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# Wal-Mart Stores, Inc. *(WMT)*

Goldman Sachs Global Retailing Conference

## CORPORATE PARTICIPANTS

### William S. Simon

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

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## OTHER PARTICIPANTS

### Adrienne T. Shapira

*Analyst, Goldman Sachs & Co.*

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## MANAGEMENT DISCUSSION SECTION

### Adrienne T. Shapira

*Analyst, Goldman Sachs & Co.*

Okay, don't want to tear you away from that great sandwich, but it's been quite a turnaround for Walmart U.S. We just had the fourth quarter of positive comps and the third quarter of positive traffic trends and a key driver of this improvement is our keynote speaker, Bill Simon.

Bill joined Walmart in 2006 and assumed his current role in 2010, running Walmart's largest division accounting for \$270 billion in sales of nearly 4,000 stores is quite a day job, making it comp positively is even more impressive. So, we're happy to hear how he turned this tanker and how he plans to steer it when he laps these tough comparisons in the back half.

Happy to host, Bill Simon, President and CEO of Walmart U.S.

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### William S. Simon

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

Hello, everybody, how are you doing? Thanks, Adrienne, I appreciate the introduction and thanks to Goldman for the conference. This is one of the conferences everybody looks forward to every year and I appreciate you all taking the time to spend your lunch with us.

Of course, you can't read this, but I will be making some forward-looking statements and I think that's why you are here, hopefully. So, if you would like to any additional information, you can go to our website to get more details on that.

For me, this is a bit of a special conference because it was just a little more than two years ago I became the CEO of the Walmart U.S. business and a little more than two years ago I stood at this very conference at different a hotel and had to give a presentation that was a little more difficult than the one that I have to give today because as, you all know, the business wasn't where we would like it to be. The stock price was moving sideways and had been for a while and comps were not where they needed to be and I spent some time at that conference and I outlined for

you the plans that we had for the business, how we were going to take it forward, get things headed in the right direction.

Just to review, I discussed the need for us to focus on assortment, broadest assortment possible, a renewed focus on price. That's our business model. Best price we can deliver of the broadest assortment possible. But the Walmart version of price, every day low price not a KVI, known-value item, 50 item basket, a very, very broad price basket delivered in the Walmart way with every day low price. And of course the start of it all and by the way the beginning and the end of it all for us is productivity and our ability to leverage the productivity loop, which we talk about all the time.

So as I was preparing for the conversation with you this time at lunch this was a much more energizing, exciting time for me to get prepared for this because we're in a great place. We did everything we told you we would do two years ago and it's working and I am very pleased to talk to you about those results. So if can today, I'm going to spend a few minutes reviewing kind of where we are and then hopefully take a little bit longer to explain to you why we are so excited and bullish about the growth opportunities that are still in front of us in the U.S.

It all really starts with the productivity loop and our renewed focus on that. And just to sort of review the first half results, we ended up with a 2.4 comp for the first six months of the year and that's a great number, it's a great number particularly when you put it into the context. A 2.4 comp on our base is \$3 billion in comp sales. \$3 billion in comp sales, take that number to the next largest retailer in the U.S. and if they had had \$3 billion in comp sales, that would have been about a 10 comp. This is a good, good growth number and we're very, very proud of it. Roughly \$115 million more every single week in the first half in comp sales and then when you take that into traffic and ticket, which were both positive as well; 70 basis points of traffic in the first half, which is roughly 133,000 more customers a day in the first half of the year for our business. Our team did a great job servicing them and they are really, really well prepared to continue to do that into the second half.

We've been focusing on the productivity loop, getting better by leveraging our expenses and investing in price. If you would looked at our trailing four quarters, that's what you would see – that's what you would have seen. It's the engine of our business. It's not new to how we operate. We manage our expenses so that we can invest in price so that we can drive customers to our stores so that we can sell them more and that's working. We have leveraged our productivity initiatives. We've delivered against our productivity goals and we passed that savings on to the customer in a very Walmart way, in a broad steady EDLP focused manner, we've lowered our prices.

We are supporting those business initiatives with a great new advertising campaign that communicates very clearly with the customer that we have the best prices in the market. Additionally, and I'm going to talk about this in a second, this marketing initiative is also in and of itself innovative and I'll talk about that in a second. We began this campaign back in the spring and it's now branched out into about 25 markets around the U.S. The results are terrific compared to the control groups that we operate against, about 110 basis points improvement in traffic and about 120 basis points lift in sales compared to the control group, as I said. And we're excited about the ads and in fact we're so excited about them. I thought I'd bring a couple to show you. The first is against a grocery competitor in the marketplace and these are very specific ads and the second is how we compared to a competitor in a back-to-school shopping trip. If you all wouldn't mind running those ads for me.

[Commercials] (6:22-7:24)

These ads have been terrific for us. They are specific. They are detailed. They are broad because they are the baskets the customers bought, not ones that we selected, not KVI focused, not the top 50 items. They include the things that the customers buy every day and the value shows through on these things and we are very, very excited about it.

And I mentioned earlier, the marketing piece of it from a delivery standpoint is innovative, but from the production side is in a Walmart EDLC manner. We've gone out and used the same sets of skills that they use when they produce reality shows like Survivor, the same technology and the same camera system and we're able to film these ads on a Tuesday, get them on the air on a Thursday and because they are so specific, they have a very short shelf life and we're able to refresh them frequently and do that at about 25% of the cost of a regular ad. So it's very, very effective, very efficient for us and allows us to deliver a far more intense, far more directed message at the customer and the customer is responding, as I outlined for you.

You saw the last ad which talked to you about – compared us to a place where some might shop back to school and by the way, and pay more, is what the ad showed. We had a very good back-to-school season, our merchants did a terrific job stocking the stores with the products that the customers wanted for both back-to-school and back-to-college. The season opened very well and finished very well, so we're pleased with it.

A couple of highlights, our apparel business remains strong. We had told you in the end of the second quarter that we had our second consecutive positive comp in apparel with low single-digit positive comps. That's driven by a very basic strategy that we've been following: jeans, underwear, socks continued to lead the way in our apparel business.

School supplies also exceeded our expectations. We had a pretty quick turn in this set. We set back-to-school in most of the U.S. right after the 4th of July and that paid dividends. With an expanded assortment in certain categories, we also launched an \$0.88 kind of action alley run that worked pretty well for us. And by the way, we've had about an 18 month run of very successful seasonal events, so, well done to the merchants in those groups.

We're also listening to our customers and there is a couple of things you would have heard from us in the last the week. We re-launched Layaway, we brought it back. Customers told us last year that they really like the program. They also told us that they needed more time to make the payments. The program last year was six weeks. We expanded it now to about 12 weeks, give the customers a few more paychecks to make those payments. They also told us that they wanted more categories. So we added some large sporting goods and most of our small appliances there available on Layaway and the program launched, and you would have heard it launch, we made a change.

They told us they didn't like the cancellation fee that we had that was a \$10 cancellation fees. So, we sort of rolled it all up into a \$15 enrolment fee and they told us they didn't like that. So, yesterday we made an announcement that the entry fee is \$5 and the \$5 will be refunded to you at the completion of the Layaway. So, in effect it's a free program, you sign up for \$5 at the end of the program, get your money back and you fulfill Layaway. We're not about collecting fees. The fees aren't enough to make a difference in our business, we want traffic, we want customers and we want the maximum participation in Layaway. They told us that and we listened.

We have 20 million fans now on Facebook that follow Walmart and they are not shy with their comments and we all, myself included, spend time, from time-to-time reviewing the comments. Some of them hurt, some of them are very glowing and we read all of them so that we can understand what our customers are saying, it helps make us better.

We also brought back our gas rollback. As gas prices started to run up in the middle of this summer, customers told us gas was on their minds. So we brought back the gas rollback. So with a Walmart gift card, you can save \$0.10 a gallon, with a Walmart credit card you can save \$0.15 a gallon at the participating Walmart, which is about 1,000 of them across the country with Murphy USA.

If I could now, I'd like to do a little bit of a transition into where we're headed because it's so very important for you to understand why we are so excited about this business. There is a huge amount of growth ahead of us and I am going to try to see if I can't get you as excited and optimistic about our business as we are at Walmart.

I just want to make one point; it starts and ends for us with our ability to run our business model. We're a mass merchant discounter and we're proud of that. And so what really that means is that we've got continue to deliver growth, leverage and returns. We got to continue to have that broadest assortment possible at the lowest price, that's where we are, that's what we've got to do. Everything else that we do has to come off of that base, that's the given from what we're talking about.

Add to that productivity, and the productivity loop. At a conference not too long ago I actually spent a fair amount of time outlining our supply chain productivity and how we have an advantage and leverage before we even operate the store when the product arrives at the store because of our supply chain and that won't change. We have to focus on productivity improvements in the supply chain, in the stores and in fact in every aspect of the business. You even saw some in marketing just a second ago. We will always do that, we have to do that and I'm not going to spend a lot of time talking about that today, but I want you to know that there is a robust pipeline and that will fuel our business going forward.

Of course Supercenters, you'll see that on the slide, remain a very profitable and robust growth vehicle for us and we'll continue to add Supercenters to the pipeline. They are the best way for us to gain market share. They are great a return vehicle and they are a platform from which we can operate inside of the markets where we build them.

What I'd like to give you some more insight on today is a few initiatives you don't hear us talk much about. I'm going to spend a little time talking about services and some of the things that we're doing in the service arena that might surprise you, but give customers the opportunity to save money on areas that they care about a lot. I'm going to go into some detail on small formats that you may or may not – probably haven't seen before. And just to be clear, when we talk about small formats, we're talking about everything that's below 60,000 square feet say, Neighborhood Markets, Express stores anything that operates closer to the customer and I'm going to give you a little bit more detail on that. And finally I'm going to talk a little bit about e-commerce but not e-commerce in the e-commerce way, e-commerce in the Walmart way and give you an idea of some of the things that we're doing.

First, let me say just a few words about services. I know we're going to have a lot of detail for you today on one aspect that I would like to share with you and we'll give you that in the coming months. But if you recall, a few years ago, we launched a pilot with Caterpillar and where we went direct to the employer with our prescription drug offering through pharmacy and with the beginning with Caterpillar that program has expanded into a significant portion of our growth with many major companies and many state and local government affiliates. People save money when they get their prescriptions filled at Walmart. It's a fact. Employers know that and they are now signing up with us to encourage their employees to come and get their prescriptions filled at Walmart and Sam's Club.

We've also launched, you would have read about last week, an imitative on immunizations, where we are expanding beyond flu shots in our stores to give immunizations. That's been very well received. We have one of the most aggressive and innovative diabetes treatment programs in the U.S. and customers can save a substantial amount of money when they treat their needs at our stores. Those are the same products they can get anywhere else at a much better price. We are lowering the cost of healthcare, this lowers the cost of healthcare, it doesn't transfer, it doesn't insure it, it just lowers it and when we serve our customers they benefit.

I'm going to spend a fair amount of time today now talking about smaller stores and it's been a great story for us. As I said 60,000 square feet or less Neighborhood Markets and Express stores primarily. And I bring that up in a way because we're seeing those two formats perform from a customer perspective very similarly. They're able to do things and compete against segments in a very versatile way and I'll describe that in just a second.

We told you earlier that we were accelerating our neighborhood market growth and small-store format growth and what you can see here, these are on half year increments going all the way back to the beginning, and you can see the run up that we began recently to deliver small formats for us. We started the year with 170, we'll add about 100 small stores this year to our fleet and the Neighborhood Markets evolved over the last decade, Express stores started just last year and the first of those stores have anniversaried themselves and are now on comp, and the numbers are very good, we're very pleased with those.

We're projecting, as I said, between 80 and 100 this year and I get the question all the time and I thought I might just address it right now. Why don't you just build hundreds or thousands of Express stores to compete with the dollar chains, and the answer is: we don't need to. The Neighborhood Market format for us, small store format, Express store format and I use those terms interchangeably right now, are among the most versatile retail formats that we see in the marketplace, they compete very, very well against dollar stores, sure, but they also compete very well against drug chains and grocery chains and increasingly some convenience chains and let me explain that if I can for you.

Against dollar stores, they have a much broader assortment and neighborhood markets range from 22,000 up to – we've got one or two that we're playing with that are 60,000-ish, but the prototype is in and around 35,000 square feet. They compete very well with the dollar store. The assortment is much broader and have a pharmacy and they have fresh food. So they have a traffic driving capability that the dollar chain doesn't have. They compete very, very well against the drug channel. They have price advantage on the drug channel, substantial price advantage on the drug channel oh, and by the way, fresh food that the drug channel is trying to get, but isn't quite there.

And if might add, general merchandize capability enabled through site to stores. So if you want a 60-inch TV or an 80-TV or a vacuum cleaner, you can make that happen on your grocery shopping trip. That's very powerful and what we're seeing in some of our stores in certain weeks of the year that that can be up to 20% of the sales for a store, site to store shipped to a certain location to be picked up. It's very exciting and very encouraging.

And yeah, they perform very well against food stores primarily on price, but enabled with site to store, it allows us to deliver pretty effectively against food stores. So the opportunity to be versatile with this format, it's not just a grocery store, it's a very versatile format for us and we're excited about the way it's been performing and with a little more detail, maybe you can start to understand why we are excited.

We had talked about how we've been on an upward trajectory on this. We mentioned in our Q1 script that we were again generating mid-single digit positive comps and we are. The base of the stores are performing above the plan that we have for them. The customer reaction is terrific, they are excited, they love the format, they love the access to the pharmacy, and they all have, as I said, a whole lot of more digital capability than any of their competitors. Pharmacy has been particularly robust in these stores because of our ability to deliver low prices closer to the customer and that's been driving traffic.

The new store openings this year, the most we've ever done, are very strong, exceeding our expectations. And as you can see there at the end of that chart, the top line, or comp sales, our second quarter comps for Neighborhood Markets were 5%, traffic was up 3%, this folks is a very strong, powerful, versatile format for us.

We've got bigger plans for the back half of the year. We've entered new markets already in the first half of the year from Miami to Denver to Los Angeles with these stores and they are performing very well. We've also continued to do engineer them; optimizing fixtures, delivery systems, and the returns are now approaching our Supercenter returns, as I previously said. Opportunity for us, continued growth in openings later this year for us in this segment.

Just real quickly, this was our last opening would have been the 29th last week in San Bernardino. It opened at 143 index to plan, way ahead of what we had forecasted. These are making a big difference in their communities. The price gaps that we have against some of our competitors in these markets are really, really, really substantial, but interestingly enough very warmly welcomed by the communities. This was our 200th opening, by the way. We had 2,000 applicants for 68 jobs. So, if you don't think that the customers were welcoming us, they want to work there, they certainly want to shop there.

The prices are really compelling and an anecdotal story literally bringing people to tears, as the store manager was touring the store on opening day, walked through the produce section and saw a customer literally crying and asked the customer if everything was okay and the customer said, I just can't believe your prices, I had to call my family and let them know that they could find a cheaper place to buy their groceries. You do save money when you shop at Walmart, you do, and as more people realize that, the momentum builds for us.

Let me shift quickly to some of the initiatives that we've been working on in this e-commerce/digital store space. It's really a powerful combination of a store footprint and an online presence that others don't have right now. We continue to innovate around payment and shopping experience for our customers both online and in a store with a digital enablement. I told you about site-to-store, site-to-store is very important for our customers and allows them to get their product sent to the store. And in many cases, with pick up today, they can have that product available immediately in the store same day.

Many of you may not know that we now have a group of stores around the country that we use to fulfill online orders. If the product is already in your zip code, we might as well pack it in the store and send it. It reduces shipping cost, it reduces time, improves efficiency and we're doing that at various points around the U.S.

We launched last year a program called Home Free. When your shopping basket online is over \$45 there is no shipping cost on many of our items including TVs and laptops and beauty and grocery.

Pay with Cash, which opened to mixed reviews, at least in the financial press, met with rave reviews from a customer perspective. Interestingly enough there is still a whole bunch of people who want to buy online and pay in the store and they can do that at Walmart. They order online, they come to the store to finish the transaction, then they can either pick it up or even have it shipped to their home and they're doing that. That program has been very effective.

Last week you would have read about the re-launch of our search engine we call Polaris and it's a great story. In 10 months from the ground up the team at @Walmart Labs in California designed and built this search engine from the ground up and it's state-of-the-art. We're already seeing increased improvement in conversions of 10% to 15% online.

We got new iPad features that allow the customer to sit at home and shop a store or sit in store and have things sent to their home. We've now launched a mobile mode app we call In-Store Mode, which helps the customer navigate the store, make a shopping list, compare products through QR codes. And of course you would have read about the now well-known mobile self-checkout test that we're doing, was in the paper last week. We're working

on a lot of initiatives that will help us transform the shopping experience for our customers, the digitalization of retail.

Okay, so this is the part I really want you to take note of, because each of these initiatives you see are pretty powerful in and of themselves as I describe to you and there are several more that we're working on that I didn't get a chance to cover. But I think that the beauty of this thing and the real magic comes from something that's uniquely Walmart. You see we have the ability to do all of these things, not one or two of these things like a lot of our competitors can do. We can do all of these things every day both online and in our stores at the same time and that's where I think if you think about it that way, I get really excited.

So imagine this, a small store, 25,000 square feet that has the CapEx and the operating expense of a small store because it is, but it has the sales and operating income of a big store because you have enabled it with a lot of digital capability, with site-to-store, with the ability to ship to a home, with an assortment that comes from a very, very large breadth of products to choose from. That allows you to have the assortment exactly the way the customer wants it in the marketplace.

As an example, a dollar store, 10,000 square feet, maybe 8,000 SKUs has a distribution network that carries 12,000 or 15,000 items and so they assort their store, their 10,000 square foot store with 8,000 items of the 15,000 that they put in that store. Our stores, our small stores have 600,000 items in our distribution network to choose from. So as we assort our stores, we get the best of the 600,000 SKUs for that particular one mile radius or five-mile ring or however we assort the store. Our ability to manage that inventory through a world-class supply chain, data management that we have always been good at and that's now been improved by our participation in some of the scanner data through Nielsen and IRI, allows us to do things that we think are very, very unique in this space, a small store with big store economics and that's what we're seeing.

And if you think about those capabilities that we have in digital and e-commerce, it's not too hard to imagine, enabled by our proximity to the customer that same day delivery is a reality on line. In fact we've been playing with this capability quietly in the market around the U.S. and you can only imagine the delight and the surprise of a customer when just a few hours after clicking, the doorbell rings and their package is there that they ordered. It is fascinating. It is a huge opportunity for us and we believe that it is uniquely Walmart.

So, I think the opportunities are really endless and I could go on for a quite a while, but I won't, maybe Adrienne won't let me or maybe I should say Carol and our IR department won't let me. So, I will end with that, with a thank you. We are very optimistic about the fourth quarter. We are very optimistic about our opportunities to continue the trajectory that we've been on in the U.S. business and I am happy to take questions, Adrienne.

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## Adrienne T. Shapira

*Analyst, Goldman Sachs & Co.*

Thank you, Bill. I think you all have been hearing, we've asked the same first three questions of our companies and so with that, Bill, you touched on it obviously in a lot of different ways, but talk about the back half. What's the outlook and how that compares to what you saw in the first half in terms of better, worse, the same and any sort of early indications of 2013 in terms of how you're thinking about it?

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## William S. Simon

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

We have been preparing and have the best fourth quarter program we've had in the time I have been with the company in the last six years. I think our merchants have done a terrific job. Our operators are ready. Our product

and prices are sharp. We'll have, we believe, a very large share of voice in the marketplace from marketing support, a campaign that's effective. So we're optimistic about the fourth quarter.

We do expect it to be challenging. The retail environment is getting very aggressive. We have people that are struggling. We have people that are growing, so the ones that are doing well, they are fighting us and doing well, but ones that are struggling are trying to find a way to improve. So we expect a very aggressive fourth quarter and by the way, we like that because that's when we do our best.

So if we're able to continue to do what we do best and that is manage our expenses so that we can invest in price so that we can drive sales, we'll have a great second half on into the first half of next year.

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## Adrianne T. Shapira

*Analyst, Goldman Sachs & Co.*

Great. The second relates to capital allocation. I know you will talk about that in your October Analyst Meeting, but any way – give us a sense of at least prioritization: buyback, debt pay down, how Walmart thinks about capital allocation?

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## William S. Simon

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

We'll talk about it in detail in October, but we haven't changed our capital allocation model and Carol and the team; Charles Holley, our CFO, will give you more detail on that in October. But primarily focused on growth, first of all, strategic acquisitions included; dividends and buybacks where we need to in that order, I would say. Capital has not been an issue for us. Capital efficiency is always an opportunity to improve and in the U.S. business we are focusing on building more stores or the same amount of stores with less capital or more stores with the same amount of capital and we've been pretty effective at doing that over the last couple of years.

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## Adrianne T. Shapira

*Analyst, Goldman Sachs & Co.*

Great and then last question, as it relates to how you think about the potential consequences for your customer, the upcoming election has and the pending fiscal cliff?

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## William S. Simon

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

Does anybody know the answer to that question? If you do – we're – we bought a lot of merchandise and we're preparing to sell a lot of merchandise this fourth quarter. The customers tell us that they are worried about it, they are nervous about it, but in effect they've sort of become accustomed to chaos in the external world that they live in over the last three or four years. They mostly would tell us that they've figured out how to get through it, how to adapt to it and that's what we are seeing in our stores. They buy when they need to. They, of course, buy food and they haven't, so far, given us any indication that they're going to cheat their families out of a great holiday season and we are preparing for a good one.

## QUESTION AND ANSWER SECTION

**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Q

Great. There is a mike out in the audience, so raise your hand and we will get the mike to you. Maybe I'll – there is a question right here upfront, if you can get a mike here. As the mike gets over there, Bill, let me just ask the first question. Like many other value retailers Walmart clearly has proven they can comp when the outlook looks a little bit tougher, when the consumers are looking to stretch their dollar further. But unlike a lot of other value retailers when things got better, when we came out of the 2008 recession, Walmart didn't comp as well as the off-pricers or the dollar stores. Why will it be different this time around when the consumer feels better?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

We were not in the place we wanted to be when the economy turned last time. When it was headed down, we were headed up and when it headed back up, we had an uncompetitive assortment, we had prices that weren't where we thought they needed to be in the long run and we left space for some of our competitors to operate. I have seen and you look back historically at our results and when we execute our business model like a mass merchant discounter, we do well in both cases. We do well in a down economy because people come to us, we do well in an up economy because there is a growth base available for us in GDP and disposal income and we are prepared for that this time. We actually hope it happens, I mean nobody wants the economy to stay down and we are planning on one day, a good economy, and we are going to compete well in that as well.

**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Q

All right, thanks. A question right there.

Q

Thank you, Adrienne. Good afternoon, Bill. One question on inflation and one on e-commerce, so this past summer has been a troubling year – troubling summer in terms of weather and the impact on crops. What do your folks say about what your inflation levels will be in food by the holiday or by next summer if we keep current spot rates?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

Inflation is a difficult question for us to answer because we know what we expect the cost increases to be, but in our customer base and in our business that cost increase doesn't always translate to a sale. So if the price goes up on something but nobody buys it, is that inflation? Because that's what we see, as prices go up from inflation driven pricing in some categories, customers change or trade to a smaller pack size or another brand or a private label to avoid the inflation that's coming and it changes fundamentally some of the dynamics of how we would report inflation. So in the context of the Fed's definition of inflation, I could give you one answer. In the context of our shoppers definition of inflation, it would be another answer.

Q

Okay. Well, then if you look at your cost side on your food bill, where do you think your food cost will be going, rising in the...?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

It would be no difference and anybody else's reported. We are waiting to see what the impact of the drought has been on commodities primarily and maybe on proteins and we expect it to be higher than it's been so far this year.

Q

Okay, thank you. And then on e-commerce, if you just look at the U.S. e-commerce, how big is that business now from a revenue perspective? And how was the growth for the first half of the year, fiscal year?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

How big is it and how...?

Q

How fast was the growth for the first half?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

How fast was it growing? It was growing at or above e-commerce rates in the U.S. So we're pleased with taking market share. The size of it, we haven't disclosed to date, it's big. All right. Your definition of big or my definition of big, we can argue about later.

**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Q

It's Walmart big.

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

What's that?

**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Q

Walmart big.

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

Oh, you know – It's also because of the way we're managing it, it's hard to pinpoint. We order online and have a prescription refilled in the store. Is that an e-commerce transaction is it a store transaction?

**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Q

Question in the back.

Q

I have a two-part question. First, August back-to-school sales across the board seemed pretty strong, but I guess the recent consumer confidence number that came out seemed pretty low. How do you reconcile that and do you think it could pull forward from September?

Second question on Dollar General, I guess on the dollar stores broadly, your commercial showed a 32% savings if you compared a comparable basket. I think the average ticket at the dollar stores is usually \$8, \$9, \$10. So do you think customers would go to Walmart to save basically \$2.50 to \$3?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

The first question was what? I'm sorry.

Q

The first question was August back-to-school sales across the board seemed pretty strong, but does that jive with the consumer confidence number that came out...?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

We see customers shopping, as I said earlier, when they need to shop, they are not cheating their families, they figured out now that this isn't getting better anytime soon and they now know how to operator in it. So when back-to-school came around, we believe they bought things for their kids for back-to-school because they needed to.

What that means for the back half of the year, your guess is as good as mine. I think we'll have a good Christmas. I think we could have a decent Halloween season. They're going to have Thanksgiving dinner. Will they do things beyond that? Your guess is as good as ours, but we're taking market share and we believe we have the opportunity to deliver that.

The dollar ad was a back-to-school shopping trip, in that particular case, that's what we were talking about. We went and shopped the list, we got the customer, that was the products that she bought. We don't choose what they buy in those ads, we don't. And to answer your question some people will. Save \$2, \$2 is important for a whole lot of people and some people won't. They will pass it and we want to give them a viable option and the confidence that we'll have the best prices.

It wasn't about – those ads are not about the competitor that we are targeting. They are about the brand and the brand, the customer has the confidence that our business and our brand has the lowest prices against anybody, even the people that they think have a lower price than we do, they don't actually. So, you might run an ad against the dollar channel or dollar chain, but what you're really talking about is we beat everybody on everything and

while you may not – we're not directly going after that particular retailer's business, it is a very confident statement in the marketplace that we are the price leader.

**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Q

A question there and if you can mike over – okay. A question there.

Q

Hi, I was recently in Chicago and went to a couple of the Express stores. I share your enthusiasm, I thought they were really amazing for urban pricing and New Yorkers would probably love to have pricing like that. Question is if you have two formats that are doing so well, why not do an acquisition to add a meaningful number of stores as opposed to adding 100 or adding 20 Neighborhood Markets? It doesn't really move the needle at all for Walmart. It seems like there are a lot of less productive retail chains available.

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

We look at it all the time. We are always looking for opportunities, so we do. But without a whole lot of – I was going to say a whole lot of effort, but it was a whole lot of effort. But without an impossibility we found 100 sites to build these stores this year and we've got a robust pipeline coming up as well. So we can get hundreds without paying a premium. So that's the first answer to your question.

The second is we know we're acquiring real estate. We believe we have a business model and a format that we wouldn't want to keep. So, do you want to go and pay premium and good will for something that you think you might be able to acquire on the open market without paying a premium for it?

Today, there is lots of boxes in the size that we're looking at that are empty and available and others that might come available as we prepare to expand. So, if we see the right opportunity, we are not opposed to it, but remember, we at our peak built 280 or so Supercenters in a year. So if we have right places in the right times, our ability to roll these things out at a much faster rate is there. We're just looking for the right time and the right place to be able to do it.

Yes sir?

Q

Question relates to what you expect to come from @Walmart Labs. Specifically around the ability to mine Social Media analytics and data, to get closer to customers to improve your assortment, make strategic decisions based on that kind of insight?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

You outlined one of the things that's coming from the Labs group, their innovation is really starting to add a whole lot of energy to our e-commerce business and our store business because of the digital kind of conversion that's going on and we've done lots of really cool things in the last year that these guys have worked on from things like our Get on the Shelf program, which was sort of like the American Idol of Merchandising. That was a big hit for us and we've got some great products in the stores today because of that.

During Black Friday, Brown Thursday, whatever it turned into this year, we were able to get real-time information on what customers were talking about by mining social media data through @Walmart Labs. So we could tell what was selling and what wasn't selling and where the crowds were and where the crowds weren't and issues that were coming up and able to react to them in real time. Their capability is absolutely fascinating. You extend that into their technology skills and like I said in 10 months, they built a new search engine that I'd put up against anybody's that's world class.

So their ability to move e-commerce, pure e-commerce business, I am very confident in. But I think what is transformational about our stores' businesses is the integration of the capability that they have in e-commerce into the 4,000 store fleet, the \$270 billion kind of big elephant and it's – that's where the excitement for me really resides. They will do well – we'll do well in the e-commerce space. We'll do really, really well in the integration of these two spaces.

Q

On your sourcing partnership DSG, how much is the group saving you for Sam's Club like-for-like and then how much more and timing wise, can that extend to Walmart U.S. and Walmart International so you can pass savings to your customers?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

Yeah. I can't give you an exact number on Sam's Club and International. We have a good relationship with DSG and Li & Fung and Bruce [Bruce Rockowitz] and Dow [Dow Famulak] are in our building all the time. We work well together. We're using them in a way that's been very effective for us in lowering our costs. We look forward to a productive relationship going forward. We are using them to do things that are complicated for us but less complicated for them. We are keeping some of the easier stuff or more commodity based products for our internal sourcing group. We believe we've hit on a formula. To project how far that might go, I can't do that right now but we are really happy with the relationship.

Yes sir?

Q

Is this working? Okay. How do you think about motivating your employee base, when sometimes there are competing interests between different groups, for example you have @Walmart Labs in San Francisco, you have your home office in Arkansas and those can be hard to coordinate, particularly as they become more integrated with ship to store, as you mentioned a minute ago, who gets credit for the sale, the online business or the store business? And how do you incentivize and motivate employees through the compensation programs to make sure that everybody stays on the same page and going in the same direction?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

It doesn't matter to us, whether the customer buys it online or buys it in the store or looks for it online and buys it in the store, looks for it in the store and buys it online and we've got to make and build the incentive program so that we are agnostic to where the customer buys it and that's what we're working towards.

**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Q

Bill, you talked about apparel has gotten better. You've been focusing on basics. Do you think that is driven in part because others in the sector seem to be abandoning basics a bit in the mid-tier department stores and maybe making a bigger push into fashion and there has been a bit more basic apparel up for grabs?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

I mean it could be a part of it, Adrienne and I would sort of liken it to the law of large numbers that we operate in every day in our business. We have 140 million customers a week in our buildings and if you focus on basics in apparel, and by the way, and also in home, what you do is expose a product like socks to the 140 million who walk in the door every day and the decision set, the conversion of people who are interested in socks, I don't know would be 120 million or 130 million of the 140 million who come in.

If you get fashion focused on a particular segment, junior fashion, for example, the subset of the 140 million who would be interested in that for us would be substantially lower than that. I don't know what the number is. I'll make it up, 10 million. And so you have to convert 80% of the 10 million in order to hit your number, again a made up number. If you have 120 million people interested you only have to convert 8% or 10% of the people to make your number and have positive comps in that business and I think that's what's driving our business.

It's our merchants' ability to focus on basics and then our stores' ability to merchandise and show the customer items that are more relevant to more customers and take advantage of our really interesting business model that uses productivity to lower the price, to drive traffic, to increase sales back around the loop again and if we keep doing that well that doesn't have an end and as I told some people this morning, it's not a line, it's a loop. It ends where it starts, which means you get to do it again.

**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Q

Bill, talk a little bit about inventory. It's been running up a little bit below sales this year. Is that low single digit increase the right run rate to think about or is there more opportunity to improve inventory efficiency?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

If you would sort of peel back a layer what you would see is that our inventory in the categories that would be worried about, apparel and home, are actually lower than in many cases and many categories lower than they were last year, negative and where we're showing inventory is in food and consumables as we use the strategy we just outlined to you about micro assortment and pushing products into the stores. So the inventory that we are showing, it's we still have a long-term target of half the rate sales. But the inventory that's in the system today that's kind of above that rate between half and the slightly below the rate of sales, are really good fast turning food and consumable primary inventory. So it's a not concern for us. The challenging inventory for us is under control, in fact, a positive to our business.

**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Q

Right. The strategic price investment has been key and you've been talking about that we should brace for gross margin pressure. Now as we round on some of those investments, should we expect some of that gross margin contraction to moderate?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

The loop continues, so if we see the opportunity from a price elasticity standpoint to get more gross profit dollars out of a price reduction, we are going to take them and I think you can look for us to continue to do that in a very measured, steady, broad downward pressure on items where we believe there is elasticity.

On some items, as we were talking to some people this morning, we're going to lower the price on items that our customers – that our competitors don't even carry. Why would you do that? Well, because you sell more, because you have higher gross profit, because customers buy more at \$9 and they do at \$11. And if you can deliver more gross profit dollars, you should do it regardless of what the price gap would be.

Now you won't be able to see it if you go out and you measure 50 or 150 SKUs in a market basket because we are EDLP and they are not and they go like this. And so we are not closing the gap, we are not widening the gap. What they are doing is running ads and depending on which 50 items you measure, and which time of the week, and which market you will get this or you will get this. It's not anything that we've done, it's their business model as it intersects with our business model. In order to see where our pricing is, you are going to have to look much more broadly or you are going to have to watch our gross margin and that's where we are.

And by the way in the gross margin on retail accounting, efficiencies in our supply chain get reflected as a favorability in gross margin. So as our gross margin comes down and you call it pressure, I call it strategy on our gross margin, that's not even a proper calculation of the amount we are investing in price because as our fleet becomes more efficient because of the scale that we're now – the increased volume that we are running through there, that gets reflected in a positive gross margin so that the reduction is – that's not an accurate calculation, but it's a good directional calculation.

**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Q

Right. Question over there?

Q

Yeah, can you provide a little texture around your marketing strategy particularly, you've mentioned a couple of times you voted into your responses particularly thinking about the effectiveness of print media, weekly circulars or rotas versus TV. Last year you seemed to increase your GRPs rather dramatically with two key messages in terms of price match and Layaway and then also your new digital advertising, one of your slides noted that you have innovative marketing. Can you provide a little more color on that?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

It depends on what we are trying to accomplish, how we go to market, as you would imagine from a marketing perspective. Certain media vehicles have the ability to deliver efficiently, more efficiently in certain ways. Our digital media is a very, very targeted approach. We can get almost a one each to a customer with a message that we need to. Television is very broad. So when we launched our steak program, by the way if you haven't tried our steak, it's awesome, you to go and get one. If you haven't seen the ads, then you're probably not watching TV, but it's a great new beef program, a great new steak program. And so when you want to reach a broad audience we use television. That's why we are using television in the price comparison because we want the broad audience to understand what it is that we're accomplishing.

With respect to flyers or tabs, circulars, whatever you would call them, it's an important piece of what we're doing and it's more about the shopping trip, the individual trip and we'll focus those tabs around shopping occasions typically.

**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Q

Bill, you talked about strengthening your capital efficiency model, could you share what that mean for U.S. site approval process and what has changed in terms of the cannibalization appetite?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

I would – that's not what I was talking about. I am happy to address that. But what I was talking about was kind of simple things in our business. As we operate as efficiently as we can and we do, so we do prototype. So several years ago we put a lot of money in our prototypes. We put really expensive signs, they're beautiful, and we put very expensive racks and fixtures in our produce department, they are gorgeous, but they are expensive and as a mass merchant discounter, we're about product and price and not about fixtures and the building and the facade and so our ability to go back and engineer those costs out is allowing us to do more with the same and that's sort of where we are.

In the real estate approval process, the capital allocation decision and the willingness or appetite to accept cannibalization is offset by the fact that in years two, the cannibalization is one year, the comp improvement above the trend are typically years two, three, four and five. So how much of a one year hit are you willing to take to get a two, three and four, five year – year two, three, four and five year lift over your current trend because those are the best comps of a new store typically before they settle into kind of your fleet average and that's a constant battle for us. I do believe that we are in a place now where we can deliver a steady state comp in a range that we have done over the last year or so and add 2% to maybe 3% new square footage and that's broadly the long-term objective.

**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Q

And then just following on now that Walmart International growth is slowing to ensure proper procedures are being met, does that put any more pressure for Walmart U.S. to grow faster?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

It hasn't been a discussion yet.

**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Q

Okay. Maybe switching a little bit to Canada, just wondering have you worked with the team there as Target is braced to -set to open there as – have you collaborated with Walmart Canada in terms of what to expect?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

Yes.

**Adrienne T. Shapira**  
*Analyst, Goldman Sachs & Co.*

Q

Do you want to elaborate?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

We welcome them to Canada, it's a great country. They will have a very good time there. They are red, and Canada is red, their colors match, they'll really enjoy it.

**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Q

Okay. Any other questions from the audience? Maybe talk a little bit on the collaboration, just how you worked with Sam's International kind of the learnings, obviously small format wildly successful internationally, what sort of cross – sharing of best practices goes on?

**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

Yeah, that's great question. Our company is the – I don't know, perfect mix of scope and scale. In the U.S. everything we do is scale. Outside of the U.S., the scope that we operate in certain markets allows us to do things that almost prove out certain things before we have to apply scale to them. So we trade scale with international markets and we get scope from them.

And a couple of examples of that are a year or so ago, we moved from our more traditional U.S. metric of in-stock which was a measure – a system measure of whether a product was available to something we called on shelf availability, which we got from Asda, and it's a measure of whether the product is physically on the shelf at the time that the customer wanted to buy it. That evolved to kind of the 2.0 version of that, that uses sister stores and an algorithm to tell a store manager within a very high degree of accuracy that they are out of stock right when they are out of stock.

So if store A has 10 or 20 sister stores with the exact same sales rate and we have that data and we're able to process it. And store A stops selling Tide at any given time and the other 10 stores continue to sell Tide, the system assumes to a very high degree of accuracy that, that particularly store is out of Tide and immediately blasts a message to the store management that says, stock your Tide in, guess what, they are out of Tide.

So we now have almost real-time metric that we got from Asda in the U.K. on how to be more efficient in how we stock our shelves. By the same token, we're able to take some of the efficiency that we've been able to deliver in our front end programs and cashier scheduling where seconds are millions of dollars in our checkout process and fine tune that and hone that with the scale that we have and then export those programs to markets that are approaching scale in international markets. And we work increasingly closer together, Mike Duke launched a global leverage team led by Rollin Ford, who has had logistics experience and IT experience in our company and that group's getting a lot of traction right now and it's very productive.

**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Q

All right. So maybe last question, Bill, it sounds like you're very excited about heading into the holiday season. Black Friday, Brown Thursday, Weird Wednesday, whatever it is, is sort of coming earlier and earlier. Give us a

report card in terms of how you are looking to grade the stores? What you're hoping to see as we head into the season and what you would rather not see I mean as we kind of visit Walmart?

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**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

A

It's really interesting, you tour a lot of stores and I am out that night, I hope to see some of you out there. And last year I was standing in a store when the thing kicked off and I'm standing next to the store manager who has a jacket on and didn't know I was coming, by the way, and a clipboard and he's calmly giving direction. And the place is chaos.

How many have actually been in one of our stores when these things kick off? You all got to go, I mean, it's crazy what happens and so that's a great manager, had – knew where the inventory was coming and the pallets had to come out and we will do – I forget exactly what the number was like but it's like \$400 million in an hour, some just outrageous number that you can't even mind boggle. Carol is getting all nervous on me now, go ahead and try to calculate that. The point is that you can walk into a store down the road from that guy with the blazer who is in control and you come up to a store manager who is sweaty and pulling a pallet-jack because he wasn't prepared.

The key for us those nights and what I look for is how is the store prepared? It's kind of like a rehearsal, they rehearse it and they rehearse it and they rehearse it and they rehearse it and then when the actions starts it never turns out the way you rehearsed it, but are you prepared and do you know what the contingences might be.

We're concerned about safety first, that's always on our mind and we now have safety protocols in all of our stores that are the first decision point that we review. The second thing that we are concerned about is serving our customers and then after that it's sales. And so that's what we look for. We believe we have the opportunity that night to give customers the very best Christmas or holiday that they can get and we are committed to doing that.

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**Adrienne T. Shapira**

*Analyst, Goldman Sachs & Co.*

Great, if there are no other questions from the audience, please join me in thanking Bill.

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**William S. Simon**

*President and CEO, Walmart U.S., Wal-Mart Stores, Inc.*

Thank you.

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