learning from a number of new concepts. We're being very deliberate in our testing.

We've introduced a new concept internally called pilot suite purpose, know exactly what you're testing, know exactly what you're expectations are and have a very formal evaluation of the results. In these things I'm going to talk about, let me first set the expectations for everybody here.

We will not be giving any forward guidance as to what the future plans off for these initiatives, that pilots, and just like with the express stores, we learned from them and we'll announce what's next or not next at the appropriate time.

But there is one test I can update you on today. Last year, we introduced due to the concept to tethering, tethering a small store to a supercenter to delivery of products. You know, the large stores are acting like a mini warehouse, like a mini distribution center for those smaller formats.

Our early results showed us that this clearly wasn't going to give us a sustainable model either economically or from the operational complexity that it introduced so we've called a halt to that pilot.

We're continuing to look at tethering back office activities and still think there are way large format to small format to work together efficiently but not for that distribution of products.



So let me talk about on more positive trial which is our grocery home shopping trial in Denver. This continues to go well and customer demand continues to build. You know, you can order your groceries online and have been delivered to your door to home and this year, we also introduce the ability for customers to pick up those groceries from anyone of our 36 stores in the Denver area.

Not only are we learning a lot through our operating model here but we're also very focused on what the customer experience is. It's really critical in a service like this.

To date, we really encourage that 85% of customers have rated this four or above on a scale of 1 to 5 for customer satisfaction but we're continuing to learn a lot. We're also continuing to leverage the talent and knowledge from our U.K., from our Asda team to maximize our learnings whether it basic delivery and pickup or operational processes.

Neil and the team will talk to you more about our Denver trials later today and I know Dave is planning to talk about the trials in Asda as well and the learnings that we're taking.

Moving on to perhaps one of our more exciting pilots that we have which I know a lot of you saw on the buses last night and drove past which is our Wal-Mart pickup grocery here in Bentonville. Our customers can now order online from a selection of 10,000 items and arrange to have them delivered directly into their trunk by one of our associates at a collection time to suit them at our drive through location.

They never even have to unclick their seatbelts or leave the car. We pick the items for them from a 15,000 square foot mini warehouse attached to the drive-through location and that allows us to fulfill a customer order in just two hours or any given time up to three weeks later whichever is the most convenient for them. It's all about choice and ease for them.

It's very early days. We're only three weeks into the trial open to the public and we're still restricting access to it to make sure we get the operation right but we're really encouraged by the response of customers.

The ability to pick up groceries in the convenience it gives them has been fantastic and I have to tell you the most feedback that I had has been from busy moms who no longer have to get themselves out of the car of more importantly get their kids out of the car at the same time. It is a test we're continuing to learn, but every day and every week, we're building on that learning.

While I'm talking about Bentonville, let me just mention the Wal-Mart To Go convenience store which is just down the road from the drive which we opened in March this year.

Just to say to you, this is a one-of-a-kind trial. A few easy essential groceries and quick meals. It's something that we're monitoring closely and we continue to evaluate.

And finally, on our trials and pilots, let me talk about Wal-Mart Care Clinics. We have 11 currently open and plans to open another six in the balance of year. This is a really important trial for us. Healthcare convenience and value to our customers and to our associates.

It's far too early to draw conclusions. But, again, customer satisfaction is key here and 4.8 out of 5 had been the score, so far, we've been getting on customer ratings. We monitor the results closely for this as well.

Which leads me on to providing service solutions for customers to make their lives easier. We know and recognize, we can see it every day, the difference that services can plan in driving traffic to our stores across all of our whole map, whatever the size.

Pharmacy and healthcare continues to grow in importance for customers. We have pharmacies in almost every one of our stores, whatever the size, and that service continues to build out from vaccinations to flu shots to the recent partnership that we announced with Direct Health. As part of that Direct Health initiative, DirectHealth.com, as part of that initiative, around 2700 agents of DirectHealth.com will actually be based in our store to help customers navigate the complexities of health insurance options which I have to say as somebody who's new to the US, needs some help navigator.

Pharmacy is also a really key area where we can combine physical and digital and you'll hear again from Neil and the team later how we developed the pharmacy app within the Wal-Mart app that allows you to order online. It's another great example of that seamless integration of customer service.

Money services is also an area where we can continue to evolve and we can offer the customer real value. You know, earlier this year, we announced the launch of Wal-Mart to roll out money transfer service in partnership with Ria. Astounded that in just 21 weeks, we reckon we have saved customers, on average, about 45 million in services, not on average each clearly, on average for the total. So 45 million in service fees. That's an incredible saving.



We're going to continue to look the new and innovative partnerships in this area because we do believe this is a place that we can really drive a unique Wal-Mart value and points of view to help support customers.

And finally, our site to store program which you've heard mentioned a couple of times today. This is a really key service. It's one of our service offerings, offering customers access to almost the full range of Wal-Mart.com for free pick up in any one of our stores.

We're about to rebrand site to store as Wal-Mart Pickup. We think that's the simpler message for customers. It's not easy understood what the services and it allows us to bring all of our programs together under one umbrella.

In addition to changing the name, we've also got plans to strengthen our service in this holiday season to meet our ever demanding customer's expectations. They want a quick fast service when they come in to collect their item.

So to wrap up, you know, I've been in the business, in the US business for about four and a half months now and I am incredibly proud to be part of the team. Like Greg, I recognize there is a lot of opportunity for us to go after but I also recognize we have a lot to do.

You know, we have to continue to focus on our existing formats and to evolve them. We have to pilot and learn from the new concepts and we have to make sure that we continue to look the new and innovative services for our customers.

So with that, let me hand you back to Greg to wrap up.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

Thanks, Judith, for that terrific presentation and also Duncan, great - get us enthusiastic about the merchandise. Always and opportunity to sell some product and Gisel for giving us an update on operations.

I'd like to just key in on a few items just to wrap up here. First of all, we do have a strong set of unique strengths that give us a foundation to deliver value for our customers, our shareholders, and our associates. We've got an unwavering commitment to innovation and we can see that coming through.

Our approach to business leadership to focus on the customer, I really believe that sets us apart from our competition. What we're doing around logistics, what we're thinking about with IT, our supplier relationships, what we can do with exclusive brands and offerings, there's a lot that we can get after.

We're going to continue to build on the strength of our geographic scale and Neil's digital presence to facilitate growth. At the same time, let's be pretty clear, we will remain very true to our core beliefs and principles.

It's these values that have allowed us to consistently perform the way that we have and exceed the expectations of shareholders and our customers overtime. That customers are going to continue to depend on us to deliver a shopping experience to save in time and money and I know for sure, we've got 1.2 million associates out there that depend on us to provide opportunities for them to advance their careers and I have met a number of them over the last few weeks.

I can tell you that I'm looking really forward to the challenge ahead to leading Wal-Mart and what I think is changing in landscape. And I know that we do have all the tools at our disposal to try and remain on top.

We got this unique culture and history and I'm excited about what we can do to strengthen our business and serve customers the way that we know that they want to be served.

So wrap up, I want to touch on just a few things. First of all, we are continuing to conduct a pretty thorough review of the business and as I complete my first hundred days, I would expect that by yearend, we've got some pretty clearly defined initiatives and we would look to provide some type of update in the early spring.

Second, we're focused on improving the core. We know how to address these opportunities. It's something I've done all my life. We're getting after them. We're starting now.



Thirdly, we're focused on driving sales. And I'm excited about what I'm seeing in the business as I get around. I'm excited about going through my first holiday season in the US. We're going to make sure that we execute each store and all the aspects that I spoke about in terms of moments of truth, making sure we've got the merchandise here and we're ready to serve the customers.

Fourth, what we're doing is we've got to make sure that we are centered on all things around the customer and that we're looking to build for the future, evolving our format, what services do we want to add, how do we improve the convenience, what can we do that the customer is looking for. So we will continue as Judith shared with you to pilot with a purpose. We're going to do all those things at the same time.

Finally, we are Wal-Mart. You know, on Sunday, this last Sunday, it's about 8 o'clock in the morning, I'm in a store in Detroit, I've got a number of the buying team with me. I had Scott Neal who looks after produce and meat. I have [Didi] who looks after bakery and Deli. I have Michelle who looks after consumables and I had [Mary Beth] who looks after home.

Nothing beats being in a store in Detroit, Sunday morning at 8 o'clock and seeing the enthusiasm from our associates because they are so proud of the scene that they run. So I don't underestimate for one moment what we can achieve as we strengthen our business, as we start to serve our customers and we engage our 1.2 million associates and get the army that is Wal-Mart to march.

I think we're well positioned for growth and I am incredibly excited about our future. I introduced the leadership team before. I'm going to ask them to come forward now and come on stage and we're going to start some questions.

QUESTION AND ANSWER

Unidentified Company Representative

Greg, before we get the Q&A underway, some of you, both here and on the webcast, have asked about the slides. In an effort to be sustainable, we're not printing any so for those of you who are here live with us, we're not handing you any paper. We are showing the slides live so if you have an electronic device, you can easily watch the slides as we're going through the meeting.

And for those of you who are listening, you can download those slides at the end of the presentations. So we have 30 minutes now, Greg, for some Q&A. And for those of you here, you know the process. Please raise your hand, wait for a mike, so everyone can here the question and we would ask you to please say your name and your firm.

We'll start with John.

John Lawrence - *Stephens, Inc.* - Analyst

Thanks, Sheryl. John Lawrence with Stephens. Greg, would you comment on that initial round of feedback from the store associates? What were some of those responses and feedback that surprised you the most?

Greg Foran - *Wal-Mart Stores, Inc.* - President and CEO Wal-Mart US

Thanks, John. So you can imagine it was pretty wide and varied and maybe the best way I'll answer it is break them to three phases because I've sorted our story.

I guess, probably, an hour after I put the challenge out there, they were starting to come through and the first group were pretty focused on opportunities that they could see in terms of proving in stocking the store, getting out to the frontend and making sure the frontend would be managed well, getting into fresh foods and creating a deli sampling program. So that might be an example of what they saw.

And interestingly, one of the things that came through within the first hour was that inadvertently, we had turned off toilet seat covers in the restrooms. So I can tell you that was one thing that we got turned on again pretty quickly.



After about a week, I then got another batch through. When I say batch, I'm talking about, you know, a thousand, 1,500. These people had gone back to their stores and engaged with their associates.

They're being a little bit, I guess, more thoughtful and wanting to engage with your team around some challenges and they would be similar to the first group but they started to put some really good KPIs against what we're going to do so they were saying, Gisel, I want to get out the frontend, I'm going to make sure that I'm there or two hours a day at the busy time of the day but I want my fast and friendly score to move from 88.6 to 92.3, et cetera.

You know the most interesting group was the group that I got through last. And these were generally our longer-term managers, 30 years in the business. And I don't know how many we got but, boy, we got a lot of them.

These people were really thoughtful. They had gone back and they had done a couple of things. The first things they did is they see I'm not getting fire off first, I want to actually see what happens here. And they heard that not only was I responding but I was actually responding personally.

So a number of them, Gisel, really opened up, didn't they?

Gisel Ruiz - Wal-Mart Stores, Inc. - Executive Vice President, Chief Operating Officer Wal-Mart US

Yes.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

And they said, yes, we're pretty concerned about what's happening here and in terms of some of the structure that we've got to run fresh or we think that we've got to lean in to price and we've lost some of that edge. So they were really unvarnished with me. And as I shared, when I spoke previously, that has been incredibly useful. We've kept every single one of them. And you can probably group them in a bucket of probably about 40 things and we're using that as part of our diagnostic.

Unidentified Company Representative

We'll go next to Bernie.

Bernie Sosnick - Gilford Securities - Analyst

Bernie Sosnick, Gilford Securities. You said that you simplified the inventory management process early this year and yet inventory continued to grow. I'm wondering what the source of the difficult remaining is particularly in the backroom management of inventories?

Gisel Ruiz - Wal-Mart Stores, Inc. - Executive Vice President, Chief Operating Officer Wal-Mart US

Great. Thank you, Bernie.

The program changes that I mentioned before were in pilot last year. And so we went rollout to chain this year. Those were mainly various store-focused changes.

I think what we've learned is that that's not the only piece of the puzzle that needs to be solved for. So when I mentioned earlier our urgent agenda items, we know that together, supply chain, replenishment, merchants, the urgent agenda items about reducing inventory management, and more specifically, disciplines around feature flow or transportation flow, those things - all those things have to come together in order for us to really make a meaningful difference in instock.

So while we have the front-face team, processes, completed, finished, rolled out, there is still more work to do with the behind the scenes work at the home office.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

I guess, maybe if I can just add to that.



Gisel Ruiz - *Wal-Mart Stores, Inc. - Executive Vice President, Chief Operating Officer Wal-Mart US*

Yes.

Greg Foran - *Wal-Mart Stores, Inc. - President and CEO Wal-Mart US*

We have most stock coming in than we've got going out. So, you know, Duncan, you may want to add a bit to this. But you heard me refer to PDQs which I would imagine you're familiar with? So the prepacked displays?

We've got too many of those going in to the store for the available space. It's as simple as that. We have said a space - a store has got a space for 80 and we've been sending them 120. That's one point.

Second point is we've added SKU count in over the last few years which I think has been really appropriate in a number of areas but we haven't had as tight a discipline as to how many SKUs we've added in and in some cases, we're over SKU. And that in turn, puts pressure on your modular because the deal of running a modular, your planogram is I've called it the countries I've lived in, you're basically got to have a role of a case and a half on shelf because as soon as you go below that, you got to double handle everything, you had to put it up the tarp, you got to take it out the back.

You get the discipline of a case and a half on your modular and you get one touch appearing in your store. We lost a bit of that. So some of the modulares have not been as disciplined around the case and a half.

So there's a series of things that Duncan and his team, Scott Huff is, I would imagine in the room is leading, and this team is cross functional both operations, both merchant, both the supply chain because they are out of products that we've actually put on to what we call assembly that we can now delve in to and we've actually worked out and we've got some pick slots in DCs. Those things combined over a period of time, they're going to bring inventory down as well as improving in-store processes.

Duncan Mac Naughton - *Wal-Mart Stores, Inc. - Executive Vice President, Chief Merchandising Officer Wal-Mart US*

Maybe just to add, Greg, I think, my discipline feature flow channel decision which is about where we put the product in the warehouse could be some of the drivers.

Additionally, as you know, there is potential port issues on the West Coast this year so we did start bringing in Christmas freight flow earlier. We also brought in direct-to-store containers which is the right thing for the business but it doesn't play in our inventory and our direct import business is up double digit this year which is also good for the customer as we have lower cost but it does have an impact on an inventory cost.

And our new stores is probably about roughly half to slightly more than half of the inventory growth as we build the assortment. But we are squarely focused on all these key initiatives all the way from overseas, the suppliers, the rate of refill to operations to simplify execution store level.

Greg, we'll go to the back of the room for a couple. We do Matt and then Meredith.

Matthew Fassler - *Goldman Sachs - Analyst*

Thanks a lot. Good morning. It's Matthew Fassler at Goldman Sachs.

My question relates to formats and to unit growth. To the extent that you scaled back growth and you should reformat this year and you think about the implications going forward, is this really sort of a stuff and a slowdown on assessment of your formats as you step in to the US or do you potentially consider this the beginning of a slower growth mode just recognizing digital influences and the way you might want to allocate capital in the future?

Greg Foran - *Wal-Mart Stores, Inc. - President and CEO Wal-Mart US*



Well, I guess, the first thing I say is I like supercenters. I think a supercenter, 150,000 square feet, roughly, you're going to have different sizes, I think, well managed and well run is a great, great business.

We're being thoughtful about how many we're rolling out and where we're putting them and do we want to make sure that the new ones that we roll out reflects some of the thinking that we're doing going forward? Absolutely.

So what you're seeing here is exactly that coming into play. I don't think that you should necessarily interpret anything from that other than we know that we can do better with the big bucks. It's so critical to stock shopping trip so it is what we're doing. We got to lean in there. We got to get that right and as we get that right, then we'll work out what we're going to do. I think 65 to 70 is a pretty good number.

Hundred and eighty to 200 neighborhood markets, Judith, once again, we're being thoughtful about how we're doing that and my message to Judith which I get from Doug all the time is give us quality, not quantity. You want to add anything, Judith?

Judith McKenna - Wal-Mart Stores, Inc. - Executive Vice President, Chief Development Officer Wal-Mart US

No, I think that was exactly right. I mean, it will be about the same numbers this year so it's not a slowdown year-over-year the neighborhood markets and we'll test the express stores as well.

I think getting the right locations and maximizing this convenience to customers is what's essential. And Pam and her team working with the small formats team to make sure we've got the right locations when we open those then will be at the right time to make sure that that's what we'd established.

Unidentified Company Representative

Meredith?

Meredith Adler - Barclays Capital - Analyst

Meredith Adler from Barclays. I have a question for Gisele. You talked about the Secret Shopper program and that it's to reward people for giving extraordinary service but what happens if they observe something that is just not appropriate or doesn't give good service? How do they handle that situation without creating a morale problem?

Gisel Ruiz - Wal-Mart Stores, Inc. - Executive Vice President, Chief Operating Officer Wal-Mart US

Yes, great. Well, we rely on our store management teams to do that. You know, we are rolling out something called leader-to-leader training. It's in pilot right now in a couple of stores and that's where we actually teach supervisors, hourly supervisors, management supervisors, how to deal with performance management in the stores and that's something that Christian's team is leading. So that will roll out at the first of the year but in those types of cases, we really do rely on our store management teams to handle that.

Unidentified Company Representative

Okay. We'll go to Dan and then Scott and then we'll go to back.

Unidentified Participant

Good morning. You've mentioned that your goal is getting back to positive comps was hinged on a number of things, price, service, experience. You've already had a fair amount of price investors.

So as you think forward about that half-backed deposit comps, what do you identify as sort of the most important things you do that you're not doing today? Because price doesn't seem to be the issue and we do basket studies, we see a little price, it doesn't seem to be moving the needle.



Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

Sure. So the way I think about it is this, you had to do a whole lot of things to run a good store. So, for Duncan just to go out and invest in prices is one thing. But if the store's not organized in terms of making sure that it's in stock, that it's merchandise, then it's operating right through the weekend which is the busiest period of time, then you can spend quite a lot of money and not get quite the return. If it is well organized, you do get the return.

What do we do in about positive comps and how do we go about checking it? First and foremost, you got to run great stores and it goes back to that little saga that I shared with you about moments of truth. And over the 35 years, I found when you get those things right in your store, then you get positive comps.

I could jump out of here now and then take you in a car and we could go to a really tough market and you'd walk into the store and you'd say this is a pretty good store and you say to the manager, how you're going? He said he's got 6% comps. You'd meet the associates and be enthusiastic. They're be charged. You'd walk around the store. You'd see relevant merchandising. We'd be clean, tidy, really to try and check out what we've operating.

I can go down the road and I can take you to a store 20 miles away and maybe it's negative 3% comps. It may not be in this tougher competitive area as the first store.

The store manager, the market manager, our support in those areas is what makes the difference. It's getting all of those things right. As we lean in to those, as we can really good shopkeepers, there's an opportunity for us to sensibly get our top line growing.

I think there's another great opportunity that did get close to Neil and his business and not just talk about doing some things but getting there and really make some of these happen. We're trialing lots at the moment but nail these things and I think that gives you the overlay.

Unidentified Participant

Given that view, is it fair to say that the price investment that you've made is satisfactory or do you think there's additional price investment to be made?

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

I'm going to pass to one of my colleagues on that. Simply because being in the business for literally six weeks, I wouldn't want to comment on some of that. Duncan, what do you think?

Duncan Mac Naughton - Wal-Mart Stores, Inc. - Executive Vice President, Chief Merchandising Officer Wal-Mart US

Sure. Pricing is very dynamic, as you know. As you look back over our price gap in the marketplace, over the last seven years, it's been pretty consistent both on an on-shelf price gap as well as a weighted price.

And so, that hasn't bounced around a lot. What's different is the amount of value or hard discounters in the marketplace next to our stores that's changed a bit. So may have seen us launch a price first initiative and we've got about 80 SKUs and about 2,500 stores which is about making sure that we have the opening price point in each of these critical categories.

So in essence with that opportunity, we can invest in price. We've also see where elasticity, where commodity cost may go up like Greg talked about in meat or in dairy, we'll hold our retail price which, in essence, is giving us an advantage and elasticity.

We've also invested aggressively in adult beverages which you've seen where we've continued to be under share and we're getting great response from the customer. So we'll be very planful, very strategic about that and we manage our basket savings or our customers market by market and we've got some great competitors across the regions of the United States and we have plans to address those and monitor those.

But overall, we have a pretty solid plan. And as Greg said, our mix has changed and our efforts you've seen in the industry where we've had margin compression as well but is driving [script count]. So we're having a good balance with both basket and trips to the store.



Unidentified Company Representative

We'll go to Scott next.

Scott Mushkin - Wolfe Research - Analyst

Yes. Hi. Scott Mushkin from Wolfe Research. So just going on to the price but also labor in the store, our pricing survey suggest that the gap between you guys and a lot of competitors like H-E-B and Kroger has now, considerably, over the last five year. So I guess the first question to Greg is do we have tolerance at Wal-Mart to reestablish a price gap that was more closer to like the 15% level in a lot of these markets and do we have the tolerance to put the labor back in the stores to make sure the shelves are - shelves are properly stocked because we all know sales take time to come through where labors and price is immediate and can hurt near-term earnings, thanks.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

So you're absolutely right. So some of the data that I saw recently is yesterday, absolutely indicates that our price differs depending on what market you're on. So, no surprise that I went to grand records in Detroit in the weekend because that's an area that I was getting feedback on was a challenging area. And sure enough, I get there and get in to some of our competitors and they're doing a reasonable job and the associates tell me and now on research tells me that gap is not the same as what it is, say, on the West Coast. So it does vary.

What's our tolerance around that? We have to re-institute in some of these markets where we have lost the gap, we have to get that gap back. So how do you do that at the same time that you work on labor?

So the first comment is we're going to be pretty thoughtful about labor. And there are undoubtedly some areas in our store where we need to lean in to in terms of service. If we're going to start selling mobile phones, for example, and we've put in a new work system so you can get the contract through in 20 minutes and as much beta process, you got to have some trained associates that help serve the customer.

But there are other areas at the store where we need to be questioning just how much labor we do have. We've got some work underway, for example, and they are back offices. I think that is an opportunity for us to consider how that looks going forward.

There are other areas in the business that you can, through improved processes, achieve all kinds of things. You might take a different approach to private label. You might have a look at how you're doing some of your fresh purchasing and that you could break that down and say is there opportunities to how we're going to look at meat and how we purchase that.

You can have a look at things like shrinkage in your business and say what's been the performance there, are there opportunities? We're going to work through all those things over the next couple of months and pull together a plan that I think will actually pencil and add up and allow us in these markets that are a bit tougher to get in and get that price gap where we want it and at the same time deliver a better shopping experience to our customers. I am confident that we can do that.

Unidentified Company Representative

We'll go back to this side, Michael.

Unidentified Participant

Thank you. Two quick questions. Number one, it looks like the retail industry is getting very close to a major, sort of, restructuring both e-commerce world as well as physical world and when I talk about how you are anticipating changes in the physical world and preparing the organization for those things and those opportunities.

And secondly, you brought up private label a bunch of times. Excluding private label and food, how do you avoid the problems of history of Wal-Mart where private label is just a margin dilutive non-additive sort of situation where they said the product is always bought at Wal-Mart and don't have quality to it and are hitting just a price point.



Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

Sure. So I'll start and maybe hand to you (inaudible) the digital and then we'll come back to private label.

I guess the first point I'd make is as I get around and I talk to customers and one of them is my wife, she actually doesn't see physical and digital as two separate things. She'll go shopping in a store and if they haven't got her size or her color, she just pulls out her mobile phone, goes on to the website and sees whether or not she can get online, whether it can be delivered to the store.

So I see what's happening in the industry. I see what we can do with Neil is being incredibly integrated because I think the customers already there and I'm excited about those opportunities.

As we start to develop some of these things that Judith was going through, as we think about new supercenter designs, we'll be taking that into account.

Unidentified Company Representative

Yes. Thanks, Greg. I think you're exactly right. From the customer perspective, what we're seeing is the fusion of digital and physical and the omni-channel customers, one that's really focused on developing.

We're building on the e-commerce side of our business, we building world class digital foundation and we're working hard toward that. We're also putting the e-commerce capability on the backend of what we're doing to and making sure that we have, for example, supply chain that supports the rapid growth that's happening in the migration of the customers that are moving in that direction.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

In terms of private label, how do I think about that? I'm really concerned if we have an issue out there with the quality of private label (inaudible) and food and has growth value or not whether it's Wild Oats and it's part of the organic or if it's general merchandise and it could have any number of names on it.

If we've got an issue with that, I'd like to hear about it. I hadn't heard about it. We can't let that happen and it's got our name on it. It's got to represent great quality, great value for the customer.

If we do lean in to private label and that could be one of the emerging initiatives that we're thinking about, I can tell you that we'll be a direct focus of mine. I've done this before, and you don't put your name on it, at least you're prepared to stand for it.

Duncan, anything you want to add?

Duncan Mac Naughton - Wal-Mart Stores, Inc. - Executive Vice President, Chief Merchandising Officer Wal-Mart US

That is well said. I think, well, some of the great growth that we've had, actually, in our soft line business has been through putting quality back in the brands and it was recognized by the customer and that's why we've seen some good growth inside of those, either exclusive brands at Wal-Mart or some of the new consistent brands in the home business as well.

And the team is really focused on that and I think in the food business where you see Sam's Choice and Market Side, we've seen very strong growth there that is not only margin accretive but also helps the top line and helps solve the customer solution for immediate satisfaction for a meal or what it might be.

Unidentified Company Representative

Okay. We will go to Peter Benedict next.

Peter Benedict - Robert W. Baird & Co. - Analyst



Thanks. Peter Benedict, Robert Baird. Greg, you mentioned a number of times fresh as part of your presentation.

Just curious what you saw in particular about the fresh program, the produce area at Wal-Mart. You know, it was launched last year and, I guess, relaunching at this year. What exactly do you see that you need to change there? Was that the initial product that wasn't correct or was it how you kind of exited the, you know, the program or the items through the season?

And then related to that, do you see any opportunities beyond, kind of, the produce aisle to put fresh? I'm thinking more specifically about the pet food area. Thank you.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

You know, fresh is a really complex area for any business to run and if you, and I'm sure you do because you look after many retailers out there, it's a competency that takes quite a while to develop.

So the simple answer to your question is that it's not A, it's not B, it's not C, it's not D. It's E, all of the above, is what I see.

I have seen in some of the initial stores that I went into that we were becoming too cluttered in fresh. I want to be able to walk in to the store and I want to be able to see what we want to sell to the customer and as you heard me mention before and it's because of what's happening out there. If you're going there at the moment, you expect to see apples because it's the beginning of the apple season.

I don't want to have to stumble over two pallet of Coca-Cola and three point of sale signs directing me to buy Halloween candy when I want to walk in to produce. That would be the first point.

Second point I'd make is, I think we do a reasonable job with fruit but I do worry about our vegetables and particularly our green leaf vegetables. I think that is a really cue for many customers on freshness. You know, what do you like in asparagus? What's your broccoli like? What's your cauliflower like? When I pick that iceberg lettuce and I look at it, is it one that I'm going to buy or I'm going to start to see it brown on the edges because we haven't rotated it well enough in the store.

Now some of that be an issue with product coming in? Maybe. Haven't had enough time to get in to it. Lease concerned about that, to be honest. You know, Duncan, I think some of that's Okay.

What I do know is we probably carry too much merchandise. When I get in to the backroom and I can tell you, if you want to know how well you do in fresh, just go to the backroom first, that will tell you whether we're on track. Many of our stores get seven-day deliveries. I should not see apart from first thing in the morning or whenever the delivery window is, Chris, I should not see much stock out the back.

I want that product rotated through. I suspect and I don't know because I've only been here at a short time, we might be carrying one, two, three days too much inventory in produce.

Have we got the right labor against it? You know, that's a discussion that Gisel and Judith and I and others are chatting about at the moment. What's the level of the person required to do that? I can tell you that when you're on an automated replenishment system which we are in produce and is that the right replenishment system? Yes, it is, in my view.

If you don't get your perpetual inventory counts right, it ain't going to work. I'm not convinced we have enough discipline around counting inventory in store either monthly or weekly to get that count right.

Or a guy which is in the meat case, now, most of their meat will come from Tysons or Cargill's and Scott and I and Dave who's the meat buyer have been in deep discussion on this in the last two weeks. I don't see the consistency in the cattle. I don't see the trim is good enough upon buying muscle meat as steak, I expect to see the same cut on that meat because when I take it home and fry it and season and I want it medium rare, I want it medium rare all the way through, I don't want it tailored off at the end.

So I think there's opportunities in procurement. I think there's also upstream and I think there's opportunities downstream, none of this is easy to get after but we do know how to do it. And you start one store at a time and you get on with it, you create a store of excellence, don't you, Judith, and then you get people in and it's a never-ending journey. We can do that.



Unidentified Company Representative

Pete, if you still have the mike, you can give it to Bob and we'll wrap up, Bob, with this as the last question for Wal-Mart US

Bob Drbul - Nomura Securities - Analyst

Thanks. And it's Bob Drbul from the Nomura Securities. I guess, in the news a lot recently, you have, you know, gas prices falling, oil prices falling and just wondering if you had current thoughts on the Wal-Mart consumer, the shopper on one part of it then the second piece of it is, you know, the oil and gas impact on the operational side.

Unidentified Company Representative

So, well, is this working? Yes. We are seeing some forecast out there for the holiday period that I think are very much reflecting the kinds of things that we're seeing in the macro environment and we're looking forward to learning whether our shoppers going to be positively impacted by those things as was said this morning, certainly history would say that that would be a bit of a tailwind for us. So that's good news.

Unidentified Company Representative

From an operational side, any -- with all the fuel repurchase either for our private fleet or we pay via our carriers that has a positive impact and obviously fuel prices are down. The other side of that equation right now is the market right now, transportation prices are up because the carrier industry is tight. So it's got a balancing effect is what we see.

Unidentified Company Representative

Okay. Greg and the Wal-Mart team, thank you very much, and now, we are going to transition over to Sam's Club.

So it give me great pleasure to welcome to the stage the President of CEO of Sam's Club, Ros Brewer.

presentation

Rosalind Brewer - Wal-Mart Stores, Inc. - President & CEO - Sam's Club

Good morning. At Sam's Club, we're all focused on making membership even more rewarding. So, today, we'll cover the steps we've taken to strengthen our member value proposition as well as our data focus investment strategy.

We will discuss our merchandise transformation and how we're focused on creating more newness more often. We'll also cover our e-commerce enhancements and how we're providing and integrated physical and digital access.

So, now, I want to cover a few things with you on our recent results. We've made a lot of progress but the results show that there's still work to be done. I'm going to use the spotlight approach to breakdown our P&L.

First, I'm happy, I'm happy with our membership income. It grew 11.4% in the first half and that's excluding fuel. I'd give ourselves a green. Part of this growth is from the increase taken last May as we raised our membership fees by \$5 for our base members and \$10 for business.

The recent launch of plus cash rewards has helped moved our membership trends in the right direction. I'll talk more about that program in just a minute. Continuing through the P&L, I'd give us a yellow, a yellow for sales growth which increase 1.1% excluding fuel.



We started the year with some traffic issues, specifically, with our business member. Our business member remains pressured and traffic trends have showed negative for several quarters now. We're working to evolve with them but it's going to take some time to reverse that trend.

I'll touch on the business member more in just a moment. Softer sales have also pressured our gross profit rate and expenses. Our GP rate declined 39 basis points excluding fuel with a portion attributable to our investment in Plus Cash Rewards.

We planned and we prepared for that expense of cash rewards. However, additional rate pressures from mix and price investments intensified that decline. Because of this, our greater GP rate somewhere between green and yellow.

Expenses, however, had been managed well. Our restructure has simplified our operations without sacrificing our member experience. Expenses did, however, grow at a faster rate and sales which is why I'd give us a yellow.

Operating income declined year-over-year the majority of which was planned due to cash rewards. At the end of the July, inventory was up 4.7% over last year. This is an opportunity and we're working to align our inventory growth with our sales growth going forward.

We're moving in the right direction at Sam's Club, yet there's a need to move faster and faster. Our team has made some recent accomplishments and I'd like to recognize those accomplishments.

Over the last year, we've been making some changes, changes to make Sam's Club membership even more rewarding. Our efforts really focused on three major fronts. First of all, on the merchandising front, we're focused on newness and categories where we introduced newness, we see change. We see stronger comps, stronger traffic, stronger member response and Charles is going to give you an update of some of those examples in just a moment.

Unfortunately, our growth has been tampered by some of our larger core categories like business candy and tobacco. Now, historically, tobacco has been extremely important to our independent mom and pop convenience store owners. However, the rapid expansion of national convenience store chains and increase competition from dollar stores that now sell tobacco has really hurt their business.

So in turn, our tobacco business has run negative comps over the past several quarters. Contributing to the negative business member traffic I mentioned earlier. So we're working hard to address our issues and moving faster to introduce newness and we barely scratched the surface.

Next, Sam's Club aims to be the digital and physical leader among their channel. SamsClub.com is driving members towards online through website, through our mobile web and through mobile app. And Jamie will talk more about our digital and physical growth in just a moment.

We've also made some big improvements on the membership front. Our member base is very valuable to us and we've been making investments to strengthen our offering. Two of those investments were launched just a few months ago.

First, let's talk about our new globally accepted credit card offering which is available to all members. In June, we transitioned to MasterCard, a card with broader brand awareness and acceptance. We also updated our program to be easier for our members to understand and for our associates to sell and I'm proud to say that we have the best cash-back program in the market today.

Unlike our old program, there are no tears and members are rewarded for their everyday spent both inside and outside the Club. So it's a simplified free on cash-back program, 5% on gas, 3% on travel and dining, and 1% on everything else. And it's just that simple.

Let me give you an example of the cash back structure. So if our family spends \$1,000 annually on fuel which isn't hard to do, it would easily cover their membership fee. But we didn't stop there. Sam's Club was the first retailer in the United States to offer a card with EMD chip technology protecting our members from fraud.

The value of this program is really resonating with members. We're seeing activations of the new card ramp up from existing members faster than we planned. Meaning, our members like the offer and they're starting to use it. Very excited about it.

Our goal is to make the Sam's Club membership card the most valuable card in your wallet rewarding members for their loyalty. And I mentioned earlier that we took a fee increase last May. It was our first in over six years. And you know, we really didn't want to raise that fee without also improving the value.

So simultaneously, we launched instant savings for all member levels. Instant savings engagement continues to build and member response has been strong.



So as you can see, we've been making improvements strengthening our offering for all members. We saw an opportunity, though, and opportunity to engage and reward our premium members and that tier is critical to us. We know that our plus members on average visit more often, spend more and have higher renewal rates. They also drive higher membership income.

And as the cost of a plus membership is higher than our base offering and because of this, we needed to make our plus offering more valuable. So what do we do? We launched cash rewards.

Unlike instant savings, the Sam's Club MasterCard, this benefit is exclusively, exclusively for our plus members. We diligently tested this program for over a year in our South Central region and we rolled it out to the entire chain over three months ago and here's how it works. Plus members can earn \$10 for every \$500 they spend and rewards are loaded directly on to their membership cards.

Plus membership are most valuable level of members, now represents a significantly higher percentage of our portfolio growing over 400 basis points since June. This growth has driven a significant increase in current members upgrading to plus and plus members renewing their membership.

Our plus members are extremely valuable to us and we're excited to reward them with this new benefit. Between the Sam's Club MasterCard, Instant Savings and Plus Cash Rewards, we are reinforcing our membership value.

Now, I'd like to talk about how we're working to better understand the needs and behaviors of our members. So on this slide, you'll see just a snapshot of our member base which includes all generations from Boomers to Gen Xers to Millennials and even our small business members.

Like other club channel players, our member base views towards Boomers. Boomers are loyal and important for the entire club channel. However, Boomers are empty or soon to be empty nesters and this means they have less need for bulk.

They are, however, still spending in areas that are relevant to them like health and wellness. We need to meet the needs of boomers. We need to maintain our presence with Gen X and increase our relevancy with Millennials.

The Millennial generation is really good news for Sam's Club. After all, by 2018, this group will represent the majority of the consumer spend. So they seek new and differentiated merchandise. They splurge when it makes sense.

And recently, we still have a chance to spend some time with our Millennial consumers in a focus group and they told us if something is not on their phone, it just doesn't exist in their minds. So not only do they use technology to A, convenience, they expect it to deliver personalization and they want fun and an engaging shopping experience.

Now, we also have a very important member that really spends across all generations and that's our small business member. And a few months ago, I visited a few of our members in their place of business and I learned that our small business members have something very much in common with our millennials and that's the desire to have an engaging shopping experience.

And one owner in the Chicago area showed me that going into the Club was really a retreat for him, a chance to escape, escape while getting things done and accomplished. So further, the use of data and analytics will enable that change and help resonate with both ends of that generational spectrum.

So what does that really mean for our business model in Sam's Club? Well, it means utilizing data better than ever before and by looking really deep, deeper into our member spending behavior.

We're continuing to develop those tools and to do just that, we've developed something called the member engagement platform. We want to move towards more personalized interactions with our members, each and every one of them.

We've always had data and we've used it well. But there is always room to improve while maintaining the necessary controls and safety measures around that. So it's about understanding our members at every stage of the journey. It starts with prospecting. Simply put, it's the general awareness and consideration for the Sam's Club brand.

There's room for improvement here. Then there's acquisition and engagement. While we don't disclose specific numbers, I can tell you that our recent social media acquisition events have helped grow our base. We're focused on meaningful engagement with all of our members so that when the critical moment of truth happens, when it comes around to really thinking about renewing the membership or not, it needs to be a real no-brainer.



Knowing our members helps us grow our member base, driving stronger sales and stronger profit. Hopefully, you're seeing at this point that everything we've done in this past year has been solely about the member.

Now, I'd like to welcome to the stage our Chief Merchandising Officer, Charles Redfield, and he's going to discuss with you how we're making our membership more rewarding and more relevant with great merchandise.

Charles Redfield - Wal-Mart Stores, Inc. - Sam's Club EVP - Merchandising

Thanks, Ros. Good morning.

You probably heard more than once in that presentation Ros mentioned the word newness, right? So your question may be so why is that important? Well, it actually goes back to what Ros said around that member journey that she just showed you.

Newness creates excitement in the club. Our members tell us that. They show us that.

A traffic, excitement obviously drives traffic, traffic drives engagement, engagement drives retention which is very important for us and ultimately, that drives advocacy.

So, clearly, for us, newness is really, really important. It's also a key part of a merchandise strategy. And this is what I tell you. Where we've executed this really well, it's worked really well.

Ros mentioned it a little bit earlier. So, we'll show a few items right here. So I think about thinking about our business and how weatherproof our business, right? Don't worry about what the weather is.

So when you create newness on item like this which is - this is a Faux Fur Throw. It's 55 x 70 inches, it sells for less than \$50 in our club. And when this is new and it hits the club and it hits the club in August and it's 85 degrees outside and our members with the way they responded to an item like this, we know newness can drive the sales, right? Because it's not about the weather, it's about great merchandise at incredible value. That's what it's about newness drives a lot of that.

But here is the issue. You heard Ros just mentioned it and she's exactly right. We have to move faster as a business. There's no doubt about it. And what I'd say, we have to move faster specifically in our BU categories in service.

So let's talk a little bit about how we're going to do that, all right? How we're going to approach this to enable the newness that we have going forward?

Typically, you have the calendar, right? You have spring, summer, fall, holiday, winter. We ship product based on those seasons. It makes a lot of sense.

But what we've done is we've shifted at the first of the season and had that product sell through the entire period until the end of the season. Well, more newness more often, that helps to sprinkle in more newness during those timeframe. Not all the time, we won't do it all the time but definitely more than we've done in the past. It depends on the category.

Some categories, it may be six, every six to eight weeks. Other categories, it may be two to four times a year. Either way, it's going to be more than we've done in the past.

So let's bring this to life a little bit more. So within those seasons, we have major holidays, right? Easter, Thanksgiving, Christmas. Big times of year for us. We can't afford to miss those big holidays because we've become destinations for our members during those key timeframes.

But on top of this, here's what we call micro holidays. These are the things that are like Valentine's Day, Father's Day, Greg -- you're not going to get me to say Mother's Day because I never call Mother's Day a micro event. Sue wouldn't appreciate that.

We buy some unique items for some of these micro events during the year. But most importantly, we just take our existing assortment and what we have on items and merchandising them on days or weeks and help them come to life inside the club. That's how we treat that.



But here's the issue. There's a gap. You see it? This is just one example of a gap. It happens at the end of summer as we've sold through our summer merchandise and yet fall hasn't hit quite yet. Nothing on the calendar would tell you to buy for that specific timeframe.

That's one of the changes that we're making. That we're making to do the feedback from our members. So for instance, in August, a few months ago, we brought in a new home and furniture merchandise and merchandise those at the front of our club. Created excitement and our members responded.

To complement this, last month in September, we brought in our holiday merchandise and set it early. Helped filling that gap. So what we're telling you is one way we're enabling newness is we're looking at the calendar differently. But that's not all we're doing.

More newness more often is also about anticipating key trends. Here's some of them on the screen. Healthy for you. That's just not food, that's also general merchandise. Ready for you or something what I'd like to call on the go because we know we're all time starve like Doug talked about earlier. And finally, exciting for you.

We've got some great new merchandise in the club that fits exactly with these trends. It aligns with what our members are thinking in their busy lifestyles. So we thought about where we'd show some of those items but when you get a optimistic merchant up on stage, we would absolutely run out of time.

So instead, what we decided to do is take two of our key merchants, Shawn Baldwin who runs our food and beverage area for Sam's Club and Cindy O'Connor who runs home, apparel and hard lines. We asked them to take a quick two-minute tour of the club of what you can see right now as it fits with those trends.

Shawn?

Shawn Baldwin - Wal-Mart Stores, Inc. - SVP GMM-Food and Beverage - Sam's Club

Thanks, Charles. One of the trends you mentioned earlier that's definitely apparent over here in our dry grocery area is better for you.

Since the beginning of this year we've brought in 40 brand new items that fall into that trend and our members love them. You can see three-quarters of our incremental sales already this year have come from those new better-for-you items. You're going to love that product.

Charles Redfield - Wal-Mart Stores, Inc. - Sam's Club EVP - Merchandising

Thanks.

Shawn Baldwin - Wal-Mart Stores, Inc. - SVP GMM-Food and Beverage - Sam's Club

You bet. And I'd tell you what, it's exciting as we've got 70 more brand new items coming in between now and the end of this year, and I'm very excited that our members are going to love them, too.

Another trend in food that I'd like to highlight is the change in the way our members are eating throughout the day. Breakfast is still the fastest-growing day part, and I'll show you a couple of things around what's changed around lunch and dinner as well.

This is a perfect example of what our members want for breakfast -- convenience, individually-wrapped. It's mobile. You can eat it on-the-go, which is just like their lifestyles and it's ready in 90 seconds.

For a lot of our members, snacking has replaced lunch time, specifically with better-for-you and slightly indulge in items like this exclusive for Sam's from Brookside, which is dark chocolate enrobed almonds, acai blueberry, and pomegranate.

Really interesting fact that at 4.30 more than half of our members have no idea what they're going to have for dinner. What they're looking for is something convenient, restaurant quality and flavor that's affordable. Where else at Sam's Club could you treat a family of four fettuccine Alfredo for less than \$2.50 a serving.



Cindy O'Connor

Our healthy-for-you trend is also very important in apparel.

Tangerine is one of our newest brands, and it's produced by one of our women-owned businesses who specializes in active wear. The bright colors and the [trend-right] fabrics are amazing. The quality is just fantastic.

We easily offer a 50% value compared to active national brands, and most items are priced under \$20.

Exciting for you is our third trend. This year we set Christmas in the clubs in early September to bring a new and exciting look inside the clubs. And the easiest way to adorn your home for the holidays is with our Christmas decor offering. And within the collection you'll see a beautiful assortment of wreaths and garland. And we've modified our packaging this year so we've made a solution for our member by providing the lid on all the packaging so it's easy to put away after the holidays are over.

At Sam's Club, our members would like the healthy-for-you, ready-for-you, and exciting-for-you.

And now it's back to you, Charles.

Charles Redfield - Wal-Mart Stores, Inc. - Sam's Club EVP - Merchandising

Isn't merchandising fun? That's what we do. We love to do it. What do we manage to take away? We're making changes. We're making changes on how we look at the calendar, and I just showed you one example today. We're making changes on how we anticipate trends. That's the second thing we're doing.

But the bottom line is we're going to continue to do it even faster. After all, bottom line is our members expect great merchandise and great values.

But that's not all they expect. They also expect anytime, anywhere access. So next up is Jamie Iannone, our president and CEO of samsclub.com. Jamie?

Jamie Iannone

Thank you, Charles. Good morning everyone.

You know, as our members are evolving and increasing their digital engagement, so too are the investments that we're making in samsclub.com and enhancing our members' digital and physical experience. We're translating our strong understanding of the member journey into a robust strategy by category for online engagement. This in turn is leading to more digital purchases from our members.

In fact, last quarter, samsclub.com contributed about 30 basis points to the total segment comp. And digital is helping to attract new members. Ros discussed the importance of millennials.

We're leveraging the powerful intersection of our digital platforms, our clubs, and our associates to provide a new level of convenience and access for our members, and our members are responding to these investments.

In Q2, both our direct-to-home business, our e-commerce business as well as our Club Pickup business delivered double-digit sales growth.

Last quarter, conversion rates approved across all of our key platforms and our investments in digital laid the foundation and created a platform for accelerated digital and physical growth for Sam's Club.

Now a critical focus for us this year has been on our mobile platforms. Mobile is becoming increasingly important to members especially to millennials, and we are seeing this as strong growth rates in both usage and in web traffic.

Mobile helps us provide anywhere, anytime access to shopping Sam's Club or building your next Club Pickup order. It gives you the ability to sell an expanded assortment of items with the great items and great values that Charles just talked about, and it gives the ability to deliver our personalized experience tailored to each and every individual (technical difficulty).



One member said, "This app has revolutionized how I grocery shop. I wish all stores would offer an app like this."

With our new iPhone app members now have a powerful Sam's Club right in their pocket. They can use it as their membership card when they walk into a club. They can access new merchandise in a wider assortment. They can upgrade or renew their membership. They can manage their shopping list, order photo prints, and so much more.

And if the members track for time they can use it to build their Club Pickup list. Club Pickup is a program, which we have previously called Click 'n' Pull, and we've redesigned significantly.

Starting this holiday, we're launching many new enhancements to revamp Club Pickup, to make it much simpler for our members. It's a service that our business members have loved, and we're expanding the program to make it appeal to all members.

It starts with a new online ordering tool, which we'll be launching this holiday. Through this tool, a member can easily reorder from everything that they've ever bought (technical difficulty) that are in club or online and do it really quickly. They can do it during a commercial of their favorite TV sitcom.

We've also created a pickup experience in the club that is designed to get the member in and out in minutes with all of their Sam's Club items. This includes new check-in kiosks at all of our clubs that'll be rolled out this holiday. And we're also piloting in one of our clubs, actually in this club here in Bentonville we're piloting a test of drive-thru to make the experience even faster for our members and we're watching the experience and how that goes, and I encourage you to check it out while you're here in town.

Now to bring these experiences to life for Sam's member, let me show you an example of a Sam's Club mom through her Club Pickup journey. Let's roll the video.

(Video Playing)

Rosalind Brewer - Wal-Mart Stores, Inc. - President & CEO - Sam's Club

So as you can see, we're connecting the digital and the physical worlds better than ever before. So while integration is clearly our priority for our investment and physical clubs will also continue.

Over the past few years, we've really accelerated our club openings. In fact, we finished fiscal year '14 with 20 grand openings, 69 remodels, and additional 1.7 million square feet of selling space.

We will have similar results this year in terms of the number of grand openings. Starting in Q3, our new club openings incorporate several layout improvements including an expanded fresh area and a combined health and wellness solution center, aligning with our merchandising plan. These updates really enhance the member shopping experience and drive sales while leveraging our labor efficiencies.

So going forward, we will be doing all of this with less capital than the recent run rate. We will be reducing the number of new club openings for next year while simultaneously accelerating technology investments that integrate our physical and digital locations and our capabilities in addition to investing in membership and merchandising initiatives. And Charles Holley will discuss that more in a moment.

So as you can see, we're driven to create member value in a whole different space bringing in a club and an online experience together in a way that no other club channel retailer has done before. So you can see probably and even feel some of the excitement that we're experiencing right now in our merchandising team. And it's really brought the business into a whole new phase of really supporting new merchandise in the clubs.

I'm personally excited about what's happening with our organic food and our seasonal businesses, really important to our member.

So in closing, what I'd like for you to take away from what you heard today is that Sam's Club to the core is very strong. And what we're building today will deliver an even stronger and even more exciting Sam's Club tomorrow.

And with that, I'd like to invite my team back up to the stage. Michael Dastugue, our CFO, will join us as well as we entertain some questions.



Carol Schumacher

Okay. Just a reminder please to wait for the mic. State your name and your firm. And we will start with Paul Trussell first.

Michael, you can...

Paul Trussell - Deutsche Bank - Analyst

Thank you. Paul Trussell, Deutsche Bank. A few quick ones. First, as we think about the 11% MFI increase, if you can just give us a little bit of color of the breakdown on how much of that is related to the raise in fee versus of the direction of actual new members per club.

Also on Club Pickup, how does that alter the labor model and the expense structure of the club? Is there any fee for the customer to utilize that service?

And then lastly, food and perishables is a very critical category for warehouse clubs. What metrics do you have or how do you gauge your price assortment and quality of your food and perishables versus Costco and regional grocery stores? Thank you.

Rosalind Brewer - Wal-Mart Stores, Inc. - President & CEO - Sam's Club

Okay. Paul, I'll take the first question and it was around MFI and our percentage of breakdown. And we typically don't break that down in our earnings announcements. But I can tell you that we are experiencing year-over-year growth with that renewal fee.

It's been an advantage for us, but we're also seeing growth in what's happening in our Plus member upgrades, so you can look at those two as pretty strong contributors to that performance.

I'm going to ask Jamie to talk a little bit about the Club Pickup.

And then, Charles, you can talk a little bit about the assortment.

Jamie Iannone

Yes. Simultaneous to this rollout, we've actually been working on the productivity for our associates in club of actually picking items. So this holiday we're rolling out a new backend system to make that much more efficient and improve their ability to be more productive in pulling together those items.

The other big changes like a kiosk check-in actually take time away from the membership service desk of having to check in a member know they are there, so it actually saves the member time and actually saves us time to do it. It's why we're really excited by the program. So these things are working together. The re-launch of the frontend stuff and the backend stuff will happen at the same time starting this holiday.

Charles Redfield - Wal-Mart Stores, Inc. - Sam's Club EVP - Merchandising

Yes. And, Paul, [for sure] exactly right. We're very focused on that. Our members respond to this. They've [done] a long turn. They respond to this by coming back and visiting.

But what we've done is we have test kitchen -- we have kitchens within our home office in Sam's Club and we continually do testing on our product -- existing, new product that we're thinking about, but also competitor's product. We do it both in the office, out in the field, and we look at that to make sure we're keeping up with this and making sure that the experience that our members get is what they exactly deserve, right? Because in fresh, for Sam's Club, price is the most important thing.

Our members tell us time and time again I want to have a great experience from quality, so all categories aren't created equal. All items aren't created equal. And how we look at it, we look at it exactly that way, and you think of fresh and perishables, we take the quality aspect first and we do a lot of testing both internally and externally.



Rosalind Brewer - *Wal-Mart Stores, Inc. - President & CEO - Sam's Club*

I think it's important when you think about Sam's, the price leadership is important, but we also talk a lot about value because we do offer such a great quality in some of those categories, so it's a value equation call as well as just direct price leadership.

Carol Schumacher

Okay. We'll go to Greg next.

Kary, if you could reach Greg or Paul. Thanks.

Greg Melich - *ISI Group - Analyst*

Hi, it's Greg Melich with ISI. Ros, a bit of a follow-up on the prior question and then a second one. In terms of the membership growth, you said you're getting that nice mix shift into the Plus. Are the overall number of members growing or are they actually declining even if people that value the membership want to engage even more? And then the second I had a follow-up -- another question.

Rosalind Brewer - *Wal-Mart Stores, Inc. - President & CEO - Sam's Club*

Yes. One of the things to think about in our membership piece is that we have this exposure to our business member, and I've talked about their softness with the business member, so that is the area if I had any concern in terms of where our membership is going is with our business member. Otherwise, we're seeing really a nice growth in the other aspects of our MFI.

Greg Melich - *ISI Group - Analyst*

That's right. That's very helpful. And then secondly on the new program, the Pickup, that had to put in your car kind of thing, is that happening...

Rosalind Brewer - *Wal-Mart Stores, Inc. - President & CEO - Sam's Club*

Put into car kind of thing.

Greg Melich - *ISI Group - Analyst*

...at every club at a certain point this time or is it sort of -- how do we roll that out and actually execute it for us?

Jamie Iannone

Like Judith was talking about for Wal-Mart, this is one of our test and learn initiatives. So we just launched it recently here in Bentonville. We have it running and it's open to all members at this point. We started internally, and the member response has been great. So we're evaluating and continuing to learn and looking at rolling that out.

All of the other changes that I talked about are rolling out nationwide this holiday. So we'll have kiosks in every one of our clubs so members can check in. All of the new frontline tools that we talked about, a new easy reordering experience, that will be live.

We've actually changed the program in many other ways. We've brought in a lot more items that members can now use like weighted items and seasonal items, items that have never been available for Club Pickup and a host of other changes. So it's essentially a re-launch and all of those get the 700 clubs.

The drive-thru is still a test that we're doing in Bentonville. And as we have more updates on that, we'll let you know.



Rosalind Brewer - *Wal-Mart Stores, Inc. - President & CEO - Sam's Club*

I will say that, Greg, some of the indications and what's sending us in this direction is just the conversations we're having with our members and their need for convenience. And they're telling us how they want to access.

It starts somewhat around our business member, but then we're learning that moms want the same kind of convenience, so we're trying to respond to the convenience demand that we're seeing from our members, and so these are pilots that will hopefully turn into an opportunity for us.

Carol Schumacher

Okay, Bob, I think you already have the mic.

Bob Drbul - *Nomura Securities - Analyst*

I stole it from Greg. Just a question on the pay later feature on the website. What's the experience there from the baskets that aren't picked up and how you really deal with that from a membership perspective?

Jamie Iannone

Yes, great question. Most of our club pick has been pay-in club. So today with the drive-thru test, for example, we've actually built a new mobile payment processing where the associate walks out to your car and can process your payment right there.

We are actually in pilot now on prepaid functionality so that you can pay on the web and pickup in club. And so as we get through the pilot stages we'll roll that out to all clubs as well, and so a member will have both options.

What's great about the second option, what we're seeing in the pilot is that you can use an authorized pickup person to go pick it up. So if I'm a business member and I want to send somebody else from the business to go pickup the order, you would now handle that because you can have an authorized pickup person. So that's in pilot now. We'll be rolling out of the course of the next several months.

Carol Schumacher

Dan, is that you? We'll go to Dan upfront.

Daniel Binder - *Jefferies & Co. - Analyst*

Dan Binder with Jefferies. If we were to compare your results to the main competitor and there's been a bit of a gap way, could you draw a comparison just in general if you go back over the years the sales for club are lower, is this a function of the real estate, the demographic of the club member? Is it merchandising operations? Can you just help us understand...

Rosalind Brewer - *Wal-Mart Stores, Inc. - President & CEO - Sam's Club*

Yes.

Daniel Binder - *Jefferies & Co. - Analyst*

...what that reflects?



Rosalind Brewer - *Wal-Mart Stores, Inc. - President & CEO - Sam's Club*

That's a good question. There are some differences between, first of all, our real estate footprint in our competition. They're heavily focused on the West Coast and the northeast, and we do not have club concentration in those areas, so that is the difference -- totally different member particularly on the West Coast. Deep density, higher income levels in that area, and we're not in that space.

The second piece I will tell you that's the difference between ourselves and our other competitor is our reliance on our business member. And we have more exposure to the business member category, and I'll share with you where the softness is in that category, so we are actually experiencing more pressure in that area than our competitors.

Carol Schumacher

[Mike]?

Unidentified Audience Member

Thank you. Just a question on inflation, can you remind us what you're seeing now across the club? And what are your buyers telling you about how that looks and then a follow-up?

Unidentified Company Representative

I think when you look across the boxes it's probably averaging low single-digits. But clearly, things like meat and dairy are up in the high single-digits, and then you got deflation in your technology.

So I think we've seen that a situation where we have had probably caused inflation that has been exceeding our retail inflation, so we have to make sure they were passing on the best value to our members. So that's been part of our margin issue here at the last couple of quarters.

Unidentified Audience Member

And just as you look ahead in the coming months, is that an equation that you see sort of continuing in terms of similar levels of inflation? And also can you speak to price gaps, how you feel your price relative to peers at this point?

Unidentified Company Representative

As I say, I think for right now I think we would expect status quo in terms of that context. And I think from a pricing perspective we feel pretty good that we're at price parity right now with our key competitors.

Charles Redfield - *Wal-Mart Stores, Inc. - Sam's Club EVP - Merchandising*

And significantly higher versus other channels.

Unidentified Company Representative

Yes.

Carol Schumacher



Chris?

Christopher Horvers - JPMorgan - Analyst

Thanks. Chris Horvers, JPMorgan. Following up on the membership question, are you surprised that the business member hasn't responded more to the Plus program? I assume you might spend more than your average customer on an annual basis. And it sounds like the growth is converging and renewal within the existing days. How are you taking a message of this new offering to the outside world?

Rosalind Brewer - Wal-Mart Stores, Inc. - President & CEO - Sam's Club

Yes. So a couple of things. One, the business member, I think that their financial constraints are an issue. But how we're talking about this, there's a couple of things with the business member, too, I should mention. The things that we're doing from a digital perspective were getting great response, probably more response in that area than what we had anticipated, so the business member is responding to those that are shopping with us right now to our online and digital work that we're doing.

The other piece that I would tell you around the business member, you asked a question about how are they getting the message just overall even beyond our business member.

And we're doing some messaging. We're talking to our folks online, digital one-to-one. We had a lot of our NPR. We've done some radio pieces on it, so we're talking about it, about the work they were doing in terms of the new offerings that we have.

And one of the things that helped us was the personalization work that we're doing so we're having more one-to-one conversations than you really see us do broad television advertisements. That's really not our space to do TV advertisement. That's why this member engagement platform is important to us because that one-to-one makes all the difference for our business.

Christopher Horvers - JPMorgan - Analyst

Thanks.

Carol Schumacher

Okay. We're going to wrap up the Q&A for Sam's Club now. Thanks, Ros and the team.

We do have a short 15-minute break scheduled. Our management team will be available to speak with you and answer some follow-up questions. Please be back in 15 minutes. And then we will kick-off at that point within our national. Thank you.

(BREAK)

presentation

Carol Schumacher

Welcome back to Wal-Mart's Investment Community Meeting. Thank you all for coming back on time from the break.

Before we get underway with our next session, I would like to -- and if you guys can bring up the house lights for a minute please. I'd like to introduce the Investor Relations team.

On this side, my left, your right, I'd like to introduce Michael Brigance and Miguel Garcia in the back and then on the opposite side, Kary Bruner. And I'd also like to introduce and ask Mariana Rodriguez to stand.



Mariana, for those of you who don't know, heads up our investor relations effort in Walmex. So we wanted to make sure that you know the key members of our team here, and we're here to help service all of your needs.

A couple of other things. You heard both in the Wal-Mart US section as well as in Sam's Club a lot about merchandise. Doug likes to remind us pretty regularly -- right, Doug -- that we're all merchants.

And while you saw a couple pieces of merchandise on the stage I remind you during the breaks we have merchandise up here, including the top toys and some of the top items that will be available in our stores and clubs for the holidays, so you can certainly take a chance to check those out on one of the breaks.

One last question that I've gotten a few times during the break is how do I get the slides. The easiest way to do that is to go to stock.Wal-Mart.com. And on the page that will come up right in front of you is the information for this meeting.

If you open that up, there are several buttons across the bottom, and you'll see both the video of the live video webcast as well as the slides. And if you click on the button that says Downloads, that will get you to the slides and you're able to download each of the presentations immediately at the end of that presentation.

So with that, I'd like to get underway with the next portion of our meeting, which is Wal-Mart International. I'm very happy to call to the stage Dave Cheesewright, president and CEO of Wal-Mart International. Dave?

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Well, good morning, everybody. By my reckoning I'm now the third speaker who has English as a foreign language.

It's actually been really interesting as you go through the year and Greg will empathize with this as you go through in your use of phrase that you're used to growing up and you can see this array of blank faces. So -- Greg and I do a bit self-help on this. PDQ is pretty darn quick, I think.

Is that right, Doug? Yes, yes, so we'll get that one right.

Okay. So Wal-Mart International, I think three things I'd like you to remember of our business. The first is we've got a solid start for the year, but we got lots more to do, and Brett will talk to you in a bit more detail later on about some of the numbers.

But we're particularly pleased that we've seen an improvement in our underlying comp sales. We're particularly pleased that we finished the first half of the year with profit growing ahead of sales. We have a lot of work to do on working capital.

So number one, solid start for the year, but lots more to do.

Number two, we've got a very clear strategy and we are very clear on what priorities we need to be focused on. We've completed a pretty comprehensive portfolio review as part of the enterprise strategy work. I'll share some of the details with you in just a minute. And so that's given us real clarity about what works for us and particularly with what's changing for customers in the future and where we need to position. So number two, we got a very clear strategy and it's prioritized.

Number three is that you'll find us focus on the basics. And we are going to be relentlessly focusing on execution in two real dimensions. The first is execution of our strategy and making sure that those priorities come to life.

But the second and a very consistent theme with Doug's opening and some of the words that Greg talked about, we're going to be very focused on retail basics, and whether it's the US or the international markets I get to walk around, it's rarely that I see a store or a website with our own opportunities to improve the offer for customers across the four dimensions that Doug talked about.

So three messages -- good start for the year, but lots more to do; very clear plan, which we're going to share with you now; and we're going to be very focused on execution.

For the rest of the session, I'm going to briefly introduce the team. We'll spend a bit of time talking about our overall strategic framework. We'll run through a few of the operational priorities that we've focusing on in the future. And we'll just cover our five big markets today.



There are about 80% of our sales. It doesn't mean to say that the other markets aren't important. I'm more than happy to take questions on those as we get into the Q&A at the end, but they're the big markets that we'll focus on.

So let's start with the team. And I've got most of the leadership team up here. Some of them are with us today. But I'm really pleased with the team that we've got in International. And actually the whole group were part of the international team last year, although including myself about 50% of us are in new roles.

There's a lot of experience and we always get slightly depressed when you do the stats about how many years of experience we've got. But I think most importantly for this group is a lot of experience in the industry at large, so across various different functions and various different formats, and some genuine experience of international, both living and working abroad.

Brett joined the team earlier on this year around the same time as me. He got a huge experience in Wal-Mart. He was in International a while ago. Brett did a lot of work on M&A in the mid-2000's, had a stint in Sam's in operations, and then joined us from CFO over the Wal-Mart US business, have that huge impact in the course of this year particularly at bringing our commercial slant to our finance organization and building some strong controls.

Scott Price, as you all know, has been in many of these meetings. He's run our Asia business. I think, in fact, Scott is today the day of your fifth anniversary at Wal-Mart. Okay. Congratulations, so five years at Wal-Mart, and as I say most of time in Asia. He has a long career in Asia with Coke and DHL prior to that.

Lots of experience in Asia and a very good operator. He's heading up most of our central functions now in the support center in Bentonville, and again making remarkable progress aligning and ensuring that we're working on our priorities.

Shelley Broader again you have seen in this environment before. She's been CEO in Canada for a couple of years now, did a great job there for the last couple of years and has recently been promoted to run our Europe, Middle East, and Africa business. Shelley gained a lot of experience in retail. She grew up running food retailers in the southeast of the US under the Delhaize organization, spent a time as COO with Michael's, and we were lucky enough to hire her into Canada via Sam's Club four years ago.

And then finally from the operational side, Enrique Ostale joined us as part of the Lider acquisition in Latin America and now runs our Latin American operation. A lot of experience in retail across a number of different formats and really starting to make some good progress in that region.

Across the bottom, Maggie Sans from Corporate Affairs. Maggie is with us today.

Daniel Trujillo from our Compliance organization, and again a lot of global experience and a lot of experience in Compliance.

And finally, Tim Cheatham has been head of our legal function for the last four years in International. So very pleased with the team, a lot of experience, and a very, very strong team.

Now I thought I'd start to just say a couple of words about Wal-Mart International. I'm sure there's a few of you here who haven't been to these sessions, so I won't take too long, but it's useful to get a bit of background on the business. So I think you could really sum up Wal-Mart International with two words -- it's big and it's diverse.

We serve about 120 million customers every week, so [lower] only about a third of sales, we're about half of the customer traffic. So typically smaller basket sizes, which probably wouldn't surprise you given some of the markets in which we operate.

We'll be around about \$140 billion this year. That would make us the second largest retailer in the world, just outside the top 10 in terms of overall business size. And one of the unique things is we actually have five of the world's top 10 retail businesses in our portfolio, so a lot of best practice. We had a very strong record of growth, but we've seen that slow over the last couple of years.

We're a multi-format business. We operate in 26 different countries. We have many different formats about 15 core formats that some that you'd know really well like supercenters and Sam's Clubs under the Wal-Mart banner, but there's a lot that you'd be less familiar with.

We have a big Builders Merchant chain in South Africa. We run small kiosks in Japan. So quite a wide range of portfolios.

We're smallest skewed in the US business. Around a third of our stores are under 25,000 square feet, so much more average size and quite a lot of small stores in our portfolio.



We have about 750,000 associates around the globe. And I think that degree of diversity is good and bad. It's one of the reasons why many that I think I've got the best job in the world, and I get to travel across a lot of countries, and there are a few things that you see that are very similar. There's lots of things that are very different.

The people tend to be remarkably similar wherever you travel across Wal-Mart's international businesses, and it really doesn't take - I often joke with Doug. You can take me in, blindfold me, allow me to talk to a few people, and I can tell you whether I'm in a Wal-Mart business because you meet people like you. People are pretty down-to-earth. They're very focused on saving people money. They're very competitive. So lots of similarities in the culture wherever we operate. Pretty similar business models, but very different executions.

And if some days that can be frustrating, it'd be great if we were more aligned sometimes and that's something we'll work on, but it really does give us an edge in innovation. And one of the things you frequently find in International is it's pretty rare you come across a business problem that someone in our portfolio hasn't already solved. And you'll hear examples of that today whether it's ASDA's growth in home shopping.

There's lots of learnings that we can take across our businesses there. Private label is another area we're strong in certain parts of the world. So very diverse portfolio, has good and bad things to that.

Okay. Just Wal-Mart International, let's talk about our strategy and we're going to use the framework that Doug shared with you last year.

Retail is a pretty simple business, and we like to keep things simple. So we're focused on two things. We want to be in good businesses and we want to run them well.

Be in good businesses is about the portfolio and that's about the markets and formats that we operate in. And we've talked a lot over this year about positioning. I'm going to come on in a minute to share with you a pretty thorough review that we've done of the portfolio.

Now positioning is really, really important because when you look back in history, I think all of us assume that a lot of growth comes from capital investment, M&A activity, and new store builds. And we also assume that a lot comes from competitiveness. That's how well you comp against competitors, how well you take market share.

But history would tell you that positioning is probably the biggest factor for growth, and positioning is about have I got my businesses in areas that I'm naturally going to grow. So you'll hear us all talk a lot about positioning and trying to understand where the customer is moving to and making sure that we're adapting the portfolio to work towards areas that are going to have natural growth in the future. That's really important for us.

In terms of running the businesses well and being a best-in-class retailer you can see a really simple diagram there that shows what we focus on. And again no surprises here. It will be pretty similar to a lot of retail businesses around the world.

The first area is about growth. So we are very passionate about driving comp sales wherever we operate. It's our favorite type of growth. It's the most productive type of growth, very hard to run a low-cost business if you're not growing strongly. And I'll talk to you about some of the initiatives across International in a minute on driving comp growth.

But we also want new growth. And for Brett's leadership and Scott's on the real estate function, we've done a lot of work over the course of this year to try and understand market by market, what are the golden principles that allow us to deliver successful new growth.

Very easy to open new stores. It's much harder to open new stores that are going to give you good returns over a long period of time. So understanding the correct sizes, what locations make a difference, where the traffic is going to go is something we've leaned into very hard. And as the customer is changing quicker than ever, it's really important we stay on top of that. So growth is one part of our plan.

The second part then is enablers. So you got to pay for that and you got to execute it. So we talk a lot about the productivity loop and being the lowest cost operator wherever we operate is essential if you want to sell for less.

We also need talent to deliver our plans. So they are our enablers.

And then the third green on this one is trust and whether that's trust of stakeholders or trust of our associates in our business, or trust of our customers. The size of Wal-Mart and the scrutiny we're under we have to build trust wherever we operate.



So for the next part of the session we're just going to run through those various areas and give you a few examples of some of the things that we're focused on across International.

Let's start with the portfolio, and it's a bit of an eye chart, just one way of looking at it. But this is from year-end monitor, it looks at the next five years it looks about -- it looks at where they predict the growth is going to come from. There'll be loads of different spins on this, but I think it will tell a story.

They had estimated that there's around \$5.5 trillion dollars of retail growth on the planet every retailer over the next five years, and this breaks it down across the basic elements of the portfolio -- the markets, the formats, and the categories.

And a few bits I'll pick out. First of all, in the markets, including the US, Wal-Mart has access to over 50% of global retail growth. That's pretty good coverage for any other retailer, very good coverage.

The next three are another 15%. They are Iran, Venezuela, and Russia. And, Doug, they are not high at my to-do list of places to go just at this moment.

So I think the first message you can take now on the portfolio is we're pretty happy with the markets we're in. We'll still keep looking around the globe and if fantastic opportunities come up that work for customers in our business, we'll look at them, but we're going to be more focused on doing a good job in the markets that we're in rather than going anywhere new.

What we will look at is the balance of our portfolio. So what we tend to be as overweight in countries that are growing slowly like the UK and Canada and underweight in the countries that are growing more rapidly like China, India, Brazil. We'll take our time and we'll make sure we build solid foundations there, but you'll see us move capital across those two parameters over a period of time.

As far as formats are concerned, again we're not in a bad position. We got access to the majority of growth through the main formats.

There are two formats as a main priority for us. Driving e-commerce quickly is going to be one and we'll talk about that in a bit more detail. And hypermarkets is the second one. That's our big stores.

And a couple of things to say there. When you look at the numbers for hypermarkets, there's more than a third of \$1 trillion of growth predicted in the next five years, so it's a sector in which we are very dominant. It's a sweet spot for us. There's a lot of growth to come there.

What I think you'll hear is talk about a lot on hypermarkets is accelerating innovation. You know there's been some traffic troubles on those for a while, and the work that we're doing to drive innovation in those boxes, particularly in terms of driving traffic is going to be something we're very focused on over the next three or four years.

On supermarkets, there's a lot of growth coming from supermarkets. We play in the area quite a lot and international ready. It plays out in lots of different formats, in some maybe what you'd call traditional supermarkets, certainly in Latin America or in the developing markets. It is very much about the discount supermarkets, the bodegas and the [Todogear] of the world.

Finally, just a comment on in terms of mom-and-pop stores, it's a big growth area. More than half of that is India. And, of course, we're in cash-and-carry in that market. Anyway, that's our format, so we are serving the area. It's just not our biggest priority.

And then finally on categories, you can see why winning on food is really important. It's the vast majority of growth, and I'm going to talk about that a bit more in a couple of minutes.

So there's our portfolio review. Let's run on and talk about some of the operational priorities. You'll hear us consistently talk about three things -- we're going to drive comp sales by our price leadership and good category management; we will execute our strategic priorities; and we want to deliver our enablers. And I'll just run through a few of those over the next five minutes or so.

Let's start with comp sales. And the first is let's talk about price. So we will continue to drive comp sales through price leadership.

Doug said it very well at the start. Price is important. It always will be important when your business's purpose is to save people money and when your business is serve the value-conscious customer. So that will remain a focus for us.



We're talking -- in terms of EDLP, the pyramid here I think shows you in a bit of detail the way we think about the journey through EDLP, and you have to build solid foundations, which is why it's a pyramid if you want to get to EDLP.

I always think back to the early days of Wal-Mart. Sam Walton had a business that had strategically the lowest cost base by quite some way. He had a reputation as a price leader, but he would still tell you -- I remember talking to Jack Schumacher about this that even with those two employees it took seven years to really get to pure EDLP. So it's a long journey.

And I think what you'll see from us is a much more balanced approach that says when we very focused in markets like Brazil ensuring we got the lowest cost base, we'll continue to start investing that in an appropriate way to drive price leadership. And only when those foundations are built we'll move towards the pure elements of EDLP. So a pragmatic journey I think would be our summary on EDLP.

Three things are pulled out in terms of things that we're working on around the world. The first is price measurement. If you want to be the price leader, it's really important that you know where you sit. And we've seen significant improvements over this year. We have a full spectrum.

So if I'm talking to Neil about our price measurement, he's got millions of items across the Internet. He can change them every five minutes if he wants to, but we have a range from ASDA where it's pretty robust, it's net based. You got a full assortment down to somewhere it's much more basic and you've got limited assortments and price perception.

But what we're building across every market is a robust and consistent way of measuring price and most importantly, the infrastructure that sits behind that that means there is a rigorous attritional focus on looking at those price gaps week in, week out, looking at where the competitors have moved, taking actions and driving them through our business so that over an extended period of time we see our price position move forward and forward. So price measurement is really important both perception and reality.

In-store communication is really about body language, and what we want to see in all of our countries is we want to see our price perception better than our price reality, and that's a lot about the way you present in stores.

So you can see a picture here. It's from our stores in Asia. We like big bulb displays. They talk about value. We like price points. We like color ways that stand out and make you feel its value.

And you pretty much see around our international business now. Red and yellow is the color ways that we use. We have expanded the best practice from some of their markets. We got very good body language to drive price perception.

And then finally, price guarantees are really important. Again, a real spectrum of continuity. ASDA have a very automated price guarantee, but in some markets that could be as simple as seasonal events where you've got just a simple comp checking program.

Now on all of these, what I think you'll start to see is this is a theme I think for our whole business is the technology that's springing up from Neil's organization is allowing us as we build these foundations to use the interaction between physical and digital, to start automating some of the algorithmic capability that Neil's team can beat to move forward on these areas, and that's the theme across a lot of different aspects of our business.

Okay. So let's move on now and talk about some of the basics of our core offer.

Okay. What miss -- so Doug. I knew I'd miss this. Very quick a slide, we were chatting before about the presentation and Doug said to me -- you really should have a video in here to make it more fun and emotional. And I said to Doug -- would that mean I'm not fun and emotional in my own right? And as we were going through, I said -- I'm going to forget that video that Doug asked me to do.

So anyway, Doug, here is the fun and emotional video on pricing. Okay?

(Video Playing)

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Did I hit the mark, Doug? Yes, like it. Yes, I don't have quite -- but the rest is in my favor. I'm not quite sure how that fits?



Okay. Let's move on to some of the cores of our business.

So retail foundations are really important across our business. And I'm not going to go through all of these, but I just pick out a few that we started to build across our markets.

Charles is very good at reminding us that everything starts with a customer. And if you want to focus your business around the customer you really have to know what's on the customer's mind. So customer insight is a really important part of the capabilities that we're expanding across our international business.

Now, again we have the advantage that we've got different stages of development in our markets. In some stages, it's very mature. Our insights in some it's pretty basic. The one you see up on the screen here is a dashboard from the Canadian business, but whether it's customer listing groups or whether it's Nielsen analytics or whether it's Internet capability, Neil, that we're starting to get from the organization in GeC.

We're building over a period of time capabilities, which allow our markets to put the customer at the center of the decision-making. We have an organization that places autonomy near the customer. If we can truly understand that customer that makes us have better businesses.

A couple of examples where we're seeing good progress. The Baby in Chile, [Jane Uhing], who sits in Judy's team now, led a project to look at Baby as a global category. Clearly, it's a really important area for us.

Young moms, there's a time when you're under stress typically, economically, saving money becomes really important. And what Jane did is pull together all the best thinking from around the globe around how we manage that category. They looked at assortment. They looked at offer. They looked at the way we presented. They looked at pricing. They looked at private label. And Enrique took that and put it in the Chile business, which was actually pretty strong on Baby already, had around a third of the market in terms of share.

They added extra assortment. They took the Parent's Choice brand from the UK and from the US and directly imported that. And in space of six months there were 100 basis point improvement in their market share. That's just one example, but you'll see examples like that through our merchant forums changing around the globe.

Seasonal is another area. Wherever we operate we tend to be pretty dominant on seasonal. And what you see through our merchant's collaboration is looking for areas where we have specific expertise. So, for example, if you want to know about winter ranges, go talk to the Canadians. They do winter very, very well. So we're using them as experts.

And rather in each country trying to develop winter ranges, the Canadian team develops the winter range. The buy trips are coordinated so all our buyers from around the world will go on those trips, and they'll just dovetail into the best practice that we've already taken from those markets. So it's very interesting to see how some of these examples share for market-to-market.

So when we are in Mexico a couple of weeks ago, we saw a big harvest display Enrique. Now harvest was never particularly an event in Latin America. The team saw that, but there was an opportunity to try that. They have now built a nice business there.

Finally around category innovation, I just picked out a couple of examples. And as we start to accelerate innovation in our supercenters and our larger stores, you'll see a share in these examples from around the world. The top one is ASDA.

ASDA is a very big gas business, and that's a great traffic driver to the big stores, so that's something I know, Greg, you and I have talked about as an opportunity for traffic. But we're also developing standalone gas stations in the UK. And a lot of the learning there and the synergy between pickup points and gas stations is very strong. They're typically in locations where there's a high degree of traffic. People stop a lot at gas stations to fill up and very convenient for them to pick up groceries and other goods at the same time.

And then the bottom one I know this was touched on in the US session, clinics, third great traffic driver. We have over 50 clinics in our Canadian business, and we see significant increases in our script counts in those areas. So a couple of examples of best practice that we can share.

On the right-hand side of the chart, you see merchant tools and we've got merchant tools in our businesses already. But I think one of the most exciting things that we're seeing, I think Doug touched on it at the start of the session that merchandising is typically a balance between art and science.



And certainly, one of the things that blows me away whenever I take a trip over to San Bruno and visit with Neil's team is their ability to understand the science, to use data and algorithmics and automate processes just blows me away. They can handle capacity that I'm just not used to in the world that I grew up in.

Equally, we've got 50 years worth of experience of our, and I think the sweet spot of us working together across that kind of mouth and street smarts that's been built up over a period of time, and then using data and algorithmics to put solutions in, and maybe it's just directed work or maybe it's full automation, I think, can give us transformational capabilities in categories like buying, pricing, modular planning, replenishment, and availability.

To finish on some of the merchandising areas by talking a little bit about winning in food. You saw how big the growth is in food or around the globe. And it's really important we win there. Like Greg, I'm very passionate about fresh.

Once again, it's an area where we got good capabilities to copy and replicate around the world. So what you've got on the left there is just the diagram that shows our IPL business in the U.K. IPL is International Procurement and Logistics. And it's as vertically integrated produce sourcing hub. So what they do is they run a series of offices primarily around Europe and Africa which finds -- works in partnership with growers around that region and find the right source of products.

They have moved it into the market. So interestingly, what they then do is take some very thoughtful decisions about way you convert that product. So, you know, do you pick mushroom to the field and ship them whole and slice them locally or do you slice them at the field?

You're trading off two things in that process. One is cost, that quite often it's cheaper to do the work at source when they're at the field but then you pay a penalty in transport because you need to be shipping a lot more fresh air.

The second is as important as freshness. The products got to die the second you pick it. Once you start to process it, it dies more quickly. So what we've been able to do is make thoughtful decisions about where is work done, and in many cases, we move the work closer to the market so we get fresher products arriving in the countries and we take cost out the supply chain.

Over the course of the last 10 years, IPL has been in existence. IPL is now the single biggest supplier to any retailer in the UK, it is own right and solely does Asda and it's there to substantially reduce the cost base.

So that's the best practice that you'll start to see us deploy around the globe. We've got sourcing covered through GFS in North America and IPL across the rest of the world but that choiceful approach, the way you do the conversion is something that we can replicate in our countries and it gives us a big advantage on freshness and costs.

The second, and again, Greg, touched on this is the importance of private label, and again, we have a huge portfolio. The U.K. has been developing private label for a long time. They're in the mid-40s in terms of penetration of private label. So as you can see from the chart, huge variances across international, our average ex the U.K. is about 6.8%, so big opportunity to develop that.

If you grow up in food, you tend to be very supported of private label. And if you're a business, your job is to save customer's money and you know you can sell them the product that's exactly the same quality or better than the brand. The quality is really, really important but save the customer around 20% in terms of that costs, why wouldn't you do that?

One of the key things I think we've signed up and this is one of the first things that Greg and I have done together was that single consistent process with respect to product around the globe. So one systematic solution, and that allows us to control.

I think that was one of the questions raise in your section, Greg, which allows us to be very specific about the quality requirements of our products and make sure that they're aligned across the countries. But we see this as a big opportunity to add value to our customers around the globe.

Okay, let's move on and talk about some e-commerce, and it's a critical objective of us to accelerate our e-commerce.

First thing, we've had a good year so far. We're seeing very strong growth across our businesses. We've got businesses of some sort and pretty much every market in which we operate, all be of a low base.

We're very focused on grocery and again, once again, very lucky to have in our portfolio the world's second largest grocery and shopping business in Asbury, so lots of learning over the last 15 years of that journey that we can deploy around the globe.



And what we'll do is create centers of excellence so that we can start to take that best practice and translate into other countries. We're very aligned with Neil and the team and we'll be very aligned with the work that Judy is doing in this area.

We'll focus on our five big markets and you'll see innovation rolling as quick as we can do it, so I think a couple of weeks ago, we just launched in Mexico, we rolled out food and shopping business to another 75 stores in some of the biggest cities and that gives customers access to over 3,000 SKUs in those markets.

We'll use a mixture of store pick and dark stores such the technology that us has used to grow that business and we'll have a mixture of delivery and collector across that market. And our approach will be to go as fast as we can whilst we leverage the global capability that Neil is building.

So let's move on to the enablers and first of all, lowest cost to operate, lots of stuff going on around the globe. If you're a business whose job is to save customer's money, you have to have the lowest cost base.

What I think you'll start to see us do now is a lot more benchmarking externally. We intended in the past to look at incremental improvements from where we -- where we've been. Going forward, we'll look at what's best-in-class in a market both in our industry and outside. It's a very clear benchmark in terms of what we need to achieve on cost to allow us to sell for less and then work how we get there.

And there are a few examples here that I picked out going on around the globe at the moment. Workforce management, we've got a great system called RedPrairie prioritized in -- or pilots in a couple of our markets and I'll call out China and Mexico on this one.

They've implemented this system and in the course of this year over, they've been able to take out in total around 20 million labor hours in just one year. That's about a 10% improvement in municipal labor hour. Now, some of that gets reinvested into growing the business, some of that drops down to the bottom line. And there are examples of these as you go all the way across the business.

I just picked out maybe one more which is operating structure and the U.K. is probably our landmark market for a very tough economic environment for a long period of time and that's where I think we've done a very nice job at navigating that, by putting in a series of long-term structural redesigns of their cost base, not short term just hacking cost out but structural redesign.

You saw that announcement over the last month or so about redesigning their stores. And I think you can expect to see that from us in an ongoing basis that there will be regular announcements as we structure to go in, look at processes right across our business and look for smarter ways to do work and prioritize harder rather than simply cutting cost down.

So to finish on the enablers then in terms of talent and trust, we've done a lot to build talent, we've got a long way to go there and some of that new appointments not here with us today but Dirk Van den Berghe who replaced Shelley in Canada is a great hire.

And maybe just give you a quick profile of Dirk. So Dirk has interestingly a long career in retail, was a diplomat before that, has a PhD in Economics, and he -- as he tells me, he speaks five languages and he's dangerous in another five. He's ran retailers in Asia, he's ran retailers in Europe, he's ran hard discount, he's ran soft discount.

That's the sort of caliber of individual you're going to need to manage some of the transformations that we're planning to do over the next few years. And you'll see us continually look to operate that talent across the markets and I'm very pleased with some of the appointments that we've made so far this year.

On compliance, we spent a lot of time talking about compliance last year and I just want to give you a quick update. I'm really pleased with the progress that we've made in the last year but there's still a lot to do.

We've made -- we pretty much built out good organizational solutions for our 14 focus areas and, Jeff, we've hired some really, really string people into that business. We're now auditing our processes and as we're working through that, we're seeing everywhere we look into opportunities to improve our processes in particularly to improve the effectiveness of our program.

And the final stage we're starting now is in -- putting in global systems to make sure that we can take those great teams, give them the information to make sure that this is an organization that gets things right first time every time.

On compliance, it's been -- it's been a very rapid journey over the last year. So I'm absolutely convinced that in the transparent world in which we live in now, being world class of compliance is an absolute prerequisite for world class business and we're already seeing some of the benefits, Jeff, and you've been a great partner on this one.



Okay, let's very quickly now run through some of that markets and I'll hand on to Brett. So China, tough market, we're still very much focused on building our foundations. We're very clear about how we grow. We spend a lot of time working about which regions are right for us and particularly how our formats work.

So very focused on the South, we know which sort of golden principles allow us to have a successful store launch and we're seeing the performance of our new stores increase sequentially.

We've done a lot of work at building trust. We put a lot of programs in place to our compliance organization around DNA testing on meat, food safety audits, third-party audits of our stores. It's not perfect yet but we're making really good progress particularly on health and safety. And we're working hard with Neil's team to integrate our physical and digital businesses.

In terms of Mexico, Mexico is a really good business for us. But we want to rejuvenate it. It's had a phenomenal track record over 2,000 stores. In the last 10 years growing sales by 10%, profited over 12% on a compound annual growth rate.

Now, there are businesses that productivity loop has been completely dominated by growth. And that growth slowed down. So what we're now having to do is build muscles in other areas around the wage planning to make sure that they are just as adept and surviving in a lower growth market as they have in the past one.

We've been much more disciplined about our CapEx in that market. We intended to be very backend loaded and we've opened a lot of stores in December over the last years which is not right for associates and it's not right for customers. And again, you'll see us be prepared to slow down where we need to, to create a much more balanced growth program.

Sam's has been an issue there. Todd Harbaugh is now being in place. Todd was COO of our US Sam's Club business. He's been in place now for about six months. We were down there a couple of weeks ago, had a very good review with Todd and he's got his arms around the situation. It's going to take him a while to get that business back on track but we're starting to see some good progress and we're accelerating e-commerce.

In terms of Brazil, we want to turn around Brazil. It's a really tough market but I'm very pleased with the progress that we're making there. We've got a good team in place. Gui Loureiro has built a strong team around, and they all know Brazil very well, they've got lots of experience.

They've got good experience of change management and turnaround. They've built some really solid foundations in that business and compliance in particular as they move forward significantly away.

I think a highlight I pulled out is the work on integration. It's a tough market and complex particularly with labor and taxation in that market, very hard to do that when you're running with three different businesses in three head offices on different systems. We've converted 106 stores this year. We'll have the South finished this year and we'll have the Northern stores finished by the end of next year.

And finally again, we've done a lot of time working out where we grow when we're ready to grow. We're not just yet but it will be at a discount format and that will be in the areas in which we're strong, so [turn them blue Kumbayah].

In U.K., our role is to redefine value retailing. As I say, I think Andy and the team have done a really nice job at navigating through what is a very tough environment in the U.K. They've taken a long-term view about how they balance the various aspects of the consumer offer, built some good differentiation on products, private label and fresh, and really put a rigorous approach in just taking cost out of their business. There are leaders in e-commerce and they continue to develop their business in terms of access and reach.

And then finally onto Canada, we want to strengthen our position in Canada. Over the last two years, it's been dominated by the rollout of supercenters. We've got just under 300 at the moment. So we've laid down a huge amount of food space in the last five to six years. Our job now is to go back and optimize that. So what you'll see is focus much harder on now as innovating the food offer within those existing spaces.

Good work going on there in terms of cost reduction and they're one of our partner markets in terms of growing e-commerce. They're strengthening their position to grow there.

So I'm going to hand over to Brett now and Brett is going to walk you through a bit more detail of some of our financials and then I'll just come on at the end to close.



Brett Biggs - Wal-Mart Stores, Inc. - CFO - Wal-Mart International

Thanks, David. So I guess if you're introducing English, I guess I'll be the first one this morning introduced Texan to the audience. You'll have to put up with my Southern draw for a few minutes versus that great British accent which is really difficult to follow.

I want to take just a quick look this morning at our first half performance to start with that but then transition to talk a bit about our portfolio and how we think about that and how we manage that portfolio particularly as it relates to capital into the P&L.

You can see from here that we had a pretty good start of the year. There are always things as Dave mentioned that we could have done better. But overall, a pretty solid start.

We certainly like seeing [NAP] income growing fast than the sales, what you see here. We've had a pretty good balance as far as how the performance has been across our portfolio.

And a good first half in some of our markets that we don't talk about sometimes but are very important to us, markets like Chile, Central Americas, Argentina, Japan, that had really good starts at the year.

Japan performed really well in the first half of the year with good comps, comps that are exceeding the market. And as we mentioned last year, we continue to take a look at the composition of our assets in Japan just to ensure we're in the best place competitively there long term.

We've seen our comp sales improve overall. We've had strong comps in places like Latin America and particularly Brazil as well as Africa and Japan and strong e-commerce growth in several of our markets.

The U.K. had positive comps in the first half and even in the very competitive market there. The team continues to do a great job in managing and in more than holding their own in that market.

It's been a bit more of a challenging market as you look at Canada and Mexico and China, a bit more of a challenging start to the year. Q2 was better than Q1 in those markets and again, those teams do a very good job of managing the overall business even when comps aren't quite where we'd like to have in.

We leveraged the expenses in the first half of the year in most of our countries and we'll continue. This will be a continual focus for us. But as Doug talked about earlier, we'll continue to focus on investing in the business and ensuring we keep the good balance.

We do know longer term there are costs that wouldn't be aggressive with our cost structure, that our competitors will continue to be more aggressive now and in the future. We'll have to continue to do that but we'll balance that with our sales growth in ensuring that we grow the business long term.

We still have a lot of work to do around working capital. Dave mentioned it earlier. We've talked about in the first couple of quarters that we're not happy with where we've been from an inventory perspective.

You'll see progress to think of that in the back half of the year. The countries are all taking initiatives. They're all doing the things you would expect them to do. But we need to continue to focus on inventory and working capital going forward, so overall, a pretty good start to the year.

Turn for a minute and talk about new square footage. So I'm going to -- I'm going to orient you to the slide just for a minute. You see net and gross square footage and we show it this way because of the closures we had in the last year or so in China and in Brazil. It makes it easier to compare year-over-year.

And so what you see, you'll see cap or -- our square footage has been declining over the last several years. And there are a couple of main reasons for that. One is Mexico where we have slowdown growth a little bit in Mexico particularly in some of our larger stores. But Mexico continues to be a very good growth market for us in the future. And also in Brazil as Dave talked about, we're ensuring we get our business right in Brazil before we look at growing in a meaningful way in Brazil in the near term.

FY '15 is going to come in a little bit -- a little bit light of where we had expected from a square footage perspective and for the reasons I just mentioned but also some timing if you see opening to move from one year to the next. We would expect next year as far as gross square footage to be similar to what we have this year, maybe slightly up.



So one of our focus areas is how we allocate capital around the world. And if you look at today versus even a few years ago, you're starting to see this transition in capital. And you're seeing --for the reasons I talked about just a minute ago, you're seeing as a percent of CapEx or -- CapEx, a little bit less being spent on new stores and I'll come back to that in a minute.

You've seen us spend more money on remodels because we want to make sure that our existing fleet that we're taking care of were serving the customers and that we're innovating in our existing fleet.

We spent more in e-commerce and that's been the theme all morning long as you've heard. We'll continue to spend more in e-commerce. They'll be a growing part of our CapEx.

As we continue to accelerate this integration of physical and digital that you've heard so much about this morning, you continue to hear about. Dave talked about the U.K. and the things that we're doing there from click-and-collect and all the different ways that we're able to serve the customers. We'll continue to do that in other markets.

Store spending is going to continue to be fairly similar to what you've seen from us this year, but within that, there's a little bit of a mixed shift as well. We'll spend more on smaller formats. We want to give our customer better access to our brand around the world.

Supercenters and large formats that will continue to be a very important part -- important part of our portfolio is that it's a great way for us to get that one-stop shopping experience to the customer and will continue to be very important.

And we'll continue this transition in CapEx over the coming years to ensure that we're taking care of our customers and all the ways that they want to shop in the future.

We're also going to continue to transition a bit in a composition of our P&L. Historically, a large percent of our sales and profit you will notice have come from our three main markets in Canada, the U.K. and Mexico.

We've been incredibly fortunate to have teams there in those markets that are great at managing the business and delivering sales and profit and also great market positions in those markets. But we need better balance across the portfolio. We need to continue to improve the performance of our other markets and we've talked a little bit about that earlier that we are seeing some of that improvement in some of those markets.

And there's better balance to do a couple of things for us. First, it gives us a more -- more diverse opportunities for growth and profitability really across the portfolio longer term. It gives us more businesses to build upon in the future. It de-risk the portfolio at the same time it really leverages everything we do across the portfolio.

It also allows our large markets every opportunity to continue to win in their markets and also to accelerate this integration of physical and digital in these markets to serve the customers in all the ways they want to be served. The customers move very quickly and we have to stay with that customer, I think in some cases even lead that customer into the future.

So over the past year or so you've seen we've started moving in this direction but we want to continue to accelerate this in the future and ensure we get the most out of -- out of the entire portfolio.

When you have a business that's as diverse as ours and as large as ours, you have to constantly be assessing what's right for the business both long term and short term what's good for the customer, what's good for the shareholders.

And on the right, you see some things and some decisions that we've made in the past and many times, there's a challenging decision if they're the right thing to do for the business longer term and for the shareholders.

And when we assess our portfolio, there are a number of things that we consider and certainly, this list isn't exhausted in any way but there are some things that we consider as we go through these decisions.

As Dave said, we want to be in good businesses and that relates to the formats, channels, geographies, categories. But we want to make sure that we are in the right businesses. We want to be able to accelerate our strategy. As I said, the customer is moving very, very quickly. We've got to move at least with the speed, if not quicker than they're moving.



We want to always find ways to simplify our business. You can't always take a decision based on this solely but if there are opportunities for us to simplify our business, we want to continue to do that.

And then just continuing to focus on key initiatives, we have a very diverse business and we need to make sure that we're focusing on the most important things everyday in many of those Dave talked about earlier.

So as Dave comes back up, I'll end by saying, we're going to continue to manage and assess all the areas of our portfolio and always with the customer mind, with the shareholder mind, short term and long term and taking that all into consideration. But we're very excited about where we can go in the future.

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Okay. Well, I'll just read them as we stay up we're just about to wrap up.

So -- Okay, so in summary, back to where we started, I think we've got a very clear plan. We want to be in good businesses and we want to run them well and you'll hear the operational priorities remain remarkably consistent over the next couple of years. They're the ones listed on the right.

I think the message for us, we've got a solid start to the year, we're particularly pleased with the improvements in our comp sales but we're under no mis-illusion, we've got a lot more work to do to get this business in the shape we want it to be in.

We've got a very clear strategy. We completed a thorough and comprehensive review of our portfolio. We know where the customer is moving, we know where we need to move and you'll see us continue to actively manage our existing portfolio.

And finally, we'll be very focused on execution. We'll be focused on execution of our strategy and we'll be focused on delivering retail basics wherever we operate.

So with that Carol, we'll take any questions that they want to ask. I'm going to ask the rest of the team to come up.

Carol Schumacher

So we have about 20 minutes for the international Q&A. And is Miguel in the back or Michael, are you doing this session? Here, Miguel, you have the mic. We'll start -- we'll start up front, so we'll start, Richard, with you for the first question?

Richard Cathcart. Thanks, Carol. Richard Cathcart from HSBC. Just a question on Brazil, I think you've made pretty good progress there on integrating the business and you just mentioned that. But your sales density is still quite far behind the competition. Do you think you can solve that problem?

And then just linked to that point on positioning the formats in Brazil, do you think you're missing a format like [Bodega Data] in Brazil or do you think you kind of hit the right format with Todo Dia, can you just give an update to that?

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Okay. So we're doing the reverse order. I think the answer to the last question is yes. You know, Todo Dia is very much modeled on today giving one of the advantages of having Enrique working across the region is we are sharing best practice from a format we know very well in Mexico with the Bodega go into Brazil.

And lots of -- if you walk to Todo Dia, you know, you would see an enormous amount of commonality right through from the way they structure brands, the way they lay out their stores. So yes, I think that is our growth vehicle.

In terms of the densities, you know, clearly, we've got a challenge over the last couple of years in driving sales but when you take -- so far this year, we've seen a significant improvement in our sales growth in that market. And obviously, we're carrying the closure of a number of stores from the last year but we'll need to keep driving sales hard to get our sales densities up.

Enrique, do you have anything you want to add?



Enrique Ostale - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart Latin America

Yes. In terms of sales, there are some public figures there for our competitors and we understand, of course, the -- with the goal -- the wholesale -- [the Takara] business is doing good and you can see from [cart pool].

From CTA, [Pal Azucar]. We just released the numbers and our performance were received there that we are pleased with the performance when we compare it to them, of course, considering the store that we closed.

Although we have seen some slowdown in Brazil after the World Cup but the whole market is -- has slowed down after the second World Cup.

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Okay.

Carol Schumacher

Okay. We'll go to Chris, Miguel.

Chris Horvers. Thanks. Chris Horvers, JPMorgan. So I wanted to follow onto that question. You know, stepping back across the portfolio, you talked about being very diligent in terms of making sure you have the right assets in place.

What markets -- and you closed stores in China and Brazil this past year. Where do you think the assets aren't right, whether it's supply chain, real estate locations and formats, you know, outside of Brazil across the portfolio?

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Okay, thanks, Chris. I mean clearly, we can't talk about and this is -- we might take in the future. You know, what I can tell you is we'll keep reviewing the portfolio and where we find areas that we don't think are financially viable or non-core to our business then we'll take appropriate action on those but we can't talk about what we might do in the future.

I think the one thing I would say in terms of individual stores is just to reiterate the work that Scott's been leading with Brett's support on how we plan our pipeline going forward. And the concept of global or our golden principles which is a much more rigorous view about what does it take to be successful market by market in the new store and constantly forward flexing for what we see in terms of online penetration, you know, multi-store floor - multi-floor formats that we see in China and understanding what works and doesn't work is giving us a much better track record of being successful in the real estate we do lay out. So that's where we'll spend a lot of our time.

Christopher Horvers - JPMorgan - Analyst

And so maybe another way, can you give a little retrospective on where the process I guess went wrong in the past, how this -- why these assets were acquired and, you know, how is that disciplined different going forward?

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

I mean it's difficult to comment on what went on in the past. I think the big change that we're seeing at the moment is the speed in which the customer is changing. And by nature when you -- when you decide to invest in a particular store in the location, you're taking a forward view for 25 years around what you think growth rates would be.

So we've got a lot of stores that we build in the early 2000s where we had, boy, an economist, and the view is that they would remain buoyant for long period of time, we live in a very different world now.



So I think what we're developing is a methodology that allows us to be much more forward-thinking and much more proactive and looking at our growth curves and assumptions and to make sure -- you know, we've got no crystal ball but at least we're consciously thinking through how quickly the customer is moving and make sure we're adjusting our investments accordingly. So, you know, I think a lot of it is the world is just very different now than it was five years ago.

Carol Schumacher

Okay, we'll go up front to Budd and then Marion, Simeon will be next.

Budd Bugatch; Hi. Budd Bugatch with Raymond James. If I understood Brett's slide properly, for fiscal '16 to '18, you're thinking that the big three operating income will grow slower than the sales, is that the way -- right way to interpret of that, and if so, could you maybe give us some color on that again? I just don't quite understand it.

Brett Biggs - Wal-Mart Stores, Inc. - CFO - Wal-Mart International

It's the percentage of -- in each case, it's the percentage of sales growth on each side. And just as we look at the next three years overall, it is trying to, Budd, continue to balance out the portfolio.

In some markets, we want to ensure that we maintain our competitive position particularly in places where we have market leadership and just ensuring that we give those teams the opportunity -- every opportunity to do that.

Carol Schumacher

And then Simeon next.

Simeon Gutman - Morgan Stanley - Analyst

Thanks. Simeon Gutman, Morgan Stanley. You showed that slide about \$5.5 trillion of growth opportunity trying to stand out as being the most opportunistic. Can you talk about where your position in terms of formats and categories, is Wal-Mart in the right place in those pieces? And I have one follow-up.

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Okay. So I think before you get to formats, you know, one of the things that we'll be -- we'll be pretty dogmatic about is you have to build solid foundations to your retail operations if you want to grow fast.

And we've said in the past that if you grow too fast, you can pay the consequences later on. So the work that Scott and Greg started off Sean Clarke now are leading Canada to consolidate buying offices to make sure that our process is as strong and, of course, systems are in place. So everybody -- Tom is there to support the growth that's going to be key.

In terms of the formats, you know, we're optimistic about the formats we're in. We think there's the role of the hypermarkets in a developing market. Sam's Club is very strong and we've got a very successful fast-growing business in [Yuhauty] in there.

We'll look and see whether other formats are going to be appropriate in the future and certainly, if you look at our strategies, supermarket is one that we see growing well around the globe and that's one that we could consider but we haven't made any formal decisions on that yet.

Simeon Gutman - Morgan Stanley - Analyst

Okay. And then the second, capital allocation, I expect maybe in the afternoon, we're going to hear that there is less capital going for new stores, more going to e-commerce. The message here in the financial is slightly more in stores but also more in e-commerce.



Is the philosophy the same, it's just you have a mix of some markets that still requires some footage growth or is the philosophy all that different?

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Yes, I'll take it and maybe Brett can add a bit of color. So I think the philosophy is exactly the same. We've got two differences in international. One is we have a -- we have a suite of developing markets whereas obviously in core US, you're in the developed markets that gives a slightly different perspective.

The second is that, you know, we've been quite thoughtful at slowing down some of that new real estate growth in markets where we didn't feel we had solid foundation. So we slowed down in Mexico, we slowed down in Brazil, and we slowed down in China where we build some foundations.

So once we're happy with the foundations and if the opportunities arise and our analysis of future growth curve says that we can make good returns in those formats, you could see that start to tweak up.

I think I'm right on this but over the last four years, our CAGR on new store investment is about negative 10 over that period of time. But the shape is exactly the same, so new stores going down, shifting from big to small, investing in e-commerce, investing in remodels to make sure that our state remains current and relevant to customers, it would be the same shape.

Brett Biggs - Wal-Mart Stores, Inc. - CFO - Wal-Mart International

Now, really, it's just the market by market. Look, some markets are in different stages of development than others.

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Yes.

Carol Schumacher

Okay. We'll go to Meredith, Miguel, in the back there.

Meredith Adler - Barclays Capital - Analyst

I have a question about compliances. Obviously, you've done a tremendous amount of work, you sound right, they're still learning to be done. Why do think the risk is that there will be some kind of media event disclosure that says that there were still a problem or do you think that the fine tuning you're doing is, you know, you're not going to run into a problem about something major at this point?

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

I think the thing about compliance is this is a never-ending journey. As I say, we've made extraordinary progress in the last two years under Jeff's leadership and we've got Jay to the side and maybe Jay, do you want to say anything in addition to what I say?

We've made extraordinary progress but we're only -- we're only a bit of the way through the journey. We built an organization that I believe is world class and we had some fantastic people.

We've mapped most of our major processes and we're now going through the process of looking out where those duplicative processes and how do we combine them and make them simpler, how do we improve them to make sure that the program is more effective.



And we're in the early stages now of converting some global function and technical capabilities that will allow us to systematize that and make sure that we do the right thing all the time. But I think this is a journey that's going to take a long time. It's going to be I think for anybody who aspires to do world-class retail particularly of that size, it will be a prerequisite of being an effective operator in the future.

Jay, and was there anything you would add to that?

Jay Jorgensen - Wal-Mart Stores, Inc. - Global CCO

I agree with what you said, Dave. I don't have anything to add to that other than to just in the past, we've benchmarked what we've been doing over the last two years with other major companies, companies like General Electric, Schlumberger, other major international operators.

And, you know, we have some opportunities to things that they were doing that we weren't doing. Over the last couple of years, we've fixed that. Now, we're doing the things that they're doing.

But that doesn't mean that we'll never have a problem. We're a business of 2 million people making mistakes and we want to innovate, we want to -- we want to try new things. That's going to result in more mistakes. But we now have the processes and the procedures that you just mentioned to teach and train and to keep those small.

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Yes.

Carol Schumacher

And some of you may remember that last year, Jay Jorgensen, who heads up our Global Compliance area did present as part of the international group.

Scott?

Scott Mushkin - Wolfe Research - Analyst

Yes, Scott Mushkin from Wolfe Research. So you emphasized that the first half was pretty good and things are kind of on plan and maybe a little bit better. As we look at the second half, a lot of these economies that you've participated in are having a lot of problems. The dollars appreciated fairly nicely again from a lot other currencies.

It's hard to sit here now and think that there's got to be some concern. Do you want to talk about the global consumer environment, what you're seeing and how are you going to navigate through it?

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

So I said -- I think I said we were solid rather than pretty good. But there's a solid start. And in terms of it, obviously, I can't talk about our numbers in the quarter. We haven't released those yet.

But you can see a few data points particularly in the last week BRC in the U.K. releasing numbers, [Antad] in Mexico showed numbers. But both would point to September being a pretty tough month around the globe across every retailer.

As we've looked at that, there's quite a lot of phasing in there, so we look to the way the weekends fell, holidays fell that tended to suck business out into August and later. But I think that's the trend for everybody. So...

Scott Mushkin - Wolfe Research - Analyst



You know, are you seeing any, you know, general slowdown or further slowdown in the consumer globally?

David Cheesewright - *Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International*

I think we see a similar position but everywhere, certainly, I travel, I see markets that are tough, you know, and tough economies and stress consumers and that's not changed here in the course of this year. I think that's the environment we're going to keep operating.

Carol Schumacher

And Dave, we'll go to Michael on this side.

Unidentified Audience Member

Very quickly, Canada, Mexico and U.K. all look like markets where there may be consolidation or assets dispositions going on. How do you look at those markets and what you may or may not do as those things begin to take place?

David Cheesewright - *Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International*

Okay, and Shelley, I maybe ask you to come in a bit. But, you know, there's always changing dynamics in the market and one of the things we try to focus very hard on is what we can do for our business.

So, you know, first and foremost, we're focusing on running good businesses in those markets. And I think -- maybe I'll talk to Asda very quickly and then Shelley if you can add any color.

I think the way Andy -- Andy and his team have led the Asda business through an extended period of turbulence in the U.K. is the way we want to do things. They've had a clear strategy for a couple of years. It's involved making sure they understand what their customers want and taking a long-term rigorous strategic approach to their business to make sure they deliver on -- deliver on it irrespective of what happens around them.

It may present headwinds, it may present opportunities, but they're focused on their business and I think you've seen them very successfully navigate at tough times. Their companies house results were out this week so you got some insight to how well we've fared versus competition.

Shelley, I don't know if you want to add something on Canada?

Shelley Broader - *Wal-Mart Stores, Inc. - President, CEO - Wal-Mart EMEA*

One of the nice parts about being part of the global company like Wal-Mart is your ability to learn from each other. And so Canada has now entered sort of the hyper competitive phase that the U.K. has been operating in for many years.

So this last year, we've seen rapid consolidation with four big retailers joining forces to become two. And so the idea of how to go ahead and reinvent your business to invest in your associate and invest in pricing that had happened in the U.K. is now being applied to the Canadian marketplace very successfully.

So it certainly is a market under consolidation. We've had new market entrance and we have allowed this change to make us a better Wal-Mart. And those of us that we're together in Canada prior to the addition of a new market entrant talked about how change in the marketplace lets the strong survive and allows you to sharpen your own toolkit.

So the price gap in Canada is stronger than ever than merchandise assortment. The private brand has allowed us to be more competitive in that market due to the dynamic changes there.

Carol Schumacher



Paul?

Paul Trussell - Deutsche Bank - Analyst

Paul Trussell, Deutsche Bank. Just on the margin front, you know, in the first half, the operating income nicely outpaced the top-line. What's your confidence level on the sustainability of that going forward, you know, following a few bumpy years?

How do we think about the opportunity going forward on your ability to leverage and continue to find the efficiencies across the different markets?

And just on average, how should we think about price investment and merchandise mix and the impact to gross margin over the next few periods?

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Okay. So maybe to take a few bits in there, in terms of where to -- you know, how optimistic are we about opportunities in our markets, very optimistic. But I don't think it's a business I go into where I can't see opportunities either by benchmarking against someone else either in our out industry or looking within our business to make the business better.

I think you'll see us move more from a series of tactical initiatives and cost cutting strategic redesigns of business processes to make sure that the changes we're making not just take costs out but make us better positioned to process. And across all our markets, I'd expect you to hear our kind of common cadence of those sorts of initiatives.

So I'm optimistic about what we can deliver. Where that goes to, I think, you know, our broad -- our broad sphere would be that you can expect our operating margins to remain relatively stable. We've got a couple of things to focus on.

Our price positions are not where we want them to be in some markets, so as we generate funds, we'd want to make sure that we remain competitive on price. That's what our customers come to see us for.

And the second thing is we've got to do work on the portfolio to make sure we're positioned for growth. We need to go as fast as we can on e-commerce. We need to invest in some places, some of our smaller stores. And part of that improvement and efficiency is about allowing us to invest in our portfolio to make sure that we're positioned in the future.

Brett?

Brett Biggs - Wal-Mart Stores, Inc. - CFO - Wal-Mart International

I agree with you. If you travel around the world, the good thing you see is there are so many opportunities, as Greg mentioned and as Doug mentioned, it's really store by store. When you get in the store, there's already -- there's always so many things that we can do differently and then you look at that at the market level and there's other things we can do.

I get asked all the time what inning are you in as far as leverage, and it's not an inning. There is the reason the productivity loop is a cycle and it's a circle. And so you always have opportunity to do that.

I think as we go forward, Dave, that the challenge will be and the opportunity will be continue to balance that with growing the business and investing in some of these markets to ensure that we're doing what we want to go forward with the customer.

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

And maybe the Mexico is a good example. I mean on paper, Mexico, has our lowest cost base. But it's a business we go into and we see plenty of opportunities to make it more efficient.



And as these growths slow down, you're going to need to work that base much harder and put some of the productivity efficiencies that we've seen in the mature markets into that business to allow it to compete effectively in a slower growth market. So there are opportunities everywhere.

Carol Schumacher

And Marion, I will go to Greg Melich.

Greg Melich - ISI Group - Analyst

Hi, thanks. I think it might be a continuation of your latest answer but could you step back a little bit and help us understand how you actually make the decision to enter a market?

And also under what conditions you might take a market that's very good for you but you would consider X at the end, you know, perhaps you're operating very well, you're best-in-class but for whatever reason, that doesn't have to grow because it doesn't have the other metrics that hit the two things you talked about? Just take us to the process and how that's changing?

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Okay. And I guess you walked through a sequential set of events on either way. In terms of -- as we look at new markets, you know, we'll look -- as we do these analyses on positioning and portfolio, we'll look for areas that are growing.

So the position we've looked which big markets aren't where do we think there's growth, is there a partner in there that we believe would be a good way of entering or is it greenfield.

And then the field that's very important for us is, you know, even if it's a big opportunity, do we have the capability to do it, do we think we can add value for customers in that market and differentiate ourselves and do we have the capability across our enterprise for -- to take that on in addition to all the other things we're doing.

But I think you had a pretty clear steer at the start as we look to that portfolio. We have access to a lot of global growth over the next five years. And there's no market I go in where we can't get substantial growth quite improving the markets we're in both in terms of repositioning or waiting towards the fast growing markets but also improving in the stores we're in.

In terms of exit, I mean a pretty similar approach. We'll constantly review the portfolio. You know, all of these reviews, our first point is to start with the customer and look at what customers are doing in individual markets and then look at our capabilities.

And if we believe we've got a business there where we don't think there's a way of certain customers in the way we want to or it's too small and it's destructive for our core business and it's interfering with our ability to deliver on our strategic plan then we'd make decisions accordingly.

presentation

Carol Schumacher

Dave, thank you very much to you and the team. We're out of time for questions on international.

Before we break for lunch, we'd like to comment about one other thing and that is that we know in the investment community, there is a growing trend to look at the brand of a company with eye toward responsibility.

There are more investors today looking at factors beyond the numbers and they are looking at things that taken to consideration, the ESG factors, the environment, social and governance factors. So our efforts behind corporate responsibility become even more important.



For those of you who follow us regularly, you know that we also have our annual report not only in print version but in a digital world like electronic version.

We also have a very robust global responsibility report available as well both in a print form but more importantly, to be sustainable in a digital form. We partner constantly with our corporate affairs people in our effort in these particular areas.

And we like to share with you a short video that gets to some of those important messages. I think some of you are very familiar with our efforts in sustainability in the environment because that's where we have the longest history.

But we also have great commitments behind our -- with our foundation to the communities in which we operate. In fact, last year, we donated more than \$1 billion in cash and in kind goods in the communities where we do business as well as others who may have been hurt by natural disasters like hurricanes.

We do a great deal of work as well with our associates helping them see more opportunities, helping them to grow in their careers, and that's part of our brand as well and we do feel that that is a contributing factor to our [soft] value.

Before we start the video, I'd like to recognize in the back, Dan Bartlett who is our EVP of Corporate Affairs and really heads up a lot of the areas that you're going to see in the video. So please roll the video.

(Video Presentation)

Carol Schumacher

Thank you. And now, we will break for lunch. And during one of the earlier sessions, there was a question about our private brands. First of all, I'd like to recognize Sam's Club for having provided breakfast.

And Greg and Duncan, I think your teams have done a great job of bringing together a great launch from Wal-Mart US for you. It will be in the rooms next door. And I will let you know that a good portion of what you're going to be eating for lunch is part of our private brand offering from Wal-Mart US So we will take about 45 minutes for lunch, so if you can look at your watches and come back in 45 minutes and we'll get underway with our program this afternoon.

Remember that at the beginning of the program, Claire did mention that you will hear more about and get the rest of the pieces particularly the dollars on CapEx this afternoon in Charles' presentation. So thank you and we'll be back for the webcast in about 45 minutes.

(BREAK)

presentation

Carol Schumacher

Welcome back to Wal-Mart's meeting for the investment community. I'm Carol Schumacher, the IRO at Wal-Mart Stores, Inc, and hopefully you did all have a great lunch. We appreciate the feedback we've been receiving from you so far and we'll get the afternoon program under the way.

As you know, we will be making forward-looking statements during this part of the meeting as well, so don't forget to refer to our website with the information on our forward-looking statements and other details related to our company.

I'm very pleased to introduce to this stage the head of Global eCommerce, President and CEO, Neil Ashe. Neil?

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

Thank you. Thank you Carol. Thank you all. I hope you had a great lunch and welcome back.

We've had a great year. And it's always great to be back together with you and to share some of the progress that we've made. But before I jump into that, I wanted to talk a little bit about customers. So Doug opened the morning talking about how we're transforming our relationship with our customers.



And when I've been up here for the last several years, we've talked to you about our changing customer and about the changing retail landscape. We showed you how our customers are using more smartphones and social networks. We talked about how Wal-Mart has evolved to better serve these customers from discount retailers, to supercenters, warehouse clubs, ecommerce and international. And I've discussed how we've been building best in class ecommerce capabilities that we could then marry with the world's largest retailer to serve customers in new ways.

I'm excited about where we are. But today, instead of talking about how the customer is changing, I want to focus more on how we're bringing it all together, how we are now anticipating our customers' needs to serve them in ways they themselves had not even thought of.

We're to a point where we can predict where customers are going, and find exciting new ways to serve them.

One of my favorite examples of this is Savings Catcher that Duncan talked about earlier. Our customers didn't ask for Savings Catcher but they are loving it. Since launch, there are over 33 million receipts had been scanned. It's funny that number keeps changing because it's growing so fast everyday, over 2 million new accounts to Wal-Mart.com. But the real value of the Savings Catcher isn't that we're giving money back, what's really important is that we're reinforcing that we're already giving you the lowest price, almost every single time. And in the rare instance that someone else has the lower price, we're using digital technology to go out and do the work for you to save you time.

Savings Catcher is brand affirming, it reinforces trust, it's all about who we are. And customers now have a real incentive to become digitally engaged. Even casual customers are participating. And that's the beauty of Savings Catcher. It's a simple yet powerful example of how we can serve customers when we integrate new digital capabilities with our physical presence.

And that's really at the core of what we're doing. We're tying everything together to create a more connected and highly engaged relationship with our customers. We're delivering Wal-Mart your way.

Our customers' lives are busy and they're complicated. And no matter where they start shopping, we're making it easy and convenient. And we're giving you reasons to come back more often, whether you start on your phone, on a tablet or in one of our stores.

I love being on it. Tonight after dinner, I went down to the Pleasant Grove Supercenter. And it really hit me kind of walking around this hub of activity at 9 o'clock on a Tuesday afternoon, or Tuesday evening rather. What a special place a supercenter is. It serves so many different roles and different people's lives. It's buzzing with activity. It is amazing business tool all at the same time.

Right now in a supercenter somewhere, there's a family stocking up on groceries for the week. In that same supercenter, there's a dad and his daughter grabbing some shin guards before soccer practice. And he's probably talking to one of his neighbors because he can never seem to find them at home.

At the Sam's Club down the way, there's a restaurant owner and she's going over tonight's menu and finding the freshest products so that she can serve her customers that evening. And all of these people came to shop with us because they know they can find whatever they need and they could find them at low prices.

Greg, Dave and Ross all talked about the many ways we'll be serving customers even better in our stores and club, by improving our fresh selection and by focusing on in-stock on service in assortment. And now we have even more ways to serve them. We're giving them access in new and convenient ways. We're delivering great new experiences. We're providing a vastly greater assortment at the low prices they expect.

I want to welcome two of colleagues, Fernando Madeira and Michael Bender to the stage, to talk through how we're pulling all these things together. Fernando leads Wal-Mart.com and came to us from leading Latin America and he moved to San Bruno now to run Wal-Mart.com around the world. Michael is the Chief Operating Officer of Global eCommerce. And he comes to us from the retail organization where he was president of the West.

Fernando -- we're doing a lot on the digital experience; tell us about how some of those are changing.

Fernando Madeira - Wal-Mart Stores, Inc. - President, CEO - Walmart.com

Alright. So good afternoon guys. As Neil mentioned, we are working hard [increased decision] with our customers. What does it mean? It means a lot more choices for our customers; more choices, more options that they can find in our physical stores.



If a customer comes to our Wal-Mart.com US site, they'll probably see much more options. Actually, three times more options than it had a couple of years ago. We're going to double this number again next year.

While we are thinking about that -- Okay, that's important for our customers, I can see. But it's important for our business -- for sure it is.

Right now in Wal-Mart.com, 75% of our online sales comes from non-store items. And before you ask me, yeah, we are doing great in terms of pricing.

Four out of five times we have our prices similar or lower than our major online competitors. That's all at Wal-Mart, everyday low price.

We're doing this globally. So my fellow Brazilians will see this holiday that to increase the assortment 10 times than the last year. It's a lot [of new choices] for them.

Also, if you look at China, we've doubled the general merchandising offering for them. We are doing this because we want to give to all our customers new ways to shop. But at the same time, we want to reinvent the online experience. It's not easy to browse all over these products, and we wanted to revamp this online experience.

So let me tell you how we're doing this. Let me start with smartphones. Internet brought store to the web, right? So now smartphones are bringing all the web to the store. If you look at smartphones, all our customers, they have smartphones more and more in our store. We've picked up this example of store search and improve it. A month ago, we launched a new store search. It helped with our customers to find any product inside of our assortment, online or offline so they can check price, availability and also imagine that they are all going down to aisle in a supercenter and they want to make a choice between two products, we can check with this application customer reviews. So it's great. Customers love it.

My second example, it is about receipts. We have an e-receipt application, [where receipt] is featured inside of our Wal-Mart.com application and is very much simple. If you go to a supercenter and get a printed receipt, there is a code so you can scan that code and our application will load and automatically store that kind of -- that receipt inside of our application. It's a cool thing. But actually, it's much more nice when it started to connect the e-receipt with other services and features.

So Neil and Duncan talked to you about the Savings Catcher. This is a good example of how we can connect e-receipts to the services. 33 million e-receipts has been entered inside of Savings Catcher. That's a cool thing because it gathers the receipts there, the application starts to look for savings for you every single minute.

There's another thing. We just announced them today, our new service that we are pretty excited because it combined a lot the digital and the physical. It's called InstaWatch. Imagine that you go into a supercenter or in a store of Wal-Mart and buy one of the selected Blu-rays or DVDs. And you get that piece of old technology in your hand and you go to the cashier. You got a receipt again. So you scan the code of that Blu-ray or DVD and that receipt, you enable to get a digital copy of that Blu-ray and DVD. So imagine that you can start to watch the video, the movie that you just acquired when you're going to the parking lot. So it's good for the parents, it's good for the kids, so they can literally start to watch in the parking lot.

This is a really good example how we are bridging physical and digital again. E-receipt is a very interesting area that it can start to improve more and more. So the next big thing will be predictive shopping lists and highly relevant digital coupons for you.

Third example on this journey -- so look at the pharmacy. We are super excited with one of the new features that [just were allowed]. It helped us to our customers to make easier to get a refill prescriptions. So again, just like we can get your medicine and scan the code; this, we will automatically going to you to get the refills made online. The customers love it.

So I would say nearly all the scores, customers start to use it.

Right now, one third of the total online refills that you have digitally, having done through this application.

So smartphones is the beginning. When you look at and see tablets, and now there's a kind of a fusion of tablets and smartphones, they are becoming bigger or smaller, you never know, right? So our customers are enjoying more and more to spend time buying with us on the tablet. Jamie Iannone just talked to you about the new application around Sam's Club, it's great, the members love it. They start to buy and find more things in our site.

But tablet for us is also the start of this new revolution in terms of a new online experience that you are bringing to the customers.

When you roll out the new site and you are just roll out the new site, Wal-Mart.com here in [your asphalt], some of you have noticed that the change little to the homepage, we started the design the new site from the tablet. It gave us a lot of possibilities. First, because more and more again, customers are using this to buy in



search in web. Secondly is because if we make this right, beautiful and comfortable for our users, our customers, it's easier to translate this to a bigger screen. And ours is easy to go in a smaller screen. And now again, blending size of screen, nobody knows. So that's why we started our design with the tablet.

So let me show you a quick demo about the new site, what's going on with the new site. We're going to see that some features here, probably you can see like, the homepage, right, that we have the vast majority of (inaudible) getting the [consumer] homepage. Some other features will be like rolling out and a small portion of the traffic is seeing these features right now. And finally the checkout, they're going to show it to you guys -- you are the first guys outside of my labs that are going to see this. So I hope that it works and I hope you enjoy.

Before you ask me, yeah, we're going to roll out but we don't have any date yet. So if you can give me some feedback, that would be great.

This is Steve. Steve, guys. Do it right, yeah?

So let's see there. When our customer arrives for our homepage, they will see two things that they ask of this. The customer may ask to get easy to find and discover new things in our site. So again, millions of choices, millions of products. It's not easy to find.

So the first thing that we did was like, we increased the search blocks. So the search blocks is bigger and easier for people to find and start to browse things. We also have a bigger area for creation, so more recommendations. You can see that the search blocks is of course the same during the surfing and the browsing. It helps as the customers find something, I can go and search better.

So let me show you one of the categories that the customer also has a lot to browse, but has some challenge right now because of the choices and options that are so much.

So in going to departments and see furniture, and then furniture, we're going to see that categories like furniture, clothing, when have choices like colors, of sizes. It is really complicated right now to surf and find out what they're looking for. Just because when you go to a session like this in [footnotes], you have to click one of the items and see the colors.

So you have to go to item page back and forth. Customers don't like this. So they asked me to put in better presentation. And we came up with this design. So you see this footnote here, there are some colors and you can choose, for example, pink, and you don't need to leave the page. That's why tablets help us to give them better browsing without leaving the page and come to back and forth kind of a thing. So I like this feature by way. It's pretty cool.

Let me go fast in this typing stuff -- no typos.

So if a customer comes and tries to find a new television, and they're going to find a new item page, the new item page right now is not available for the vast majority of (inaudible). We are testing, evaluating, and finding these. But again, we could be able to give all the information that the customer wants in just one screen. Bigger pictures, the information about price, easily to see, easy to add to cart, and especially the shipment and delivery method.

Our customers love to have the ability to change between shipping to their home or any other location, or pick up in our stores. And by way, this item, you can pick up today.

Can you see this one -- no, yeah.

So we go to add to cart. And then again, the output that you have that help us to create assortment to our customers come with something usable for them. If somebody buys a TV, probably they would need a mount or a Blu-ray. Another thing that our customers love is to play around the threshold of free shipping that you have. If something that you are buying in your basket is sort of -- the [thorough] basket is both \$50, you can get the free shipping. And this bar helps the customer to see how they are close or not to the \$50.

So let's go to checkout -- yeah, changed apps, yeah.

So this is a new checkout. One [funny] thing in this, in three steps, the customer can come, see what's going on in terms of shipping, put your information of shipping, credit card, done -- without leaving the page. So here, you can select one of the shipping methods -- let's say this. I want to get this faster. I could choose pickup today, then come the shipping address, I didn't leave the page.

Let's send to [Christine], one of our engineers. She'll love this CD. Then I can select the payment method.



Another cool thing that the customers love, it is the ability to pay in cash. I will select the credit card. I can review the order -- and done, that's it, pretty simple.

If I want to change something, I don't need to leave the page. So just come back and did it again.

So -- thanks Steve. So I hope you enjoyed a little what we have done so far in our site. We are innovating faster. This platform [NG], is a very nice technology piece that can help us innovate and deliver faster products to customers. We're creating a new digital experience. Combining to move forward to our physical capacity. We're creating new ways to serve our persons.

Now, I'd like to hand over to Michael. He will show you the little magic that happens after I place the order in the button. So it's digital to physical.

We're working hard together -- we're pretty much attached (inaudible) to make this happen from the digital to the physical, the best way for our customers. Thank you.

Michael Bender - Wal-Mart Stores, Inc. - COO - Global eCommerce

Thanks for the help, appreciate it. Good afternoon everybody.

Convenience means different things to different people. And we're putting commerce where our customers wanted to be; to their doors, to a store, and even right to their trunks, or boots. They're in the U.K., busy families are saving time with ASDA grocery home delivery and pick up. And ASDA has been a pioneer and is a world leader when it comes to online grocery.

In addition to having your groceries delivered to your door, ASDA has been expanding pick up points both at stores and in new convenient locations. And in fact this year, ASDA is doubling the number of pick up points at two stations, which can save a busy London commuter hours and means that dinner happens on time.

They're now testing a standalone pod that's basically an ATM for your groceries. I have to tell you, it's really, really cool. And we're sharing this experience around the world. And while a busy commuter in China is not the same as the two right there in London, their needs are very similar. They want convenience.

And in Shanghai, you can get an order delivered in just hours, or pick it up from a hub right in your apartment complex. In this particular case, your apartment complex has 80 thousand people in it. And while the closest hypermarket is only a kilometer away, it might as well be in Beijing. And small business owners and moms now have a new BFF, Sam's Club Pickup.

Fernando talked about how we've improved the mobile experience and we're making it faster and easier for members to pick up those orders at their club, sometimes without even leaving their cars. And we're also making it faster and easier to reorder the items they buy regularly. And here in the US, we're testing new access points including the standalone pickup location here in Bentonville that you heard Judith mentioned.

We expanded our test of grocery delivery to Denver last year, and we added store pickup this year there. And we're seeing a great response. In fact, four out of five customers are coming back for more there in Denver.

Let's take a look at this video and I think this gives you a little snapshot of what's happening with our customer here.

Pretty cool.

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

It is pretty cool. We pull all that stuff together and I love working with these guys as we put this team together and hear what they're talking about. You know, Michael, you've been us for several months now and you came over from the retail organization. How have you found ecommerce to be different?

Michael Bender - Wal-Mart Stores, Inc. - COO - Global eCommerce

eCommerce is a lot of fun, Neil. And one of the things that I've noticed here on the two months that I've been on board is the speed and the magnitude of the change that seems to be taking place in this space. It's a lot of fun to really grab onto that.



What it means to me is the importance of making sure that we stay in step with the customer and their changes, and data, and our ability to really leverage that data to create a more intimate relationship with our customers from the standpoint of really making sure that we're developing long-term relationships versus just the transaction here and there. Those are two big things that I've noticed that are really important about this business.

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

That's awesome. And you've already had an impact and you're helping us realize operational excellence and we greatly appreciate it. So thank you.

And Fernando, you joined us from Latin America obviously where you ran the Wal-Mart.com. But before that, you built [Tera] into, not only one of the largest media properties in Latin America, but also in the world. And you've been around this digital content and experience thing basically since it started. What is a good digital experience?

Fernando Madeira - Wal-Mart Stores, Inc. - President, CEO - Walmart.com

I think that must be simple and clean. But at the same time, must be beautiful and firm. No excuse to not be beautiful and firm.

And I think that the eCommerce right now lacks a little bit of this last part. It is probably -- the eCommerce is so focused in transactions right now, that all the design is around transaction. I hope that you see that, you know, we are changing this a little bit and your design around the customer needs. And that's what's super exciting.

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

That's awesome. You did a great job and we're excited that you're here. Thank you both very much.

You know, Doug started this by talking about price assortment, access and experience. And you can see how those things come together in new and different ways where the best of the digital content experience and the strength of our retail operations and our operating excellence.

We're pulling all these together and we're doing it all around the world. So we've talked about the fact that we're focused on key markets. Those key markets we've talked about the US, the U.K., Brazil and China -- the markets we operate in will be responsible for about 75% of eCommerce revenues in 2020. And in addition to the markets that I've mentioned, we're also in Argentina, in Canada, Chile, Japan, Mexico and South Africa. And this year, we launched the Cash and Carry B2B site in India.

And to do all these, to serve our customers around the world, we feel like it's in -- imperative that we build a world class digital foundation. That's primarily in four key areas. The first is our technology platform, the second is around data and insights, the third is around our next generation supply chain, and of course all of these is powered by talent.

So first, let me start with our global technology platform that we call Pangea. You've heard us talked to you about a little bit along the way. This year, we delivered some of the most significant pieces of Pangea. But it really is a process. Pangea is now -- the project is now Pangea, the commerce operating system.

Over the last two and half years, we've done a soup to nuts rebuild of our entire technology architecture and it impacts all parts of our business. It includes the frontend systems that Fernando described, whether it's a smartphone, a tablet, or a computer, all of those are powered by Pangea. It includes the backend systems necessary to deliver all of those pickup and delivery options that Michael talked about. Those are powered by Pangea. It includes our datacenters and our servers and all of the infrastructure necessary to -- that are -- to run our business that our technologists care most about. We built our own cloud capabilities both public and private at significant levels of efficiency. We build platform as a service. We built infrastructure as a service, which allows us to be best in breed in our web operations.

In English, that means we can innovate faster and we can deliver new features in a day versus in weeks or months before. And Pangea is also providing the foundation for our data capabilities, which connect those store and online data together to better serve our customers.

You know, our goal for data is really simple. We want to help our customers find one more item, we want to help our merchants sell one more item, and we want to help our operators do all of these while building one less building. And when we do that, we impact the business model of the entire company.



So let's talk a little bit of each one of those. For our customers, we build what we call P13N, that's our personalization engine. It helps customers find new items which are directed exactly to their interest, whether they're in store, they're online, or in our app.

For our merchants, Dave talked a lot about the tools that we built to pull together pricing and assortment which allowed them to make sure they have the right items for sale at the right price. And for our marketers and suppliers, our new WMX marketing platform allows them to target better and to take ways out of their marketing spend. So they can reinvest that money in low prices for our customers. And for our operators, we built a multi-channel sourcing engine which allows us to identify where to put inventory and then where to pull that inventory from to most efficiently serve your order however you want it delivered or picked up, which brings me to our next generation supply chain.

We call it that because it's a supply chain that only we can build. It isn't an eCommerce network, or a retail network, it's a customer network. The fulfillment centers, the shared distribution centers, our ship from store locations are all tied together by one of the biggest and most efficient transportation networks in the country.

This year, we'll add two new fulfillment centers in Georgia and another in Pennsylvania, each over a million square feet. And these are similar to the ones we've announced already in Fort Worth, in Indianapolis, and the first one at Pennsylvania. We now have 83 supercenters that have been activated to fulfill online orders, up from 39 last year.

Altogether, this is a dynamic network that can serve customers today. And more importantly, it can adapt to how they want to be served tomorrow.

I'm really excited about the leadership team that we put together to run global eCommerce. You met Fernando and Michael a few minutes ago, and Jaime was here as part of Ross' presentation. Anne Myong joins us as our Chief Financial Officer. She had been working with Greg at Wal-Mart China and prior to that, she was the CFO of several technology companies. And you'll get to hear from Jeremy King, our Chief Technology Officer in a video here in a minute.

But more important than the leadership team, we've built a -- and continue to add to a talent-dense Silicon Valley operation. We're building an internet technology company inside the world's largest retailer, which means we're acquiring a lot of talent. We're doing it through hiring, we're doing it through university relations, and we're obviously making some acquisitions. We're hiring some of the best and the brightest.

In fact, we have one of the highest hiring standards in the industry. Over last two years since we started this process, we only make offers to 1.6% of the people who apply for jobs at Wal-Mart eCommerce.

We're also recruiting on-campus. Our interim program this summer had 80% masters and PhD candidates. I was riding up in an elevation in one of those -- with one of our interns before they left in August and he said I'm back off to Stanford tomorrow, and I said well how was your summer? And he said it was awesome. I said what do you work on? He said I'm working on some of the merchant tools. He said, Neil, I had no idea that I could have this kind of impact at a place the scale of Wal-Mart. So I said well, the important question is are you coming back? And he said absolutely. I've got to go finish this Stanford thing and then I'm on my way back. Those are the kind of people we're pulling together.

But we're also acquiring technology startups. We've made about 14 acquisitions over the past two years, which brings together some unique talents and technical capabilities which all come together to serve as we're talking about.

We're also operating like an internet technology company. What does that mean? It means we operate in an integrated way between business and technology. And it means we operate at speed. We've embraced Agile and our small teams work together and they issue new code on a weekly basis.

But since I can't take you all to San Bruno, I thought we try and find a way to bring San Bruno here to you. So we're going to roll a quick video which -- of something we call Demo Day. Once a quarter, these small teams come together and report out to the entire company on the progress that they've made. Guys, let's take a look at the video.

That is really -- those four days are some of my favorite four days of the year, because you really get to see all the people that are making the difference everyday and you can see in their eyes the passion for what they're doing and for why they're doing.

And it all adds up and it all works.

We have a much better customer experience around the world than we had before, and as a result, we're growing and we're growing fast.



We're growing faster than the market in each one of the countries in which we operate. And we expect to continue to grow faster than the market in the future. Charles is going to go through the specifics of our financials, but we have high aspirations. And we're going to continue to have high aspirations. We're focused on building an enduring business. We're making good choices about where to invest and what to build. And we're making the investments necessary to win in the long-term.

Our results are reflection of what we're now able to do for customers; to anticipate their needs and to deliver new experiences to help them save time and money and to make their lives just a little bit better.

And there's no time that all of that matters more than during the Holidays. Think about it. This Thanksgiving, there will be a mom who orders her groceries online on Wednesday morning. And she'll drive and pick that up that afternoon without even leaving her car.

On Thursday, after a great Thanksgiving dinner, dad goes to the store because he loves the excitement of Black Friday. He's going to go get a tablet for mom, and he knows he sure to get it because we have a one hour guarantee. He gets a voucher. And before he even leaves the store, he redeems it on Wal-Mart.com. He's taking it to a powered by Pangea page that reminds him through a personalization engine that he was also looking at that Elsa doll for his daughter, which he adds to his cart.

A few days later, mom goes holiday shopping and buys her son that Transformers DVD that he's totally been jonesing for. And right away, we put a digital copy in her VUDU account.

So Christmas morning comes along and the daughter opens the doll and she starts screaming with joy, the son rips open his DVD, but he wants to watch it and he wants to watch it now. But you know, we've got to hop in the car and head over to grandma's house. No problem. Mom fires up that new tablet that she just opened, goes to VUDU and her son gets to watch that Transformers DVD all the way to his grandparents' house.

Of course, I would be remiss if I didn't point out that there's a whole slew of additional products that the grandparents bought at Wal-Mart.com on Cyber Monday where you have the best deals of the entire Holiday Season. Pretty cool, huh?

We're building best in class eCommerce and we're marrying it with the world's -- with the assets to the world's largest retailer to do for customers what no one else can do. We anticipate their needs and we offer them access, experience, assortment and price in ways that only we can do.

We're changing a lot. And we're changing it fast. But at the end of the day, what really matters hasn't changed at all. It's still all about making our customers' lives just a little bit better, no matter what state or country they live in. It's about helping them have a special Holiday Season.

Most important, is that we know who we are, and we know what matters. It's what Wal-Mart does best and we're delivering Wal-Mart your way. Thank you.

I'm going to invite my colleagues up to answer any of your questions.

Carol Schumacher

Okay, Q&A. We'll go with Joe. You haven't had one yet -- Claire, we'll go back to Joe or starters.

Joe Feldman - Telsey Advisory Group - Analyst

Thank you. Joe Feldman of Telsey Advisory Group.

I wanted to ask you about what you're seeing from a crash shopping standpoint, just like any statistics you can show with us, like people that are shopping, you know, mobile or online, and what they do in the stores. And if you are doing a pickup, is there any additional items added to the basket, or are you losing sort of that impulse shopper. Any other color you can provide would be great.

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

So we sprinkled some of those statistics, Joe, throughout the presentation. And I'll summarize them as follows; which is that if you shop with us in multiple formats, you're -- you'll shop with us more than anyone else does. And the more you shop online or on mobile, the more your store shop increases as well.



And ASDA, about where they've been doing it, of course, you pick up longer than we have here in the US, about 40% at the time, people hop out of the car and go in and buy additional items.

But taken all together, it's what affirms, I think, everything that we're talking about doing here, which is that when you are convenient for the customer, when you're delivering there what they want their way, they're going to spend more money with you. And we see that pretty much everywhere we go.

And then finally I've talked about Savings Catcher for a second because we've weaved that through the presentation. What a simple application. You know, as I walked out of Pleasant Grove store yesterday, of course I scanned that receipt, it went to my account and I know I can feel confident that I've got the -- that I've gotten the best price available on this market.

Well customers have realized that and their shop as a result of it, has increased dramatically.

Carol Schumacher

Okay, Michael, we'll go to Matt who has another question here.

Matt Nemer - Wells Fargo - Analyst

Thanks so much. Matt Nemer here, Wells Fargo.

So Google this week announced the shipping membership club, and Amazon has a pretty popular shipping membership club. Do you see that in your future? It seems like you have the assets to do that? You know, if not, what's holding you back?

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

It turns out everybody wants to sell product to people around the country, right Matt?

We -- you know, as we've talked about with our shipping program -- and Fernando outlined it in the -- in his presentation; we've started with -- by offering everyday low price shipping. So if you buy a threshold, you'll get free shipping and we work to make that as simple as possible.

We will continue to evaluate what shipping options we think matter most for customers. And if we want to make a change at some point in the future, we will.

But we think it's really more about the whole thing than it is about the shipping thing. So part of -- as we think about this integration of digital and physical, and we think about how we're serving customers, Greg and Judith and Dave and Ross all talked about this concept of pickup and delivery. And what that means is that we can be there whenever, wherever, however you want us to be, which is no one has ever done that effectively before.

And so we believe that changes the game. And for every customer we've talked to whether they're at Denver, in Bentonville or in Leads or in Shanghai, they all are in -- or in Sam's Club, they are all kind of saying the same thing which is we value the choice that you provide us. And we believe that's the ultimate driver of that deep and frequent relationship with our customers.

Matt Nemer - Wells Fargo - Analyst

And just one follow up, if I could -- could you comment on the price gap relative to your major online competitors? It seems like it is widened in your favor, but I'm just curious kind of where you think you're at.

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

Sure, I'll start. Fernando, if you want to add anything, please do.



We obviously pay significant attention to the competitive environment, and many of those merchant tools that we've developed are so that we know exactly what products are selling and for what price is where. And we are known for price and we will be known for price. And so we've gotten really sharp in our ability to develop a price gap in the marketplace online and we'll continue to do that.

Carol Schumacher

Fernando, were you going to add anything to that, or Neil covered it? Okay, good.

Fernando Madeira - Wal-Mart Stores, Inc. - President, CEO - Walmart.com

No, we are doing this in our markets by the way. It's not only US So we're tracking our -- [we're all tracking] not only US, but also Brazil, China, all over the place. So we are committed to everyday low price, and that's why we're pursuing.

Carol Schumacher

Okay, Claire, we'll go to Wayne. He hasn't had one yet.

Wayne Hood - BMO Capital Markets - Analyst

Thanks Carol. Question I guess, is online, assortment and also back to the pricing issue.

Last year during the Holiday Season, I think even it persists today, you go on to retail website and you have like, in the toy category available online but not in stores, or vice versa.

You know, I guess as a shopper, she looks at that and said I'm indifferent, you know, I don't care whether you have it online, I want it in both places for you to, you know, get my business.

So my question is as you go into the Holiday Season this year, and you think about those categories and her challenge around where she's going to go, how do you say to her I have it both in store and online?

And then secondly which I think you hit to a minute ago, is that how do you establish a pricing leadership online like you've done with brick and mortar, right, with everyday low cost and everyday low price? But Savings Catches does not match online pricing, so she's looking at that going -- I can get competitive prices and you know, in brick and mortar, but when I go online, you're not necessarily the price leader. How do you bridge that gap of her perceiving you as being a price leader, whatever venue it is and then assortment leader where she could get it, you know, at the same time?

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

Yeah, I might merge those two concepts and talk about toys at Christmas because it's a great way to explain a number of different things.

So for -- take that Elsa doll as a great example. We will sell through those Elsa dolls obviously this Holiday Season. There are only so many of them in the world, and we've got to put them where we think we can serve customers best.

And so at some point, we'll run out of those that we have online and yet there's still maybe some available in stores sprinkled around the country. So we'll continue to show them, say they're not available online but you can pick up that item in the store.

The rest of the market takes a different path which is that they allow price to rise once stock gets low. So when it transitions after the selloff period of the first party inventory, they'll allow merchants -- they'll allow their marketplace partners' price to rise. And so the -- and to capture that difference. We won't do that because it's against our price promise, it's against who we are.



And so if we said -- and when you think about Savings Catcher, said Okay, well, should we have Elsa dolls on Savings Catcher, or which price would we match? Would we match it at one moment, at the next moment if it's in a dynamic pricing environment, it's a -- it's different. We're already delivering that lowest price.

And so the environments are slightly different between the retail and eCommerce environment around price. And I believe we have the most mature and effective way to deliver customers what we know they really want, which is the lowest price whichever setting they're in.

And we'll continue to work hard to make sure that we've got that doll online for as long as we possibly can. But we want to make sure that as many people get that as possible, and we will not gauge them with pricing in the process.

Fernando Madeira - Wal-Mart Stores, Inc. - President, CEO - Walmart.com

And if I can add, if you look into other way, there are zillions of other items that we can provide online that the supercenter cannot carry just because of the physical limitation, right? So right now at supercenter, normally has 125 thousand items, so different SKUs, and you have more than 7 million online.

So we work together at Duncan -- my merchant team works together -- Duncan's merchant team to make sure that we have the best assortment in terms of, you know -- what they need is in terms of customer in store, versus online. So clothing is a good example, right? Clothing -- you have a limited space in the store, but you know that the customers need more.

And then again, if you look at the store and the new search item stuff in our application helps -- the customer say I don't have this, but I have it online and I can order, and also get in the store if I want that.

Carol Schumacher

Claire, we'll go to Michael.

Michael Lasser - UBS - Analyst

Thank you so much. It's Michael Lasser from UBS.

Can you talk about how your online customer, your average online customer in the US compares to your average in-store customer? And as part of that, can you talk about how fast your eCommerce-only customers are growing relative to your multichannel customers?

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

So I'll take the first cut at that. If you want to jump in, Fernando on how we're growing those.

Averages are really dangerous thing. So -- and the idea of an average customer especially in an environment where we can serve customers one at a time online is a really dangerous concept as well.

The -- because we're figuring out personalization and because we're figuring out how to serve these, we're able to expand our ranges as Fernando indicated, we're up to about 8 million items. Three-quarters of those sales come from items that aren't sold in our stores. So we can reach customers that the items that aren't in the supercenter and/or don't live close by to one of our stores.

So obviously they've grown exceptionally fast. In fact, that's been a large portion of our growth over the last five to ten years.

Now, we're really focused with things like Savings Catcher on how -- because we want to tie this all together, how can we grow the customers that we already had. Now Doug said at the outset that we're really focused on value-conscious customers. And what I like to say is that technology doesn't discriminate. It doesn't care where you live or you know, what you're shopping for, what you look like, or what you earn. And everyone wants value.



So when you take those two things together and you take the power of technology and you marry to value-conscious customers, we of course are going to grow fast. And we're growing fast in customers that we haven't had in stores prior and we're now growing even faster among the customers that are already shopping at our supercenters.

Carol Schumacher

Neil, we're on this side with Patrick first.

Patrick McKeever - MKM Partners - Analyst

Thanks Carol. Just sort of a big picture question, and I'm sure I'm not the only one with this question. But how do you make the order online and have it to put in your trunk financially make sense to the company? I mean, it's great for the consumer. But you know, it seems counterintuitive to a lot of -- what the things that, you know, the company has been built on, in a way. If you take Sam's Club for example, you know, I thought the idea was, you know, bring it in on a pallet and in some ways let the customer do the work. So anyway ...

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

I think it's a great question. I think Doug, you mentioned in your opening how retail seems to come in cycles and what goes around comes around. And it's worth noting that Sam Walton built Wal-Mart of the concept of not having a stocker have to go pick up an item from behind the counter.

But the customer, if he hadn't changed, if we hadn't changed to what the customer wanted, then they're going to go do that somewhere else.

One of the most exciting things about the example you described around that grocery pickup is that there's so many other pieces of the puzzle that require efficiency. And we're pretty darn good at all those pieces of efficiency.

Unidentified Company Representative

Right. Neil, I was just going to say one of the things that we can point to on a grocery pickup and delivery effort and I'm citing Denver as the opportunity where we're testing right now that we're doing to improve the profitability just one small example, that we're taking from the store and using that in the connection between digital and physical, is what we call [Aisle Location]. We use that to help our store associates and those who will pick the product in the stores to be able to direct them right to the item on the shelf.

So if you can imagine it's all about steps and making sure that you're taking as few as possible. Aisle Location allows our associates who are picking that product to not just walk randomly up and down the aisle, but to actually go to the section of the aisle, if it's a bottle of Tide, it will say it's, you know, in this section of that aisle. So that's one example of how we're trying to take cost out of the system and improve the profitability.

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

And when you do, you improve the store operations as a result ...

Unidentified Company Representative

Yeah, that's a great byproduct Neil, of what we're learning in Denver, is that we're getting sharper operationally particularly in area -- you've heard Greg mentioned earlier today in his remarks about fresh, the ability to turn product there and making sure that our fresh opportunity is as great as it can be for our customers. It's improved through the effort that we see going on in Denver right now. It's still a test, but really encouraging results.

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce



And the best businesses are those which are hard to execute, because when we figure out how to execute those, it raises the bar. And so what we really love about this is that the customers appear to really love it and it's really hard to do. So we believe that we can create differentiations from our competitors.

Carol Schumacher

And we have one more on this side from Thomas and then we'll go Michael, upfront to Dan Bender.

Thomas Paulson - Cornerstone Capital - Analyst

Thank you. Thomas Paulson, Cornerstone Capital.

I had three questions. The first one is when you think about the physical shopping trip, it's got serendipity to it, it's got treasure hunt into it, it's buying more than you really should, particularly at the Holidays.

So when you think of your online channel, how dilutive do you think it is to that traditional ship -- trip? That's the first question. Or, do you have ways through technology to have what would be the equivalent of basket? Thanks.

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

I would argue that there are hardly any more serendipitous events than shopping online. Fernando or Jamie, do you want to talk about how we make that experience so engaging?

Fernando Madeira - Wal-Mart Stores, Inc. - President, CEO - Walmart.com

Right. So again as I mentioned, the thing that must be beautiful and fun and help people to have, you know, fun doing their buying.

So there are some steps. I showed a couple examples about how we can increase affection in terms of specific items like the television. But there are many others that you can just (inaudible) raising pop up to the customer saying -- oh, those makes sense that I can buy these and increase my basket. We've seen these increasing internally in the last, you know, last new deployments; that we deployed with the new P3, (inaudible) that Neil mentioned. And you're starting to improve.

There's a second piece that is connected to the other question that is this hybrid new browsing. So you start your browsing in your smartphone and you go to the tablet and you go after, to desktop. So this allows us to create different kinds of spaces, or [retail] spaces inside of that screen, and enable people to discover new stuff. And that's what our [all those] are working together with our merchants to say this is something that it should show to the customer at this specific point. I feel that that is the right way to do and that is a beautiful design that it can apply on applications in our browser to do this.

Thomas Paulson - Cornerstone Capital - Analyst

All right. And then the second question I had is you're obviously talking about increased investments in ecommerce in this channel versus a physical store and you obviously have to do it given the competitive landscape.

In the medium term, do you see this channel being neutral to your segment margin, accretive to your segment margin and similar to your free cash flow profile?

Fernando Madeira - Wal-Mart Stores, Inc. - President, CEO - Walmart.com

Overtime we expect this -- we expect ecommerce business to add growth, to have a slightly lower operating margin than our brick and mortar retail business and a high -- have a higher return on capital.



So, yes, we expect it to deliver growth in cash flow to the business going forward. And I wanted to just, you know, add on one more thing to your first point -- to your first question which is that of course we're focused on the stock up trip and I thought Greg was really articulate and Dave about how we're going to constantly be working, but we're not competing for a trip, we're competing for a relationship.

We want your customer, we want our customers to shop with us because we solve all of their problems. And so, our view is that all of those ecommerce sales are sales that we've made because we've helped you do something better, easier, and we've earned that piece of business from you so we'll continue to do that.

Carol Schumacher

Okay, we'll go upfront to Dan.

Daniel Binder - Jefferies & Co. - Analyst

Given the dynamic pricing environment that you described online, I imagine there's a lot of instances where prices are lower online than they are in the store. I'm just curious what your experiences been with the customer who comes into the store and are they actively trying to compare pricing not just against Amazon and others, but also against your own website. Has that proven to be margin destroying in any meaningful way and how do you deal with that given people, you know, a lot of trust that the price that they're getting from you is the lowest price, but, you know, sometimes they'll find it lower online?

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

Yes, the -- so, obviously we are competing in two different markets. That store that individual walks in has a catch bin area then -- and that's where managers trading with the -- inside that catch bin area in a competitive environment. Obviously we're competing online with a number of different players.

And so when the -- when and if those prices ever get out of whack, the promise that we're making to customers is we're going to get it sorted out for them. So one of the first things that Greg has done is to make sure that that process is going to work effectively, so that if that happens, where those get disconnected, then we'll take the store associates in that store, we'll take care of them.

And it's frankly a really small number of customers that are impacted by this. Because we're Wal-Mart some -- lots of times there'll be articles written about a single instance, but it really is a -- it's a relatively small number.

The price and the promise of price remains the same, which is, we're out there working to try and make sure we have the lowest price and -- that you will find as a customer.

Claire Babineaux-Fontenot - Wal-Mart Stores, Inc. - Treasurer

Neil, that wraps up the Q&A desk. I know you guys have more questions, but we'll also have another Q&A, Neil will be back up with Doug at the end. But we ...

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

Thank you all.

presentation

Carol Schumacher

... need now this time to bring Charles Holley up to the stage. Charles as you know is our CFO, and Charles is going to give you a number of the piece that you haven't heard just yet, so Charles?



Charles Holley - Wal-Mart Stores, Inc. - CFO

Carol. Good afternoon.

Well, thanks for being here today and I hope today's been useful so far. And it's great to see so many familiar faces and if you're new to covering Wal-Mart or as an investor of our shares, we're glad that you took the time to join us.

Now, before I cover the numbers part of today's presentation, I think it's important to remember that we remain focused on the customer. We have over 50 years of history, adapting to meeting the changing needs of our customer. We're confident in our ability to continue that legacy.

We know we have to evolve how we serve our customer, not only saving them money with low prices, but also saving them time. Offering a one-stop shop or broad assortment has always saved our customer's time.

Now today, we're investing in technology to provide customers with even more convenience. Well, we'll also give customers an endless aisle of assortment. More convenient access and an improved customer experience, regardless of how they choose to shop.

Now, ecommerce initiatives are being integrated into all areas of our business, and I hope one of your takeaways from today is that we are further accelerating our focus on ecommerce and digital initiatives.

Now to get a better understanding of the numbers, I think it's important to break them down between the traditional brick and mortar and then the ecommerce and digital businesses.

Before I dive into the details, I'd like to provide a financial update with a look at a scorecard that we sent out to you last year. We experienced a tougher sales environment globally than we anticipated a year ago. Now we now believe our total net sales growth will be between 2% and 3%.

The two primary reasons have been the negative impact of foreign currency exchange rates and a greater than anticipated impact from the reduction in snap back in November of last year. Now, remember we will cycle through that this November 1.

We plan to grow square footage at the same rate as last year and we should come close to that goal. We plan for expenses to grow slower than sales and on a reported basis, we would expect to achieve that goal.

However, if we'd exclude the cost that we called out in the fourth quarter related to operating leases, restructuring and the Brazil indirect taxes from our comparisons, we would not leverage our expenses.

The primary reasons would be the slower sales growth and the additional \$500 million in healthcare cost for our US business.

Operating income on a reported basis should grow close to the rate of sales, on an underlying basis, considering what I just described for expenses. Operating income would grow at a slower rate than sales and again, primary reasons would be the slower sales growth and the \$500 million in healthcare costs.

Now although I think we still have strong cash flow, we have a lot of room for improvement. The biggest cash flow opportunity relates to working capital or inventory growth versus our payables growth.

Working capital management remains a very high priority for us and should make a meaningful difference as we look to the future for our cash flow. Over the last four years, we've given up over \$4 billion in working capital just through inventory growing at a faster rate than payables.

Some of this can be explained by the acceleration of our direct sourcing activities where we take ownership and initiate payment of core. But a large portion is attributable to opportunities we have to better manage our supply chain.

And I hope you heard from the segments today, this is going to be a focus for all of our operations. Now I think we have a great opportunity to reverse this trend, which will in turn help drive cash flow and returns.



Okay, let's talk about the traditional brick and mortar business. Remember -- now, this slide only includes the traditional brick and mortar business. CapEx for this part of our operations should trend down in fiscal year '15 by between \$700 million and \$1.2 billion.

This reduction is primarily driven by the international segment where we have moderated new store growth in Mexico and Brazil, and shifted investment spend in the UK for ecommerce and digital.

For fiscal year '16, we would expect our CapEx to decrease by approximately \$850 million compared to fiscal year '15. Now this is primarily due to a reduction in the US Supercenter expansion.

But as a reminder, this is not a permanent reduction in the large box format. It's a moderation of our increase as the US team works to ensure our large boxes in the US they're better aligned to better serve our customers in the future.

This also includes between 200 and 220 neighborhood markets in the US. Now, if the Wal-Mart team feels they can do more and meet or exceed the customer's expectations with sights and assortment, then we could certainly increase that number, but for right now, we feel comfortable with the number of neighborhood markets in the US for next year.

Our business in Canada, Mexico, and UK have been the primary drivers of our profitability in cash flow and international. And you also heard Dave mentioned that China is a key market for us as it will continue to be a driver of top line growth and improving margins.

Now, turning to sales and operating performance for the traditional brick and mortar business. Now, although sales growth stalled somewhat in the business since fiscal year '14, we would expect to grow between 2.5% and 3.5% on average over the next three years for sales.

We would expect profits to grow at a somewhat slower pace over the next two or three years, as there's a shift in the mix between food and general merchandise, although some operations in international will be expected to increase overall operating margins, over that timeframe.

Now, of course these numbers would exclude the impact of any acquisitions or restructurings we might do in the future.

In order to keep up with customer's expectations, we need to accelerate our offering above assortment and access. Now that leads me to the ecommerce and digital business.

We will continue to accelerate our investment in this area. We're going to create a world class platform for our customers and further integrate the shopping experience, creating an endless aisle appealing to the customer's desire for convenience, access, and assortment, of course all underpins Wal-Mart's low prices.

We would expect CapEx related to these investments to be between \$1.2 billion and \$1.5 billion for fiscal year '16. This investment includes technology spend for both ecommerce and digital efforts across all markets.

Now, globally we expect to finish fiscal year '15 with around \$12.5 billion of ecommerce sales and \$13.5 billion in gross merchandise value or what is commonly referred to as GMV. Now, think of GMV as the volume of merchandise transacted through our websites, so generally it's the gross merchandise value of ecommerce sales plus the merchandise value of third party transactions processed through our websites on which we would earn a commission.

This marketplace part of our business continue to grow at a very rapid rate. Now looking forward, we expect some increase in global ecommerce sales of around 25% in fiscal year '16, and then we would anticipate a ramp up so the growth rate over 16 through 18 would be averaged around 30% to 40%, both for sales and GMV.

We will continue to invest through our P&L as we build up this business.

Now, the operating loss you see on this graph, it represents the corporate support, technology support, overhead costs related to ecommerce and the digital efforts along with our operating losses for ecommerce that are embedded in our segment P&L. So we put it all together so you could see it.

The heaviest investment comes over the next 18 to 24 months, then we would expect to see operating losses start to moderate at the end of that period.

Now, why are we investing so heavily in ecommerce? Well, I hope it's pretty obvious . You know, market data that you've seen before, retail spending is going to grow over \$5 trillion globally within the next five years and we see ecommerce capturing a disproportionate share of that growth.



Stores will continue to be a very important part of our customer shopping needs, but we know the customer is and will continue to become more reliant on a digital experience for retail. With over 11,000 stores and growing, we feel we're in an incredible position to capture a large portion of that growth as we integrate our digital assets with our physical assets.

So, what does it mean when you put it all together for the total company? If we take a look at the key metrics that we're forecasting for fiscal year '16, we anticipate a sales increase of 2% to 4%. Now that would translate to approximately \$10 billion to \$20 billion of sales growth.

Square footage growth of 26 million to 30 million square feet, operating expenses will grow at a rate somewhat faster than sales, as we invest in new technology along with ecommerce and digital capabilities.

Operating income will be somewhat slack to slightly down as we make these new investments related to ecommerce and digital. Even with the increased investment, we plan to have strong free cash flow.

Now, before addressing our cash flow, I want to remind everybody as in the past, we start with our commitment to maintaining a double A credit rating. In terms of allocation, we think about the priorities for our cash in three ways, growth first, and then dividends, and then share repurchases.

With our cash flow, we will commit to growth where we see good returns for our shareholders. Now this would include new stores, ecommerce and technology and acquisitions.

Next, we want to pay a good dividend and then, with the cash that's leftover, we will repurchase our shares. And again, it's all going to depend on that double A credit rating.

Looking back over the last four years, or last few years, we generated a fairly consistent level of free cash flow, even in periods where we've been investing heavily in the business. Now, based on what you've heard today related to future investments and working capital management, you can expect this to continue to deliver strong free cash flow this year and going forward.

Now, as for CapEx, this is the traditional way that we've shown new CapEx with ecommerce investments that are embedded in the segments. Our total CapEx for fiscal year '15 is forecasted to be between \$12.5 billion and \$13 billion.

In terms of our fiscal year '16 CapEx, we anticipate spending less than we will in fiscal year '15. Taking the midpoint of our ranges would be a reduction of around \$500 million year over year.

As I've shared with you a few minutes ago, this increase is primarily driven by our moderation of CapEx spend in large formats. The majority of the reduction will be in Wal-Mart US, with smaller reductions in international spends.

Now, I've already talked to the shift in spend from traditional brick and mortar to ecommerce and digital, so I want to breakdown our total CapEx to give you that additional visibility.

The fiscal year '15 CapEx spend related to traditional brick and mortar will be down by around \$950 million year over year, using the midpoint of expectations. In fiscal year '16, taking the midpoint of our ranges for traditional brick and mortar, the reduction in CapEx would be about \$850 million.

A CapEx spend on ecommerce and digital will increase from \$400 million last year, to approximately \$1 billion this year. And next year in fiscal year '16, we would expect to increase CapEx by a further \$200 million to \$500 million.

Now as you've already heard, we have a number of projects we're working on. We believe that ecommerce and digital investments could yield strong returns as many require very low investment dollars compared to brick and mortar. It's still very early though in our probability process, that is the reason that we have such a wide range right now for next year for ecommerce and digital CapEx spend.

It's important to note these numbers do not include acquisitions, and they're based on how we see the landscape today.

These numbers may change during the year as we react to strategic opportunities, but we commit to come back and update you if these numbers change significantly. Now, if we take a look at what those reductions in brick and mortar investments mean per square footage, the US will moderate growth compared to recent years as they refine their large and small store formats, with the focus on really how to better serve customers.



Now, remember however we are celebrating our commerce investments. Sam's will also slowdown to allow them to focus on merchandise, membership and digital capabilities.

We would expect international to tick up a bit in fiscal year '16, but not to the levels that you probably saw in some of the prior years. Now in summary for the total company, we would expect to see growth in the range of 26 million to 30 million square feet.

Now as we've shown in the past, we remain committed to a good dividend for our shareholders. I can't tell you if the dividend will be going forward, but I'd like to point to our history of increasing dividends every year for the past 41 years, and over the last five years alone, we've returned \$25 billion to shareholders in the form of dividends.

We also have a good history of share repurchases, which we fund with our excess cash. In fact over the last five years, we've returned over \$40 billion in the form of share repurchases.

We are committed to returning all excess cash back to shareholders.

So, let me conclude with a few takeaways. Our customers' needs are evolving and we will continue to invest so that, you know, we will serve them when, where, and how they want to be served.

We're focused on the key pillars of our customer proposition -- price, assortment, access and experience. We will continue to invest in all four of these pillars.

We have a balanced investment approach which will allow us to see growth opportunities in both the physical and digital landscapes. We will be -- we will make thoughtful and disciplined investments to the business, adapting our strategy based on our customer's trends and acceptance.

And finally, we believe our investment strategy and execution will set us up to continue to serve our customer the way they want to be served and deliver strong shareholder returns for today and for tomorrow.

So to wrap up, thank you again for being here today. I know you travelled a long way or if you're on the Web, guys thank you for joining us, we really do appreciate your interest in Wal-Mart.

So, Carol, at this time, I'll take questions.

Carol Schumacher

Charles while you were presenting, the press release crossed the wire and that press release polled together the capital dollars and a lot of the other details that you heard some of the information this morning. But when Charles pulled that together, the press release cross the wire for those of you on the webcast.

For those of you here, we've just been handing out copies of that so now you do have all the financial picture in one place. And with that, Charles we'll take the first question from Robert Ohmes.

Robert Ohmes - Bank of America Merrill Lynch - Analyst

Hey, Charles. This would probably be a broader question also when the rest of the team comes up, but I was hoping that you could talk about cannibalization of Supercenters. So, cannibalization from neighborhood markets and whether that's factored into these numbers that you're giving us today, cannibalization from future ecommerce, you know, Wal-Mart.com and sort of how much of that in, you know, I would imagine you have a lot insights into cannibalization, how much of this changes, you know, anticipating that a lot of the new growth in neighborhood markets and ecommerce is going to be cannibalizing Supercenters?

Charles Holley - Wal-Mart Stores, Inc. - CFO

Yes, I can answer the overall.



The 2% to 4% doesn't -- it does have any cannibalization is going to be in there. So that's already been anticipated. I don't know of anybody from dot.com or Greg's team wants to address cannibalization of how you look at some of the things we're doing.

Is Neil around here?

Carol Schumacher

Claire, can you get a mike to Neil first?

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

Yes. Our simple view of cannibalization is that we want to be there for our customers wherever they are and we want to be the person who sells them whatever they want to buy.

And so if they'd like to buy more as I said earlier, then they are currently buying at Supercenter we're going to sell it to them. We'd rather be -- if there's any cannibalization we want to be to ourselves.

Robert Ohmes - Bank of America Merrill Lynch - Analyst

And in terms of the store, you know, there's 250 out of the 500 Supercenters and is there anticipation or potential, you know, Supercenter store closing program over the next several years?

Charles Holley - Wal-Mart Stores, Inc. - CFO

I don't think we have anything planned today on that, but as you know, we will continually periodically globally, we will look at underperforming stores and either -- what do we have to do to make that store successful or we think that it's -- there's not a good cost return for the shareholder, we may shut it down like we did last year, but there's nothing today that we have on plan to do that.

Carol Schumacher

Okay. We'll go Simeon and then next to Simeon we'll go to Bob.

Simeon Gutman - Morgan Stanley - Analyst

Thanks. Simeon Gutman, Morgan Stanley.

So we heard a lot about gas prices benefit. If we're surprised in the fourth quarter the customer gets a little stronger, how do you think about flow through, does it -- is it drop to the bottom line or is it are you going to reinvest back in the business? And I have one follow-up.

Charles Holley - Wal-Mart Stores, Inc. - CFO

I think we've always had a view of balance between the customer, our price gaps, and our shareholder. So, I don't think that we've ever just said, everything's going to go to the customer, everything's going to the bottom line. It just depends, actually depends on what your price gap is with the category and how competitive you think you are.

Simeon Gutman - Morgan Stanley - Analyst



And just the follow-up, a clarification on the sales guidance. This is guidance, I think you had given earlier in the year that hadn't been revised, but I think it'd come in a little choppy, so is this a commentary on the back half or is this just catching up to how the year was flowing out?

Charles Holley - Wal-Mart Stores, Inc. - CFO

How the year was flowing out. On the guidance I gave for fiscal year '15, we're trying to give you some updated guidance.

Simeon Gutman - Morgan Stanley - Analyst

Thank you.

Bob Drbul - Nomura Securities - Analyst

Hey Charles, just a question on as you look at the CapEx, I think earlier Greg has said, he was going to do the diagnostic, we would hear beginning of next year, is the CapEx in the store growth, could there be an adjustment, think a major adjustment beginning of next year based on what Greg comes up with over the next few months, and how do we think about that?

Charles Holley - Wal-Mart Stores, Inc. - CFO

I think there could be as any year we've had, when we had one last year, you know, you could have an adjustment Bob, you say a significant or a material adjustment. The farther -- the closer you get to next year, the harder that is to do because of the run time.

Will there be some tweaks here and there? Absolutely. We have that every year. If it gets to be significant, you know, we're committed to come back to you and let you know that.

Carol Schumacher

Okay. Greg, and then we'll go to Richard, Michael upfront after Greg.

Greg Melich - ISI Group - Analyst

Hi. Thanks Charles. You've talked about improving working capitals a way to really drive strong free cash flow, you know, higher. As you do that, is that going to be more on inventory returns or in terms of payables? Where would you expect that?

Charles Holley - Wal-Mart Stores, Inc. - CFO

The very first priority would be inventory returns.

Greg Melich - ISI Group - Analyst

But you think there's some room as well on the payable side or not really that's not the focus?

Charles Holley - Wal-Mart Stores, Inc. - CFO

You know, that's -- that'll certainly be within the how we look at it, but I'll be honest, the very first priority is how well and how efficient the supply chain is when we turn our inventory. But we certainly want to look at our payables terms as we would do all the time.



Greg Melich - ISI Group - Analyst

And then just a quick follow-up. You said keeping a strong balance sheet, could you help us understand how you actually define that, debt to EBITDA or debt to capital or ...

Charles Holley - Wal-Mart Stores, Inc. - CFO

You know, it's the -- a double A rating and if you go to Standard & Poor's and Moody's as you know on their metrics, that they would use, they differ a little bit on it, but there's many metrics and so I'd have to refer you to all their literature on how they look at double A because they're both a little different.

But we watch both of those and work with both of those credit rating agencies because we've been very committed as you know to double A credit rating.

Carol Schumacher

And Michael will come up to Richard.

Richard Cathcart - HSBC - Analyst

Thanks, Richard Cathcart from HSBC. Just a quick question on the square footage growth in the international, you're saying 10 million to 13 million for the next year, can you give us a bit more color on which markets you expect to kind of overweight and underweight within that?

Charles Holley - Wal-Mart Stores, Inc. - CFO

Maybe somebody from international.

Unidentified Company Representative

Yes, sure I mean got to remember net to gross numbers, so we have some [close] in our history. But you say from the strategy in the portfolio we're looking at, but as we're confident that we build a solid base in particularly Brazil, China, and to a lesser extent Mexico, we'd expect to see those markets that we looked with the right formats and the right job orders down. So, the combination of those markets that are in the solid base and the work we've done on golden principles to make sure they're very clearly, I think we'll get good returns, those are good things that got us.

Carol Schumacher

And Michael we'll go behind you to Matt.

Matthew Fassler - Goldman Sachs - Analyst

Thanks a lot, Matthew Fassler from Goldman Sachs. Two quick ones. First of all, for the US contextualizing the guidance on footage growth which is down about 25% year on year versus the CapEx number which is down I think substantially last year on year. Secondly, if you could just contextualize the year-to-date buybacks which has been below the prior run rate, you know, relative to the long terms capital allocation color you give us today.

Thank you.

Charles Holley - Wal-Mart Stores, Inc. - CFO



Yes. If I got your first question, you're asking, there's a little bit of a mismatch when you look at the CapEx and the square footage. There always is because there's timing differences. You're having a thin CapEx this year for storage that are going to open next year, and so, there's always going to be a mismatch in that.

The second thing, your second questions was buybacks.

Matthew Fassler - Goldman Sachs - Analyst

Buybacks.

Charles Holley - Wal-Mart Stores, Inc. - CFO

You've got to remember there was \$1.5 billion of our excess cash for use to acquire the remaining minority interest in [July], and that definitely impacted buybacks, and it's something that we disclosed back when that happened.

Carol Schumacher

Okay, we'll take one from Scott and then we'll go back this side to Chris.

Scott Mushkin - Wolfe Research - Analyst

Thanks. It's Scott Mushkin from Wolfe Research.

So, getting the inventory question, I think you guys are reviewing your inventory. I wonder -- is there any chance that we got an inventory write down given the levels are way up and I know there's some review going on or is that not possible?

And then the second question I have is on guidance. I know you said you updated the sales guidance, seems like it's coming in low, should we put our minds this year to the low end of the current EPS guidance as well and when we look at '16, shall we base it off kind of a lower thought on '15 where I think ...

Charles Holley - Wal-Mart Stores, Inc. - CFO

Yes.

Scott Mushkin - Wolfe Research - Analyst

... you said flat ...

Charles Holley - Wal-Mart Stores, Inc. - CFO

Yes.

Scott Mushkin - Wolfe Research - Analyst

... if I'm not mistaken on operating.

Charles Holley - Wal-Mart Stores, Inc. - CFO



Yes. On -- first of all, the first question on inventory, we don't believe that there's any big major inventory issue. We just think we have to be more -- much more efficient how we turn the inventory.

The second one on the guidance, first of all we're not giving out revised guidance -- dependent of guidance on EPS, but we have a lot of the year to go. The fourth quarter is huge for all retailers including Wal-Mart and so that'll make a big difference on what EPS is.

So I wouldn't read necessarily anything right now and to the EPS with the sales guidance.

Carol Schumacher

Okay. We'll go to Chris and this will be our last question for you Charles.

Christopher Horvers - JPMorgan - Analyst

Do you have a -- Chris Horvers, JP Morgan -- do you have a stated dividend payout ratio and if the answer is no, how were you thinking about funding next year's the working capital and the dividend is really the source of funds for the dividing growth in 2015?

Charles Holley - Wal-Mart Stores, Inc. - CFO

We don't have a stated payout ratio. You can look historically and you could probably see a pattern to some, but there's not a stated one. We look at this every year with the board and depending on what the circumstances are, there has been no decision on what the dividend or how it's going to look next year, that's why I said I couldn't forecast it for you, but I do know we're very proud of the 41 years of having a dividend increase every year.

presentation

Carol Schumacher

Okay. And now, we'd like to transition to our last session ...

Unidentified Company Representative

Yes.

Carol Schumacher

... which is we call Doug back up and at this point do you want the rest of the team -- and the rest of the EC, the entire leadership team, please come up.

Douglas McMillon - Wal-Mart Stores, Inc. - President, CEO

I decided that just about anything I could say at this point would be redundant, so I'm not going to take the time to go back through some of the major points, I'll ask the team to come on up so that we could get straight into your questions.

I will say that I hope through the course of today, that you appreciate the level of talent that we have within the company. I'm excited to work with this team, we've got great experience and great perspectives and really excited about where we're headed.

I do feel like that the customer has spoken and positioning the company for the future as we're improving what we do today is something that is necessary and also at the same time, really exciting.



So with that, we'll open it up to your questions.

Carol Schumacher

We have about 30 minutes now for this last Q&A session, and we'll start over here, Claire on this side.

Can't see with the light who that is.

Michael Lasser - UBS - Analyst

Hi, it's Michael Lasser from UBS. Doug, Wal-Mart's a big company and the world as was mentioned many times today is changing very rapidly, so how do you think about the balance between having an expansive portfolio of different businesses and the need to change? Because as big companies, it's hard to change quickly when you're so large.

Douglas McMillon - Wal-Mart Stores, Inc. - President, CEO

Yes. We -- and we've grown the company by adding things. One of the biggest challenges that we've had as a team as we worked our strategy this year is figuring out what to stop doing and what not to do, so that we can stay focused.

I think you've already seen us do some more minor things like Dave sold the restaurant business in Mexico, there are other parts of our business that we have actually intended to kind of prune to stay focused on the core aspects of retailing, both brick and mortar and ecommerce, so that we can move with speed and stay focused on those things.

Carol Schumacher

Okay. Greg? Claire will go to Greg in the middle.

Greg Melich - ISI Group - Analyst

All right, thanks. Greg Melich of ISI.

Look, I guess having heard this all day today, I kind of one sort of big question which is, we know we're investing for growth, we're doing less bit in CapEx, but it sounds like we're doing more of it in the P&L.

So what is the time horizon where whatever margin investments needed to get a top on response, what's the tolerance for that? Is that -- you would expect to see a response in a quarter two? I mean it look like from the -- Neil's presentation, Charles about the loss in dotcom would peak next year and then you'd start to see less loss after that.

Just give me a flavor of your tolerance in the board for the timing and then sort of the lag one should expect to get that return?

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

Yes. We have the tolerance to think long term and to be patient with it. I think the two big areas that drive the number and I invite Greg or anyone else to chime in here too, are the ecommerce number and you just called out what we showed today in terms of timing, and the other one is Wal-Mart US.

And as you could hear from Greg today, he's got a number of variables, we've got a number of variables to work with. And as we had launched and have had all these conversations today, a number of you've asked about price, what should the wage investment be in terms of hours and how do we think about all of those variables and how they come together.



And in my opinion, what we need to do is to give Greg a little bit of time to think about those different levels of investment by area and it'll be a combination of things. In addition to that, the urgent agenda items that he called out to help pay for some of it, that we will work through in the coming months.

With a spacing holiday and Christmas right now, we're not going to make a lot of big changes at store level, we want to keep everyone focused, so you can imagine what the timeline will look like as we work through next year and make some of the foundational changes that we need to make within the Wal-Mart US number, but those were the two big ones, ecommerce and Wal-Mart US.

Carol Schumacher

Okay. We'll go -- is that Mary?

Marion Casper - Wells Fargo - Analyst

Hi, Marion Casper, Wells Fargo. Two quick questions. One, you talked about savings picture and the penetration so far is about 3%, what are you seeing in the test markets that went early and kind of -- is there an ultimate goal for that?

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

Good question. I don't know the answer to that one. We may have to get Steven to grab a microphone.

Unidentified Company Representative

I don't see him there, so you want to take it or you want me to take it?

Unidentified Company Representative

The as I mentioned in my remarks and Duncan and his, that the acceptance has been significantly higher than we thought, and the reaction of customers already in the full international rollout has been beyond what it was in the test markets.

So, we really feel like we found something that's hit a chord with customers and so we would expect that to continue to arise.

Marion Casper - Wells Fargo - Analyst

Okay ...

Unidentified Company Representative

Is there anything you want to ..

Unidentified Company Representative

Does it make sense that -- well -- was it that -- you managed.

Unidentified Company Representative

He was more specific and said, trips and spend were up with the new savings catcher users. I was trying to be up tuned but that the ...



Marion Casper - Wells Fargo - Analyst

Okay. Then one quick follow-up is, last year tethering was kind of a big topic and this year we mentioned it's going away, can you tell us maybe why it's going away, what you learned and what does that mean kind of going forward for different tests?

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

Yes, maybe I'll just briefly cover that. So, Judith please jump in if I don't get it.

So, look it was a group of products where we were supplying both products from a larger Supercenter to a smaller store, something we really calling express. Didn't make a lot of sense to do that. Financially, it didn't make a lot of sense so we put a stop on that and that product I think now goes straight to the store through the distribution center.

Judith McKenna - Wal-Mart Stores, Inc. - Executive Vice President, Chief Development Officer Wal-Mart US

It does. Anything I'd add to that Greg is that it also increased the operational complexity for Supercenter, which you could see when you're in the backroom for that and that's not simply we want to do at that time. We want to make operation as simple as possible.

And it's part of this piloting with purpose which is sometimes we have to learn to sail back, take the learnings from that and move on to the next thing that we need to progress with.

Unidentified Company Representative

I'm glad we tried and I think it was smart to try it and we learned something and it didn't cost very much. And from an environmental point of view, I think for all of us it's important that we be willing to fail and give things a try. We're in a new environment that moves quickly and I think those things should be celebrated.

Carol Schumacher

Okay. We'll go Michael to Meredith, and then I will go to Simeon, Claire.

Meredith.

Meredith Adler - Barclays Capital - Analyst

At a meeting that you were having, the New York Stock Exchange this summer Doug, you mentioned that any Supercenter bigger than 150,000 square feet was too big. You might have meant new openings, but I'm not sure whether that was what you meant.

And if you, you clearly the average size if 178,000 square feet, what do you do, is there some -- is there anybody in the organization, any group looking at how to use what might be considered excess space more effectively?

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

Yes, I don't know that we have excess space that may. Now and the way that I think about it is primarily related to our new units and over the years we've grown our prototype to a larger size, I think we may have peaked out in the US at 220, I don't know where we peaked out Dave in Canada, but you think about this a lot, you can chime in here too.

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International



As time goes on, I think rightsizing the Supercenter and in some ways reimagining what it does and what it looks like is an important part of the work that we need to accomplish, and that'll also inform what we think our current fleet ought to be, but we need to start out by looking at what we believe the stock up trip for the future looks like and engineer for that.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

Yes, just maybe a couple of things to that. We've been gradually looking at sizes over the past five to six years actually Doug, so there is a bit by market but the Canadian business would've been at 200,000 five years ago, the biggest it built now is about 130. I think the US is slightly less reduction but it's reduced to single amount.

Unidentified Company Representative

Yes.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

And we're very focused now across a number of markets, collaborating very closely with the US about what we do with the space we have. And there's a multitude of options that we can do with that space, there's plenty of things that we don't sell yet, there's plenty of offers particularly the integration of physical and digital, having some space is very helpful in terms of aligning us to store pick operations and the cost of collection operations in our store.

The beauty of that is it allows us to extend the assortment to our customers and what we see and I think Neil mentioned this is when we see customers come and collect to the store, around 40% of those customers will go on the shop store as well, so it brings incremental traffic too.

Carol Schumacher

Okay, Claire we'll go to Simeon and then Michael back to Bob Summers.

Simeon Gutman - Morgan Stanley - Analyst

Thanks. So coming from a conversation we had lunch, the Wal-Mart as a company appears channel agnostic to the customer, so the customer can go online, shop anyway they like, and internally the message is pretty clear, externally the message is pretty consistent, but the side we don't see is internally the structure, the systems, how cost are being allocated, how credit is being attributed, so can you tell us where on that journey is the company ...

Douglas McMillon - Wal-Mart Stores, Inc. - President, CEO

Yes, that's the hard part. Simeon, you're very insightful with your question.

We could talk to you about it all day. Ross I'm going to ask you to comment on this one would we do we? Figuring that out, I think is the key to success. There are lots of books written on the subject. We talked quite a bit about Clayton Christensen's book, The Innovator's Dilemma and how you grow something that's new and don't let the existing business choke it off or kill it.

We talked Neil phases at one point, the space where no one wanted to have anything to do with the new business, and then the phase where people love it so much they want to hug it to death. There is a dynamic there and these ways of working need to be sorted out.

I think Susan you should chime in here too. It is a huge issue and we'll all talk about that a little bit.

Unidentified Company Representative



One thing I can tell you is that our associates even at store and club level, they stop us when we're touring and saying, what's going on with the dotcom business, because they want it to grow, they're right in front of the customer, and they know what the customer wants as well, so they're looking forward to the growth that we can get.

We're also in certain sectors passing the benefit down into our clubs and stores. Right now it's at stores and later on in clubs.

Unidentified Company Representative

Susan.

Susan Chambers - Wal-Mart Stores, Inc. - EVP - Global People

Well the ways of working is one of the things that's most exciting for us to think about, to talk about, and eventually to do, how do you continue to help the organization feel like one for all and all for one and yet be even more comfortable in the specific role that you play in that, so a lot of the work that we're doing right now is to get role clarity for every individual in the organization, so it's clear by segment or function what you do to contribute to this relationship with the customer, not always defined by the relationships we had in the past, but knowing where you play into the bigger enterprise.

And when we get that right, you'll know it, you'll see it, you'll feel it, but we're all in this together and that's we were approaching it. Compensation will be a part of it and certainly our performance measures as well as it relates to the customer.

Unidentified Company Representative

Three points, transparent, communication is a key, learning to appreciate the process of change management and the thoughtfulness that's required to navigate this thing internally.

Neil?

Neil Ashe - Wal-Mart Stores, Inc. - President, CEO - Global eCommerce

Yes, one thing the, you know, this is -- you asked a question at all of Wal-Mart and I'll answer it just for global ecommerce which is, any organization what I say to our folks, any organization that involves more than one person, you've got to figure out how to work together.

So, for all of us who are married you know that, you know, I for one don't get to make every decision in my family and so we get comfortable with that, we figure out what to do, and so Dave, (Ross), Greg and I and all of us together spend a lot of time working through making sure we understand why we're making the decisions that we're making so that if Dave's making a decision, it's the same that I would make and if I make a decision it's the same that Dave would make.

That's really important for the transparency for the organization because it makes it a lot easier for them to follow along and make good choices as well. Greg's, you know, been here for several months now and his impact on the organization is obvious already, and so we'll do even more of that and it's exciting, it's why we're all here, it's what worth doing.

Unidentified Company Representative

Doug, I'll just add that, you know, being around a long time, I think it actually makes us stronger. You know, when Neil and the Legacy systems work together. It's about him bringing the speed and the innovation and us bringing the scale.

And if you think about it, really need long term is we need both. And so it's making us stronger as we work broader together across these disciplines.

Douglas McMillon - Wal-Mart Stores, Inc. - President, CEO



I mentioned this morning that we went after strategy in enterprise level and did it differently this year. And one of the benefits of that is that we all started with the same information internally and externally and we work through that together and had a lot of discussion and debate, a lot of hours invested this year to get more alignment and become like minded about what we believe about the customer and informs the decisions that we made and is ultimately shaping the capital allocation and the shape of the income statement.

I didn't fully introduce everybody. We had your picture up earlier. Rollin, tell everybody what you're responsible for real quickly.

Rollin Ford - Wal-Mart Stores, Inc. - CAO

Rollin Ford, Chief Administrative Officer of the company.

Douglas McMillon - Wal-Mart Stores, Inc. - President, CEO

And Susan?

Susan Chambers - Wal-Mart Stores, Inc. - EVP - Global People

Susan Chambers, all people, all the time.

Douglas McMillon - Wal-Mart Stores, Inc. - President, CEO

Dan and Jeff?

Dan Bartlett - Wal-Mart Stores, Inc. - EVP - Corporate Affairs

Corporate Affairs of Communications Government -- Global Government Relation, Sustainability Foundation, so live their agenda.

Jeff Gearhart

Jeff Gearhart, Global Governance which is legal compliance, FX and global security.

Douglas McMillon - Wal-Mart Stores, Inc. - President, CEO

And Rollin what does a CIO do? What are you actually responsible for?

Rollin Ford - Wal-Mart Stores, Inc. - CAO

I serve all these folks up here on the stage. We have technology, your traditional ISD technology, engineering, sourcing, customer insights, those administrative areas of the company.

Carol Schumacher

Okay, it seems Bob's question was answered I guess in the last go around. We'll go to Paul.

Paul Trussell - Deutsche Bank - Analyst



Paul Trussell, Deutsche Bank. Just a question on expenses and ability to leverage on brick and mortar. Charles I know you mentioned that operating income for next year will be flat to slightly down due to the ecommerce investments. And you also mentioned that negative merchandise mix will have operating income grow slower than sales when we look at brick and mortar.

But just to be clear, do we expect leverage in brick and mortar as we think about the business over the next few years? And then second, if we can just dig a little bit deeper Greg into neighborhood markets and the tests that are going on and what we are looking for in order to be able to accelerate that growth, whether we're testing out doors without gas stations or without pharmacy, to what extent are we re-assorting the mix, some color and details there would be helpful.

Charles Holley - Wal-Mart Stores, Inc. - CFO

Let's answer the leverage question by segment. Dave you go first and we'll just go down the line with four of you.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

Yes, I think it'll be a balance. Certainly a lot depends on where sales end up over the next couple of years. Sales is the biggest driver of EDLC, and where we're seeing a lot of depressed economies and therefore sales growth and cost growth in line it makes it harder to leverage.

I think the pace of our innovation and the long structure redesigns we're putting in, I'm very optimistic about we got some good initiatives and I think there's a lot of efficiency we can take out of our business.

Third part of the equation then is what we choose to reinvest either in price positioning, we got some gaps we want to improve in some of our markets and in some of the new access mechanisms to customers. So it'll be a balancing act.

Rosalind Brewer - Wal-Mart Stores, Inc. - President & CEO - Sam's Club

Well, Sam just let me mention that our biggest opportunity is to begin to lift the top line so we can get some of our absorption that needs to happen. We will invest as we mentioned earlier. The base business a year ago we took -- we mentioned this in our earnings, we took just over \$100 million out, so we feel that we've got a good cost basis right now, we've got to move the top line for Sam's.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

For Wal-Mart US, as I mentioned, you know, we are sort of in the midst of a lot of the super moment. Our key is to get that top line moving along. If we do that, then we've got a great opportunity to create leverage.

Margin I think as a lot of the team had mentioned, will be a little bit of a challenge for us simply by mix. So as we sell more ecom and as we do more neighborhood markets, that's going to put some pressure on us in terms of the mix.

And then our ability to reengineer what we do in the store that's work in progress at the moment.

Charles Holley - Wal-Mart Stores, Inc. - CFO

And Wal-Mart US in particular, my focus is not on leverage. I think we've got to make sure that we make investments necessary in wages, in other areas to get it right, that'll enable us to be successful over time.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

Turning to neighborhood markets, first thing I would say is I actually think getting 180 to 200 of these out and doing them well is a pretty good number in anyone's book. So, that would be the first comment that I'd make.

Clearly, the business operates reasonably well at the moment, it's getting some pretty good comps and we know that pharmacy, Judith is absolutely critical in terms of the mix of that business. But, you know, as we walk it, and as I mentioned before, there's always opportunities, and you know what I can go doing business anywhere in the world and walk up and down the aisles, and see opportunities and -- so the ones that stick out to us is we think we need to be a bit more around fresh, it's not to say that it's broken, but it's how do you take it from here to here.

There's always opportunities for assortments in the middle of the store, and some of those Judith covered when she was talking about even the smaller express stores, some of that relates to the neighborhood market.

I wouldn't say that we're really in a test phase, it's an ongoing continuous improvement, with neighborhood markets. We're not stopping anything, we're just getting on and as we look at each store design, we look at the modulars, we look at the adjacencies, we look at the space, you're just going to see continuous improvement occur in that format.

Carol Schumacher

Okay. Bob?

Bob Summers

I guess Doug, I had a question for you. Generally when you think about the environment that we're in from a retailing perspective, competitively, you know, there's some turmoil now Sears and K-Mart, Target's had a leadership transition so, when you think about it from that perspective, you think about gas prices and oil prices, you know, the employment situation, and Charles, you know, we just lowered the sales outlook, you know, tweaked it lower for this year, what do you think the biggest issues right now that you're facing are given some of these other factors that seem to be really in your favor going into the back half this year?

Douglas McMillon - Wal-Mart Stores, Inc. - President, CEO

Bob it all comes down to the store experience, for this year especially. It's what we find in our stores and clubs. And as I mentioned earlier today, if we magically jump into a plane and saw 20 stores in the next hour, you would see room for improvement on all the things we've been talking about today.

So do I think there's an opportunity given the state of retail and gas prices and other things? Absolutely do. But one of the things that's so true about our business is you get what you earn and get what you deserve, and we're kind of getting what we deserve right now and we're going to take action to try and build some momentum and capture the opportunity that's in front of us.

It's there, and we can see it, but we've got to set-up our associates to win, and they need us to get some things done, so that they can.

Daniel Binder - Jefferies & Co. - Analyst

I had a couple of questions, Dan Binder, Jefferies. First on brands and private label, I mean the clear message last year was this is a house of brands, just curious what you're seeing with the vendors that is got that private label conversation, sort of becoming a little more front and center this year?

And then our neighborhood markets, while growth that is similar to this year is still good. I think a lot of people in this room probably thought it might accelerate further, so I'm just curious what you're seeing with the ROI in the neighborhood market versus where it was a couple of years and the markets you've gone into recently changed the way you're thinking about that growth and do you think it'll accelerate once we get through this next year where you have time to evaluate it further?

Douglas McMillon - Wal-Mart Stores, Inc. - President, CEO

Yes, on the brand issue, for us to show price leadership, brands are still going to be primary. But I don't know that it's in or a situation and they're mutually exclusive. And Greg's experience, Dave's experience in particular with private brands, give me some confidence that done the right way (and that flew), the percentage of space that we do allocate to private brands can be more productive.



And as those items improve and the other aspects of it improve, quality, et cetera, it can build some loyalty, it could be helpful over the longer term as assortments become more accessible through your mobile device, or however you're going to look at them, having a few items maybe more than a few that are truly special will mean something.

So, it doesn't mean that we don't want to drive a lot of volume with brands and that's the place we start still today and in the future.

I'm happy to comment on neighborhood markets a little bit too, and (Meg) you've taken a shot at it a couple of times, our neighborhood markets are good and we've been building them and confidence in their future and we still are, but there is an opportunity to change them up a little bit in terms of the in-store experience, fresh in particular, maybe add a few of our new ideas like pickup to them as we build them, so that as we ramp up and build even larger numbers there -- they incorporate all of our best thinking and our best capabilities.

So, it's interesting, we're building a couple of hundred and as Greg said, that's a lot, and we got to go get store managers, and we've got to have good real estate locations and we've got to open quality neighborhood markets.

So I still believe and I think the group would agree, we have a tremendous opportunity with that format. Overtime how it plays out in terms of how it interacts with Supercenters and the cannibalization issue that Robbie raised earlier with clubs, with ecommerce, pickup points, all of that needs to be understood in a way that our capital is optimized.

So you could think of a market, and maybe it'd be helpful to think of a US market, we've got a lot of test going on in Denver, the way that we might start over in Denver if we didn't have any locations might be different from a capital allocation point of view than the way we will do it because we already have a lot of units in capital in Denver.

So, part of the issue is, how do neighborhood markets fit into the total and the other part of the issue is we just think we've got some ideas to make them even better. So the 200 we open will be good, the ones we have are good, we'll learn how to operate them even better and once we open in the future, it may have a few tweaks that cause them to have an even better return.

Carol Schumacher

Mike?

Mike Mantoni - ISI - Analyst

Thanks. [Mike Mantoni] with ISI. The sales guidance that you all gave before us seems to imply a comp of around 1% to 2% range, versus what's been kind of flattish globally and I'm wondering if we went by country or by region, if you could just give us a couple of examples of initiatives how the comp accelerates from 0 to a one plus run rate, and also on the traffic side, can we get store traffic X ecommerce and m commerce to be flat or positive?

Douglas McMillon - Wal-Mart Stores, Inc. - President, CEO

Dave you want to start?

David Cheesewright - Wal-Mart Stores, Inc. - President, CEO - Wal-Mart International

Yes, sure. No, we wouldn't give specific details about commerce by region, but if you talk to some of the countries, so we've seen an improving frame then we have to strip out a lot of noise, so I like to look at a 12 month moving average and through the first quarter and I think we'll see going forward, we'll see the improve over a period of time after a number of quarters of decline.

And a lot of that is delivering the basics better, so particularly strong performance is in Brazil, where we've done a lot of work on individual assortments, so I need to getting specifics. We did some great work with Nielsen on category development, we benchmarked against all the competition to look at where we thought we had assortment gaps and we added some of that assortment back in customers clearly light bulb we're doing in this sort of commerce coming through there.



In a number of other countries, that's driven by incremental gains on price and we've been very thoughtful about how we do it but around the globe we're seeing our price gaps grow gradually as we take the product to the investments and put them in place.

And so I think you've seen the mix of that portfolio, as we start to move back capital investment towards the more high growth markets, as we start to implement those global principles so that our new stores are more productive, those are the reasons that we'll start to see our comps creep up a bit.

Rosalind Brewer - Wal-Mart Stores, Inc. - President & CEO - Sam's Club

So for Sam's the work we were doing around some category development is what's most helpful to our comp improvement. Categories like our fresh and our work that we're doing with organics is really going to make a difference and some of the work that Charles and his team did last year around consolidating and reducing the number of private brands we did have in our club, we went from probably more than 8 to 10 brands, down to two brands right now in the private label area.

And for us, just to mention on the private label piece, we do believe in national brands, we will when there's innovation required, really bring in something unique and put it in our private brand strategy in a very narrow focus within those two brands. That brings us category growth.

Also, category growth in produce and our fresh and frozen areas, those are large categories for us and they'll move our comps for us in the next year and that's where our focus is right now is that really good category performance.

For us our clubs operationally are pretty strong. Don and the team has done a ton of work to get the efficiencies out of the club and then get the right powers against the areas that we're growing and moving in, and then this layout that we have that's coming out now with our new clubs opening, really facilitates all the category work that we're doing, and those two in combination, will lift our comps.

Greg Foran - Wal-Mart Stores, Inc. - President and CEO Wal-Mart US

In terms of Wal-Mart US, I think the words we'd use would be cautiously optimistic. And you know, I guess there'd be four things that I would say on behalf of my team, one would be, log in to the first would be interesting as we cycle snap. Secondly, my being here a short period of time, but I get a sense of the prices of gas as a relationship to how our shopper spends in our stores.

Third point would be I think we've got a great mix of products for the holiday. And our business is one point for talking about it, nine points to do, so let's execute the holiday really well. And then further out, it's to your point, let's become really good shopkeepers. Let's get down and do the basics really well.

Carol Schumacher

Okay. I think we are going to be able to wrap up on time, but before we wrap up, a couple of announcements especially for those of you here. First of all, the next time that you'll be hearing from Doug and the team will be on earnings. We do announce our third quarter earnings on November 13.

Yesterday, we sent out a release, along with the agenda that included our earnings calendar for next year. We are changing a couple of the dates in terms of the week or the day of the week.

Historically we've been coming out on one day that's shifting a little bit next year, so that is available on our website and certainly you can begin to note those dates on your calendar.

So again, the next time you'll hear from us will be Thursday, November 13, that is when we announce our third quarter earnings. For those of you leaving here and heading to the airport, we do have a number of buses available. They'll be leaving in -- starting in the next 15 to 20 minutes and there'll be people outside the doors to direct you to those buses, but they will be going straight to XNA.

And on behalf of all of us at Wal-Mart, we again thank you for coming to our meeting. We know that some of you have traveled very far including from Europe and places beyond the United States and we do appreciate the investment that you've made in terms of time and money and effort to come and visit with us and learn more about our business.



Douglas McMillon - *Wal-Mart Stores, Inc. - President, CEO*

We sure do. Thank you all. Appreciate you coming.

Carol Schumacher

And this officially ends our webcast. Thank you very much.

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