

## **Douglas McMillon – Opening remarks**

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 U.S. 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 merchandise 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 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 free-cash flow. We've returned more than \$100 billion to shareholders 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 U.S. 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 the 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 U.S. 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 U.S. 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 U.S."

So Greg knows 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 U.S. 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 Gisela 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 U.S. 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 U.S. 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, U.S. 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.