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Corporate Speakers

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Doug McMillon	Wal-Mart	President, CEO - International
Judith McKenna	Wal-Mart	EVP - Strategy & International Development
Scott Price	Wal-Mart	President, CEO - Asia
Enrique Ostale	Wal-Mart	President, CEO - Walmart Latin America
Dave Cheesewright	Wal-Mart	President, CEO - Walmart EMEA

Participants

Scott Mushkin	Wolfe Research	Analyst
Daniel Binder	Jefferies & Co.	Analyst
John Zolidis	Buckingham Research	Analyst
Matt Nemer	Wells Fargo	Analyst
Chris Horvers	JPMorgan	Analyst
Jason DeRise	UBS	Analyst
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PRESENTATION

Carol Schumacher: And we will transition over to Wal-Mart International. And with that, I'd like to introduce Doug McMillon, President and CEO of Wal-Mart International. Doug?

Doug McMillon: Good morning, everyone. We're excited to have some time to give you an update on International and answer all the questions that you may have about our business. We're going to cover three things. We'll talk about our current performance. We'll discuss our plan to win going forward and we're going to give you a bit of a deep dive into China specifically.

I'd like to start by updating you on our leadership team. And I'm going to put their pictures up here on the screen. Enrique Ostale, since last year at this meeting, has been promoted from leading our business in Chile to leading all of Latin America. Scott Price, Dave Cheesewright, continues to lead their respective regions.

Judith McKenna, many of you would know, was our Chief Financial Officer in the U.K. for more than 10 years, got promoted to be Chief Operating Officer, and then a few months ago we're able to recruit her and promote her to lead Strategy and Development including real estate and M&A for International. So we're excited about that.

Cathy Smith continues to lead finance. Tom Waldron, leading people. Maggie Sans, leading corporate affairs. A new face that joined us almost a year ago would be Daniel Trujillo. And Daniel is our International Chief Compliance Officer. And Tim Cheatham is our general counsel.

Between them, they've got over 140 years of international experience and they average more than 20 years of functional experience. And despite that, they're still holding up pretty well. They look pretty good. I hope you would agree with me. They're fun to work with and they're very capable. It's a strong team.

Let's get into performance. Beginning with what we told you last year at this meeting. Our commitments are listed here, beginning with disciplined growth. I'm pleased to tell you that around the world, we're continuing to make progress on moving towards everyday low price. And I'll get into some detail on that a little while. Secondly, our new store performance is improving. I'm encouraged in particular by what we're seeing in China with our recent openings.

Thirdly, with Neil's leadership and partnership, we're continuing to develop capabilities in the eCommerce and mobile commerce area around the world, and that is strategically important, one of our key priorities.

In terms of disappointments, with the sales being softer than we anticipated, we failed to leverage in the first half. I'll go into detail as to why that occurred, but it is a disappointment and below my expectations. As it relates to capital investment, we've continued to be disciplined, not only in terms of our new store program, but also in terms of acquisitions. And we'll talk a bit about that. But in terms of our commitments in general from last year, we're moving forward on all of these areas that we outlined. And there's consistency in our plan.

Let's get into the first half performance. What we show you in terms of reported numbers reflected a 2.9% sales increase and a decline in operating income of 2.9% adjusted for Yihaodian and our investments in Brazil in terms of eCommerce and currency, we had an increase of 4.7% in sales and only a 0.1% increase in operating income.

We failed to deliver against our objective to have operating income grow faster than sales. The expense leverage issue is showed up here. And that's something that we're very focused on and committed to. Growing up for the income tax in sales is important to this International.

We were up against the 15.7% sales increase and an 18.7% operating income increase for the same period a year ago on a constant currency basis. But that feels like an eternity ago. What matters is how we're doing right now.

In terms of how we're doing around the world, we're winning and taking market share, in 8 of our 10 businesses, we've grown share year-to-date. Beginning with Argentina, whereas you can see, there's a lot of inflation in the number. We're growing faster than the market. On a real comp basis, taking out the impacts of inflation, we're still performing well and we're pleased with our business in Argentina.

Also pleased to tell you that Brazil is now growing faster than the market. And in both Brazil and in China, we're now using Nielsen as our source for market share and they'd expanded their coverage. So our accuracy as it relates to market share in both Brazil and China has improved since we were together with you a year ago.

We're going faster than the market in Chile. In the first half, we narrowly grew faster than the market in Mexico and Central America. And Mexico is one of our softer businesses. If you track ANTAD in Mexico in recent reporting periods, it's been down 3% to 4%. So the overall retail business in Mexico is declining in recent times. And that's a concern for us, and we're very focused on making our business in Mexico in particular even stronger. It's such a core market for us.

Excited to tell you we're growing faster than the market in China. In Japan, we're outgrowing the market in comp terms, but others are investing more in new stores and therefore, we didn't grow as fast the overall market. But we wouldn't want to given our disciplined capital approach. So that's where Japan sits. And you can see in terms of our markets, it's the lowest growth rate, continues to be.

We're growing faster than the market in Africa. Quite a bit faster than the market in Canada that's driven not only by our comp store, new store performance, but also the 39 Zeller stores that we took over and converted earlier in the year, so happy to see us growing a lot faster than the market in Canada.

In the U.K., we're not growing as fast as the market. As you know, it's a very competitive environment. We're holding to our guns, sticking to our guns on everyday low price, and doing things that are sustainable in the U.K.. I actually feel very good about our position in that market. We have a good cost structure. We're driving EDLP. And I believe we'll continue to have good performance out of the U.K.. So I'm not that concerned about where we are relative to the market year-to-date for those reasons.

Let's get into expense performance a bit. I want to remind you what our track record has been over the last few years. As you can see, we know how to leverage expenses. It continues to be a priority for us. But as I mentioned a few moments ago, we didn't get that done in the first half. So as it relates to how that played by market, those that are listed here with a green check mark against some of those that we did leverage expenses. On the right hand side, those with the red x, we did not.

In the U.K. and Canada, we made some investments. We made investments in eCommerce in the case of Canada. We made investments in service to make sure we were standing tall there. And then in the U.K., we also had some taxation changes where tax is moved from below the line to above the line. And that's creating part of our pressure in the U.K..

But in both the U.K. and Canada, the biggest single issue has been sales as it relates to expenses as a percentage of sales. In some of our other markets, we're facing wage headwinds that are unique. I mean the years that I've been involved in International, I haven't seen a circumstance like we have in some of our markets where wage inflation is high single digits and in some cases, double digits. But product inflation is negligible or maybe even deflating.

That pressure is what we felt in the first half and prevented us from leveraging and meeting our objective of driving expenses down. What you can see in the bottom right hand side here is that we're taking action. In China and Brazil, those markets include the wage inflation issue that I mentioned earlier. We've made great progress at driving our units per labor hour up. And in Mexico where we ran into the first part of the year and sales were softer than we anticipated, we adjusted and started to derive per labor up as well.

So as it relates to leverage, we're focused on store level productivity improvements that are sustainable and working together with our global business process team led by Rollin, Rick Webb, [Amy Spabian] and some others were putting in place productivity improvements, process improvements that will stand the test of time and enable us to leverage on a consistent basis.

So I'm encouraged by what's happening in that area. We're also focused on home office expenses and all the other expense categories to make sure that we're making good decisions relative to how we manage expenses. It's important to us. It's a priority. And that's what happened in the first half.

Now, let's move on to return on investment. One of the thing we've talked about in the past is that we believe the international division has a good return on investment but with room to improve. So what we're showing here is how the international division would stack up against other retailers around the world.

On the left hand side, you see that Wal-Mart stores has a very strong return on investment. That's our global number all in. In the case of the competition that we've listed here, it's the same. It would be their total company. We've not attempted to take out their international division. Just take the reported numbers and show you what their corporate return on investment looks like.

So now, you can see how Wal-Mart International stacks up against that competition. Are we in good shape? Yes, we're in good shape, but again, we have room to improve. So that's what I'm excited about, not just where we are, but where we can go with return on investment.

Now, let's break it down by market. What we've done here taking our return on investment by business unit and show you how that compares to our international average. Our objective in every market that we operate in around the world is to be best in class. In the case of Mexico and Canada, we're there. In the case of some of these markets in the middle, we have room to improve to be best in class on things like sales per foot, expenses as a percent to total or our cost structure. And we have room to improve as it relates to return on investment. Those markets however don't have the dramatic room for improvement that the three on the right hand side have.

In the case of China, you'll see that it's already number 3 on our list in terms of return on investment, but we can see a path to dramatically improving our return on investment in China over time. So there's upside in China. It's one of the reasons why we're excited about it. But it's already above average.

The other two are in a unique position relative to China. They're not all the same. So in Brazil, we have flat out room to improve operationally. We've made some changes that have increased performance on the retail side of the business. We're not as strong yet on the wholesale side of the business with Maxi and Sam's Club as we need to be. We'll give you some more information in the Q&A if you'd like to have it. But the bottom line on Brazil is complex environment. We're not making the most of it. There are some things that are improving, but we have a lot of room to improve in Brazil from an operational point of view.

Japan, different situation. We have a strong supermarket business there that continues to take share. I'm pleased with where we are relative to EDLP. They do a nice job managing that business. But we've got to draw out, drive a bit more growth and then continue to evaluate the assets that we have in Japan to drive the return on investment up. Since we've made our investments in Japan, we have been working and shipping away of the asset base and we'll continue to do that. So, bottom line, good ROI in international and room to improve.

Over the last few years, what we've been doing is to set in place a number of foundations to help us drive both growth and returns. One of those important foundations is what we call the Wal-Mart way of working. It starts inside the company with a focus on our common purpose. And around the world, we have the same purpose. We save people money so they can live better.

We also share the same organizational culture. We have four key beliefs and they're consistent around the world. The last few years, we've also focused on these six key operating principles. We believe the winning formula, the Wal-Mart formula around the world includes Every Day Low Price and Every Day Low Cost, and the other components you see on the outside of the screen.

For us to be the best retailer we can be and to be successful globally, a common way of working, a common operating model is a key foundation. So that's one foundation that we put in place these last few years, and we continue to progress towards that everywhere around the world.

A second foundation relates to the way we manage process. Super centers, whether they're in Brazil, the United States, China or Mexico have a lot of commonality. And there's been a big mindset shift within the company over the last few years from focusing on the things that are unique in our businesses to the things that are common.

And in a super center for example, the management or freight from the modular process in the way buyers flow merchandise in to the way we manage freight in the back room through to deliver on shelf availability, has a lot more in common than it does different.

So what we didn't have are the resources from a business process perspective or engineering perspective to move those best in class operational processes that should be consistent around the world. In these last few years, we've been making those investments and I'm very glad that we did because the units per labor hour, the statistic that I shared with you earlier, would not be progressing the way it is if we had not made those investments in previous years.

But it takes a while to develop those capabilities and those muscles to take those processes and spread them. But we're making progress on that in particular in Mexico, China and Brazil which are our focus markets. When those processes become more consistent, systems can be more consistent.

And over the last few years, we've not only invested in SAP from a financial point of view, but a new global logistic system, integration work in Brazil and Central America and Chile to help create simpler environments that are more consistent and get the benefit from all the systems expertise that we have in the company. So systems are also a key platform and we've been investing.

The next area is compliance. And I'm going to tell you more about that in just a few moments. But it's a foundational issue that enables us to grow by doing things right the first time.

And then lastly, disciplined growth. Managing our assets in a way where we're not only being good operators, best in class operators, but we're also being good investors. You want us to think like investors as we evaluate our portfolio of assets and we do.

So as it relates to that, we've made some decisions and I want to update you on today, starting with India. You would have read a few days ago that we've made a change to the franchise relationship that we have with Bharti RJV.

The way to think about it is that in India, we have a retail side of the business that we supported Bharti with their stores on, and we have a wholesale side of the business cash and carry units under a brand name, Best Price. We put those things together and we're moving towards growth in India.

The FDI conditions as they were released by the government were problematic. Not all of the conditions are conditions that we can comply to and support and build a strong business. And they delegate it to the states to decides whether or not they want it, the foreign direct investment in multi-brand retail.

Given those things, we've made a decision to separate, have the JV be dissolved. Bharti takes the retail stores and continues to grow them. We keep the cash and carry units which are allowed under the FDI rules which consists of about 20 cash and carries, and we'll just continue to grow them.

Do we believe in India? Yes. Do we want to invest in retail in India? Yes. We continue to work with the government on how those conditions might be structured so that we can do that and do that with confidence. So my expectation is that we'll be in India. We'll build the cash and carry business and then hopefully someday be able to apply with and FDI compliant multi-brand retail license that will enable us to grow our retail business.

Second update relates to Mexico and the sale of our restaurant business primarily under the Vips brand name in Mexico. You've already heard about that one. We hope, pending government approval, that the gain on sale related to Vips will occur in the fourth quarter.

And then there are two other decisions that I wanted to update you on related to store closures. In both China and Brazil, we've been going through our portfolio, looking in all the stores that we've built out over the years, and we've identified some stores that we need to close, stores that for location reasons or layout reasons are not ever going to generate the return that we need them to generate.

So we've made a decision to close those stores and by doing so, we'll take a charge this year and set ourselves up for a higher operating income percentage in the future. And on the screen, you can see in each respective market how much we expect that to be for FY15.

Now, when you roll all these decisions together, there'll be a financial impact later this year. And when Charles Holley comes up in a few minutes, he's going to tell you more about that. So this is an example of disciplined capital as looking at the assets that we have and making disciplined decisions. So that's performance.

Now, let's talk about the plan to win going forward. In an international business where you have a portfolio, as I mentioned earlier, you have to actively manage it. You can't just invest in a business and operate it without continually looking at the return on investment and making good decisions.

But we also have to be a best in class operator, and that's what generates growth leverage and returns. So as it relates to being in good businesses, what we mean is, be in the right markets, be in the right formats, invest in eCommerce and mobile commerce to serve the customer of the future as well as today and evaluate every single one of the 6,288 store locations that we now have to make sure we believe in each one of those stores on an ongoing basis. That's what portfolio management means to us.

As it relate to M&A and how that fits in to the strategy, our approach here is consistent with what we said to you in the past. We're focused on winning in the markets that we're in. We like the markets that we're in and we want to put them first and make sure that we win there. So as we look around the world and filter opportunities, that's where we start.

Secondly, we want to continue to add capabilities. We want to add capabilities in eCommerce and mobile commerce. We want to add capabilities in sourcing. And you've seen us make some acquisition in recent times to support our fresh fruit efforts or other efforts that we have in a parallel or areas like that to make sure that we continue to drive our core business.

Thirdly, we want to be very selective about new markets. We think about the regions of the world we're in such as Latin America, Sub-Saharan Africa, there may be acquisition opportunities to fill in those regions and as it relates to new standalone countries, they've got to be countries that move the needle. It's got to be worth our effort given the size of the business. So those are our priorities as it relates to M&A.

Our track record looks like this. And this chart is interesting in a number of different ways. It goes back to the very beginning of Wal-Mart International, walk you through to last year. And if you look at the very top line, you can see a fairly consistent level of growth. Some of the turbulence in recent years has created more of a currency than core operations.

Secondly, if you only look at the green bar, you can see what our organic growth has looked like. That's comp store sales and new store growth, and you can see some strong trends underlying that. Along the top here where we have all these words, not intended to be an iChart. But it breaks down what our M&A activity has looked like over the years.

And you'll see in the more recent times that we've done fewer bigger deals. And I'm pleased with every one of them that we've done in the last few years. The work that we did to acquire the business in Chile has turned out to be terrific. I'm excited about what's happening with Massmart in Africa. Africa is a tremendous opportunity for us, certainly in the mid- to long-term, and it's a good business today.

The Netto acquisition led by Judith has gone very well, though, small stores in the U.K., are outperforming on a comp basis and relative to our model, have done very well. Yihaodian is very exciting. And then most recently, we picked up those 39 stores in Canada.

Now, what you can't see here is what we've chosen not to do, staying disciplined with our capital and not entering some of the markets that frankly are on our list and with retailers that we believe we could have worked out a deal on, we decided not to in recent times.

We've stopped, we've focused on our foundation, we've made sure that we deliver returns overtime and stayed disciplined.

You can't build a great business, a tall building on a weak foundation and in these foundational areas that I've covered with you before, just a few minutes ago, we have made a lot of progress. Will we grow in the future through acquisition? Yes, we will but we'll remain disciplined and make sure that it's consistent with the strategy that I've covered with you earlier.

As it relates to new stores, we want to update our FY'14 guidance to 14 million net new square feet. In the past, that number for this year was in the 20 to 22 million square feet range. The change is attributable to Mexico and India as well as the store closures in China and Brazil. That's a really important point. The number I'm showing you here is a net number. The closures in China and Brazil will fall partially into this year, most of the dollar impact this year but the square footage impact is about 3 million square feet this year and 3 million square feet next year.

So as you look at the 14 million square foot number for this year, you got to add three back to adjust for the store closures that I've just mentioned. And as you look at next year's range of 12 to 14 million square feet, you also have to add three back there to get to what the gross number looks like.

So that's what our new store growth plan is for the next few years, relative to how we're investing by market, 55% of it is in emerging markets, 45% in the developed and we define developed as the U.K., Canada and Japan.

So what does that mean in terms of dollars? We're revising our CapEx dollar range down, commensurate with what we just showed you on square feet. Previously, we were at $4.5 billion to $5 billion in CapEx, we're now adjusting down to $4 billion to $4.5 billion. The new store CapEx number, for a moment, if I could elaborate on that, the dollars per square feet are coming down, 21% while the square footage comes down to 18.

So given that we're showing this to you on a net basis, it's hardy to figure out the math, so let me repeat that for a second. New store square footage dollars are coming down 21, square feet coming down 18. So we're finding ways to be more efficient in our investment.

For FY'15, we're projecting the whole CapEx spending, a basically flat. Year-on-year new store CapEx is in line with our gross new store square footage. We're investing a bit more in remodels and in logistics. The other category includes eCommerce, maintenance and business improvements.

So in summary, we're investing prudently in our new store CapEx, we're investing capabilities, we're investing in eCommerce.

So as it relates to managing our portfolio, there's an update. As it relates to being the best-in-class operator, our strategy includes this list of six components, the top half being the drivers of growth and returns. Growth with innovation, think eCommerce and mobile commerce. Healthy core, think about merchandising and being great merchants. And as it relates to the productivity loop, don't only think about SG&A leverage but also think about EDLP.

I'd like to invite Judith to come up for a moment to tell you more about these three components of our strategy. Please welcome Judith.

Judith McKenna: Thank you and good morning. Looking at first of the element in the drivers to growth is growth with innovation. One very single one of our markets around the world has a priority which is e-c0mmerce growth. We're working with Neil and the team at GeC to leverage their expertise in technology, in customer experience and in talents to really start to make some progress in this area. And Neil is going to talk to you a lot more about in his session after lunch.

But just to give you a bit of a [divisional] view and a couple of highlights for us is we're just noting, we look at this opportunity in two slightly different sections. The first is general merchandise online and the second is grocery online. Now as the way the customers connects with us for both of those is very similar, particularly in terms of tablets, mobile, social interaction through social media, as to the way we fulfill those orders is slightly different.

What is true then? You've heard a couple of times today that both the grocery and for general merchandise, we believe we will win when the physical aspect intersect with the digital aspects and that's true for all of our markets around the world.

Within Wal-Mart.com, which is our general merchandise brand that we've got a journey towards getting to -- what we want to do with every market is ensure that the customer can recognize the Wal-Mart brands and build on the strength of that through general merchandise offer.

That really gives us the opportunity to fill in the customers mind what a great customer experience they're going to get, with the range in [excitement] they can expect as well.

Now we've got a lot to do here but we're making good progress. In Brazil, for example, by the end of this year, we'll have a million more SKUs to be offered and customers will have one of the broadest offerings in that country on general merchandise through Wal-Mart.com.

And recently just in the last couple of months, we've launched the new site in Canada. For the first time Wal-Mart.com available in Canada as well.

So looking at the other side and taking home shopping, it might surprise you to know that we're already the second or third depending on whose numbers you believe, largest grocery home shopping retailer in the world. The reason for that is ASDA, which is our lead market.

The ASDA team has a strong profitable and growing business. But it's not just that, they're innovating as well and we're really proud at some of the work that they've been doing.

It wasn't that long ago that for business in home shopping or for grocery, that a customer could tap two choices. You could choose to collect your shopping in the store, do your shopping yourself or you could choose to have it delivered to your home.

What there is now is a huge range of options between those two points. Rather than me trying to explain that to you the U.K. team have made a short video, I'll let you see it.

(VIDEO PLAYING)

Judith McKenna: So, what the U.K. team are doing is retrying in two areas for us. The first is in the best way to fulfill customers' orders, in-store picking and home shopping centers and it's currently about three home shopping centers. In the U.K., the vast majority of the picking is still done in store but also looking at innovative ways to get that project to the customer because this channel is all about customer convenience.

And just in the last few weeks, the U.K. was the first -- ASDA was the first supermarket to launch same day collection from store or to [before 1 p.m.] and collect after 4 p.m. has been a tremendous customer feedback towards that already because convenience is really what this is all about.

But it's not just about the U.K., what we're also able to do is use the expertise and learning from that market to be able to use to push other markets up for learning curve, ask them when they're ready, as Bill was talking about to look at grocery home shopping for the future.

So turning next to the second section of the wheel which is all around having a healthy core. Every market has innovations and ideas to help drive the core business from offer free to [project]. But there are two in particular for the division that we want to highlight for you, fresh food and private brands.

In a moment on fresh food, Scott Price is going to tell you about some of the really strong work that's being done in China to strengthen fresh food [after that]. But in each of our markets, we recognize that fresh food is the key driver into store. And every market has an action plan around it.

Examples here are Chile, Chile didn't just look out what the in-store offering was, but like many places look to the end to end supply chain for produce here in particular. The changed the sourcing, they improved the quality of the product, they got better value for the customer and then they re-launched it in store through a series of seasonal events. Seasonally relevant, really abounds rate of excitement for the customer.

One of those events was a citrus festival. So an 18% uplift while they run the festival, the store halo effect even after that, as customers kept on buying in to the product.

In Canada, some of you would have been the Canadian Analysts Meeting and familiar with fresh market modeled on the US models as well. And that's continued to do very well in Canada, really improving customer perceptions of fresh. I believe the team have currently got 170 projects or something like that up there at the moment. And they're actually looking to expand this year through bakery and deli and further expansion into next year as well. So just two examples of some of the great work that's going on around fresh food.

The other area is private brands and we still believe that private brand is a big opportunity across the international businesses. We've recently appointed a small team in international just in the last quarter to help drive the strategy for us for this, and we expect some results from them in the coming year.

Btu meanwhile, we're not sitting still. So in Japan and if I can get this right, we have Minasama-no OsumitsU.K.i -- close? Close enough, that's Japanese for Chosen by You, by the way. It probably -- if in Japanese as told but it was close enough.

So Japanese for Chosen by You, the team have worked really hard and they're really trying to develop the private brand label within Japan. We're seeing some great results, 170 projects, currently 450 by the year end, ranging from broccoli through to instant noodles.

They took the idea of Chosen by You from the U.K.'s program which was Chosen by You which is all about chosen by customers. The next generation of that has become Chosen by Kids in brackets endorsed by mom because we don't just let the kids have it their own way.

However, what this is, is a range of healthy snacks and meal solutions which is nutritious, so moms don't have to think too hard about it. There's about 180 projects in this range already and their plans to expand significantly into next year. And we share the best practice for these around the world.

And finally, apparel. The George brand we've talked to you about previously and again, it's another opportunity for us. Now I'm ogling George today, this is a George dress and not only do I endorse the brand, of course the royal family seems to have done it in favor as well. And well, if it wasn't to deliver endorsement I don't think that George has now become much more recognized around the world with the prince being born than it has been before.

The George team incidentally, Macy launched a series of baby clothes which you can see up there. In closing, one day I'll marry Prince George as the logo, within three days of the royal birth which just says such a lot upon supply chain and what they can do there, was a complete sell out and I'll note all these are a collector's item, just in case anybody was wondering.

But George will go from strength to strength and we're seeing traction on this year. So the brand went in to Chile in May with ladies wear and children's wear and there are plans to expand the ranges there. And this month we'll launch in Japan and South Africa with a range of essentials and kids wear too. There's some real progress there.

And finally on the drivers to growth is aggressively driving the productivity loop. This is of course fundamental operating principle no matter where we work in the world. And as Doug said, it's about the EDLP side of this but also about the cost side of this. Now I'm going on the cost side of it.

We call it the Four Ws, we operate for less, we move for less, we construct for less and we buy for less. Each of these programs are key in helping us leverage SG&A. We operate for less is probably the one that people are most familiar with and we've talked about this before.

We recognize that each one of our market is at different stage of maturity in becoming the most efficient that it can be. And our job is to help support and encourage through that maturity curve by sharing best practices. It starts with business foundations, of processes and systems. And you saw from the units [per labor hour chart that Doug put up earlier, that the three markets that we got to focus on which is China, Brazil and Mexico have made real progress in this area.

And one of the reasons for that is the collaboration with Rollin's leverage team in Global Business Processes as well as having the right teams on the ground to be able to drive this.

At the other end of the spectrum now is all about innovation, still. And we have to find ways to keep moving forwards. The U.K. did a lot of great work on this previously and at the moment they're looking at the frontend of game and try internal scanning. Total scanning is a 360 degrees scanner that takes projects to rate at about 100 items per minute, that's three times faster than anything we can do at the moment. We look forward to see what the results are from that and sharing the learning’s around the world.

The next area in the productivity loop is we buy for less, lowering the cost of goods that we sell. So again with the leverage team and global sourcing, some great work been going on. But one of the examples I just wanted to highlight for you is some of the work that our subsidiary International Procurement and Logistics Limited has been doing IPL and olive oil is one of those commodity areas they've been working on.

In the first quarter of next year, we're going to see the first global olive oil purchase. We're involving eight different markets to really leverage volume across the group. But not only can we get volume leverage, we can really improve quality as well. And what the team have been able to do is narrow down to two olive oil manufacturers but those manufacturers are also growers.

So now we have full transparency at the store supply chain from growing to delivery in our store of olive oil around the world for the markets that are participating. Quality will improve and value will improve as well.

The next area is we move for less. You won't be familiar with this one, we pulled this out of we operate for less because we think it's a real significant benefit for us going forwards. If you think about moving logistics, they're moving projects to rounds, it's a real core competency or Wal-Mart, it's a real competitive strength.

But again, talking about that maturity curve, not all of the markets are in the same place for that. So small team is being developed to help support the markets that need help with this in order to drive efficiencies. Mexico's a great example of where we've already had some success. Being able to consolidate deliveries by small and medium suppliers, [curve] them up the supply chain means we can make significant saving in transportation and handling for those suppliers, that benefit gets passed on to us as well and we can pass it on to our customers.

And last but not the least is we construct for less. So this also covers capital efficiency but SG&A as well because buying the right products means we can look at the lifetime cost of running those projects as well, the switches, electricity and gas usage.

We've been looking at refrigeration and LED lighting as global purchases but we're also looking at how we construct things, and this is a fantastic example. I never thought I'd be here talking about pre-fabricated restrooms, but we are. And as Doug asked me to point out we don't put them in the car park, we ado actually put them in our store despite what this looks like.

But that just saves 20 days out of the construction time in order to be able to do that, saves time, saves energy and saves money.

So they're the four elements of the Ws, the cost element of it. I'll hand over to Doug to tell you about the EDLP.

Doug McMillon: Thank you. Good job. Nice job, Judith, attempting Japanese was bold. Scott says you did great. Staying in the productivity loop, let's spend a minute on Everyday Low Price. David Cheesewright led a bit of work again this year to evaluate where we are relative to EDLP around the world.

Starting on this side of the maturity curve, we have new places, new investments in places like Massmart, the work that's going on in India where we're in the very early stages of trying to determine what our strategy would be to implement. And as we move across, in China, we're in early stages, we've taken some steps not only are we working to bring down our cost structures, we discussed earlier but beginning to implement some tactics known as worry-free pricing in China to start to progress Everyday Low Price.

In China, they start to progress Everyday Low Price. In China, we moved the retail side but need a lot more progress on the cost structure and this year we've been working on both Maxi and Sam's Club, so Brazil is a little bit further ahead in that respect. We have a group of markets that have gotten to the point where they're known as the price leader but not -- but are not quite as pure as we ultimately want to be. Our most pure state today exists in the U.K. and I alluded to that a bit earlier.

What you can expect from us is we'll continue to learn and move from the left to the right hand side on this chart and pay attention to the blue boxes at the top. It starts with having the lowest cost base then if you're currently in a high-low environment, maybe we picked up a business through acquisition for example, you buy it, got you got to become known for price and then you move towards more of a pure EDLP state which enables us to deliver the returns and activate the Wal-Mart way of working.

So that's the productivity loop. Those are the growth drivers for both sales and returns. Now we want to spend a few minutes on foundations starting with people but then moving to compliance and leadership on social and environmental issues which by the way, compliance and leadership on social environmental issues come together to build trust with all of our stakeholders including customers and trust is very important not only in today's environment but for our future.

So as it relate4s to people, we have three areas of focus. We've now established merchant academies in every market around the world and we have an accelerated merchant program that we teach and then build, to teach our merchants how to build Wal-Mart assortments and how to drive sales in an EDLP environment.

As it relates to culture, we have an approach across all of our markets that ties back to our four core beliefs including conversations that happen at store level where store managers lead our associates in conversations about what it means to be a Wal-Mart associate and what we mean by Wal-Mart culture, a robust program relative to culture.

Our engagement scores around the world are continuing to go up. The third area focus is leadership depth and diversity. I want to pick up diversity first and tell you that we've seen a 40% increase this past year and female successors to see suite level roles. So we're seeing the pipeline in our leadership area improve as it relates to diversity.

And as it relates to depth, not only do we have talent development programs around the world but we're also utilizing expatriates to move our forward -- our business forward. For the international division alone, we have 88 expats around the world. Some of them are key merchants. We've got John Furner, Steve Breen and most recently Gary Severson on the screen here that are US merchants in Wal-Mart and Sam's that have moved to become chief merchant scores in international in those three respective markets. That's enabling us to make more progress.

But we've also add talent from the outside, I've got Guilherme Loureiro mentioned here and he's our country president for Wal-Mart Brazil. He was part of the Unilever business for 24 years, joined us a few months ago, went through an onboarding program and is now leading our business there.

Gian Carlo Nucci was our Chief Operating Officer in Wal-Mart Mexico. He was promoted to replace Enrique and lead our business in Chile. Ann Bordelon, you know Ann from Sam's Club and Wal-Mart before that. She led our audit functions, moved a few months ago to Hong Kong to work with Scott and lead finance for all of Asia. She's been a great addition to our team in Asia. Karina Awad was leading our people function in Chile. She was promoted to -- now moved from Mexico a few months ago and lead our efforts related to people there.

Leveraging talent around the world, we have a strong team. It's getting deeper and that's a key to our success in the future.

Now let's move on to compliance. I've been a part of Wal-Mart for almost 23 years now and I can tell you that acting with integrity has always been part of who we are. It was foundational. Doing the right thing is part of the DNA at Wal-Mart. That gives us a foundation to use as we start to strengthen our compliance programs by enhancing our approaches to talent, to process and to systems.

And I want to ask Jay Jorgensen to come join me on the stage for a moment. Jay is our Global Chief Compliance Officer. He joined us almost a year ago from Sidley Austin and has taken on this responsibility for strengthen our program. Welcome Jay and Jay would like to take a minute and talk about people.

Jay Jorgensen: Thank you. So on people, we've taken the compliance personnel that previously existed in each of our markets and we brought them together this year into one global compliance program. Wal-Mart has long have compliance programs, Chile had a program, Argentina had a program, ASDA had a program. All of our markets had a program but they operated independently of each other and didn't coordinate together.

New this year, we have one global compliance program and you see here on the screen the new leadership. This new leadership brings the expertise that we haven't had before to the compliance program. You'll see up here a former federal prosecutor, a former Senior EPA official and people who've led major compliance functions at other significant companies.

So, you might ask why do you care? Why does that matter that we've come together into one global compliance program? The reason that matters and the reason we hope the customers and investors will care, really there are three. First, is this provides us increased transparency. We know what's going on around the world in a way that we haven't before and we're able to take the resources that we need and dedicate them to those risks.

Second, it gives us an opportunity to learn. So if ASDA learns a new and better way of ensuring food safety compliance for licensing and permits, if China comes up with a new way of training, we can benefit around the world in a way we couldn't before.

And then lastly, with that increased transparency we can have increased accountability, we can have policies that everybody know and then as we live up to them or don't live up to them, we can hold ourselves accountable. So Doug, I think that's a major improvement.

Doug McMillon: Jay and I are pleased to announce to you today that we now have in place for every market around the world a chief compliance officer and a leader for anti-corruption in each market around the world. This global program that he described is increasing our effectiveness. One of the things we're doing right now as we speak is making sure that we've got all the right resources to make this a world class compliance effort within Wal-Mart.

We've hired new people and we've realigned people into this global structure. And we now have through those efforts over 1,000 people that worked fulltime on compliance throughout the company. So we're stronger and we're going to be even stronger in the future.

Jay Jorgensen: On that last point you made Doug, one thing that I think is so important is, now in each market we have someone in the senior executive ranks who spends their fulltime making sure that we comply with the laws, that we comply with the policies and that we earn our customers trust. I think that's an important innovation.

Doug McMillon: And to think we've struck a nice balance in terms of the independence of these teams and the collaboration that occurs. Working with our country presidents, with our regionals is really important as they come together to form the team to leverage the functional expertise of compliance leaders and the country presidents and the other leaders that we have in place in the markets.

So another thing that we've done is to clarify the areas of compliance that we're focused on. On the left hand side of this chart, you see 14 key areas. We now have a subject matter expert, Jay, in place for every one of these areas that lead globally to make sure our programs are designed effectively.

And we've also, on the right hand side, enhanced our financial controls. Anti-corruption is a big issue for us and by moving towards a stronger control environment for small dollar amount, it increase our ability to be compliant.

Jay Jorgensen: I think that really shows the ability to leverage. When I came to Wal-Mart, I don’t think I fully understood how vast we were and the expertise that we have internally. You see there on the -- I think for you, left hand side of the screen, those 14 experts. For each one of those people, there's someone who's dedicated their life to that subject who now leads that topic for us around the world.

Doug McMillon: It's good. You're asking, I'm sure, how much is all does all these cost? The way we like to describe it to you is in two groups. The first group relates to program development and the build out of our compliance program, and there are two branches there. One relates to the external spend to make sure that our programs were designed effectively and that we move with speed. We've been relying on legal firms and accounting firms, people frankly that have travelled around the world to help us get these programs established. That cost money, it's a good investment but what we’ve been doing simultaneously is building internal resources to increase our effectiveness that overtime will help us bring down that first branch of cost.

So as the internal capabilities come up, we'll be able to bend that curve. In fact we think this year was a peak for that portion of the expense. So that's one bucket, building out the compliance program.

The second is related to the investigation and that will be whatever it will be and take as long as it needs to take. And we're all committed to independence and effectiveness as it relates to this investigation. And it will lead us wherever it leads us, we'll resolve issues as we can, and that's the reality as it relates to that piece.

As a longtime Wal-Mart associate, I can tell you I'm very proud of what we've done in recent times to become even more effective here. We're headed the right direction and with leaders like

Jay and Daniel and others we're going to be in a much better place in the future.

Jay Jorgensen: Thank you, Doug.

Doug McMillon: Thank you Jay. So that's compliance. What we'd like to do now is to talk to you about China and we've made a lot of progress in China as of late and I want to ask Scott Price to come up. Scott leads Asia. Welcome Scott.

Scott Price: Thank you Doug. I'm pleased to be talking to you about what I consider one of the most exciting markets in the world. You heard Doug talk about being best-in-class operators and I'd like to share with you how we are on our way to becoming a world class retailer in China.

We're building a strong foundation for growth, being disciplined around growth, investing and retail basics and developing strong operations and compliance across the portfolio in China. We've made great progress, key areas of operations, merchandising within EDLC --EDLP focus, talent and as Doug and Jay just talked about importantly, compliance.

But before we go into any more detail, just a reminder of the uniqueness of the opportunity that China presents ahead. By 2018, the real change in China is nominal GDP will reach almost 3,300%. That's a transformation that China's undertaken not the [maturative] phenomenal really.

China's [meteor-rise] has not however been without its challenges. The pace created market issues such as uneven infrastructure development, fragmented supply base, developing regulatory environment and scarce talent. But even with this Wal-Mart China has made money in each of the last five years and has been cash flow positive in four of those five years.

We believe that China's complex environment presents unparalleled opportunity and we believe that we are making great progress on that path to high growth.

Let me first start with people. The key to success is getting the right people with the right experience in the right roles. We put together an outstanding leadership team in China, retail experience, subject matter expertise and leadership excellence from around the world. China's leadership team lends over 300 years of retail experience with perspectives from nine different countries.

Enlarging the local talent base however, is also a core initiative. And we've made notable progress. We now have within the first two layers of the senior management team, over 30 local high potential talent. And our home and regional offices in China, we continue to develop and evaluate functions so that we can simplify the processes and optimize our work force.

So as June of 2012, we have reduced our headcount in those home and regional offices by approximately 25%. Centralization is a continuing theme as we drive more efficiency in China. To enhance our associate proposition, we are bringing best practice training from around the world and building both leadership skills and retail excellence at key stages in an associate's career.

Rolling out Wal-Mart culture, programs in the market like the Walton Institute reinforces the Wal-Mart way of working that Doug mentioned and develops local culture champions. A sustainable talent pipeline hinges on combining strong retail experience with and embrace of the Wal-Mart culture. We're developing committed champions, not just players on the field.

In China, we will follow the proven expansion of growing in concentric circles. We know our key strategic cities in China. Before we accelerate our geographic strength, we will strengthen the base. We continue to improve our current network. We embarked on a sensible and significantly model program, 45 stores this year, 60 stores next year and 70 stores the year after in hypermarkets.

But there are hypermarkets that do not need our performance benchmarks and here we've taken a firm and disciplined approach to pruning the portfolio. A batch of stores that represent approximately 2.5% of our sales volume will be closed over the next year.

Our resolve to actively manage the closure of this 20 plus stores in China, each of which has a sales density that is less than 50% of the wider portfolio to us is a one-off exercise that will enable the team to focus their efforts and their energy on the healthy core.

Each of the over 100 new hypermarkets and Sam's Club projects that are planned for the next three years will enter our pipeline following and adhering to our golden principles that talk about success and design access and layout.

We're continued to be very excited about the Sam's format, many of which you have invested. These efforts pave the way for long-term success and train our focus on anchor cities for hypermarkets, Sam's and set the stage for an accelerated growth.

Retail basics is about building a healthy core. Our management team has implemented a set of programs of discipline and continuous improvement based on the we operate for less model. Now Rollin will speak a little bit later about many of those leverage initiatives across the Wal-Mart in more detail a little bit later. So I'm getting over a cold.

We've made tremendous progress, Carol is good at this stuff. Thank you. Thank you Carol. So we've made tremendous progress establishing a fresh distribution center over the past year. This is really important.

By this time next year, every one of our stores in China will have access to both the fresh and the dry DC. Each fresh DC will have quality control and compliance oversight. Building out the fresh DC network, it is building our future in China. With the nationwide DC network, our customers will benefit from a wider assortment of goods, better on-shelf availability, better -- more consistent quality at a better price.

Before we accept goods at those fresh DCs we will test and check them against specifications. When they pass, we receive and then transport them in one of our three distribution loads, frozen, chilled or ambient. This ensures quality from the dock to the shelf.

We've also made great progress in buying for less. We took a strategic first step this year when we streamlined the merchandising organizational and consolidated 29 buying offices into eight. As a result of this, we're able to centralize our strategic partnerships, develop national programs that allow us to reduce cost so that we can help our customers save money and live better.

Throughout the year, we've rationalized our fresh supplier base by 60%, our grocery base by 30% to have fewer, bigger and better strategic relationships. For example, nationally, we have consolidated our pork vendor base down from 323 to 106 vendors in just 12 months. That's a

67% reduction. Efforts like these will help us improve the consistency of our performance across all stores and allow us to continue to invest in price for our customers.

Zhuhai, our newest store just opened a few ago, it gets both fresh and dry DC service, seven days a week. The photo here is what good looks like in fresh, this is the model for our new stores going forward.

As Doug mentioned, we're strengthening our compliance programs across the world. In china as in other markets, we are striving to be world class. We reinforced our compliance leadership at the region and market level covering areas like food safety, licenses and permits and anti-trust.

These are just some of the areas where doing the right thing is the right way and it's the only way. We redeployed and trained over a thousand of associates in China to focus on in-store compliance every day in every store. But communication is also critical to successful compliance. We have equipped our associates with tools like tablets to access policies and training videos to improve in-store handling.

Food safety measures like mobile testing labs which you see on the screen here are also being piloted. Not only do these help us ensure quality in our store but also build a reputation as a trusted retailer. We will create a culture where associates think of and treat our customers as they would a member of their family. Our early investments and compliance in doing things in the right way, we believe puts us ahead of competition. This gives us an edge as China's government and its people become far more focused upon trust.

We're building a strong foundation, reducing costs through centralization, strengthening our EDLP position and growing a healthy portfolio in China. The team is in place, the focus is on the fundamentals and the execution is happening now. There's still some way to go but we make money in China, we believe in china, we're winning in China today and we will continue to win in China with higher returns. Thank you. Doug?

Doug McMillon: Thank you Scott. So, in summary, this is a business that last year did over $135 billion in revenue, generated over $6.5 billion in operating income, generated an above industry return and has [realm] to improve. We've set some solid foundations, strengthen our position for the future so that we can deliver growth, deliver leverage and increase returns as we deliver that growth. Carol, with that we'll open it up for questions, I'd like to ask Judith, Cathy and the regionals to come up and join me.

+++q-and-a
Unidentified Company Representative: Okay Doug, as everyone is coming up, we did get a couple of questions about our capital release, I think most of you know that we do issue a press release pulling all the capital together. That release will not be out until this afternoon when Charles pulls the entire company together. So yes, we do have a press release coming but it will be out this afternoon. And with that, everyone's up here, we're going to start in this side. Scott, we'll start with you.

Scott Mushkin: Hi it's Scott Mushkin with Wolfe Research. I just want dot broadly talk about what you think about the growth algorithm is for international, now you're shutting stores and you've slowed down your store growth. So how as investors should we think of growth internationally and broadly going forward? Second part of the question is margins, usually when you shut stores, you slow growth that helps margins, I want to think of how we should think of margins as we go forward to.

Doug McMillon: Yes, let's start with growth. Think of it in four components comp sales, new stores, mergers and acquisition and then eCommerce and mobile commerce over the top. As it relates to comp store sales, the expectations that we have are higher than what we've delivered in recent times. I would not have expected this year to be in the 1% comp range, I would have expected to be closer to 3%.

Given the portfolio of markets that we have, I don’t know that it's going to be a lot higher than that. The customer environment right now is difficult, the interesting thing about today's world is how connected we all are.

The customers are buying basics, they're buying mobile phones, tablets, video games, consistent in some ways with what we're seeing in developed markets including the US That pressure near as I can tell is going to exist for a while. So that will have an impact on comp stores sales.

As it relates to new stores, I believe that we'll get back to a point where in China in particular and to some extent in Latin America, the new store count will start drifting back up. But we wanted to slow down for a little while to make sure our new store quality was right. And in case you may not remember what we've said about China, is that we took some locations and some layouts that we wish we hadn't taken in an effort to drive growth.

So the slowdown is related to quality of growth, not the market opportunity. The market opportunity is still there. So I think new stores will come back up, eCommerce and mobile commerce, and we'll talk about it more in a little bit is going to be fantastic. Acquisitions will be selective as I described earlier.

So those are the components that you can freely choose to try and model it out and when you figure out what the answer is, drop me a note.

Unidentified Company Representative: Scott you have another --

Scott Mushkin: Margins?

Doug McMillon: Oh, yes, two part answers are tough today. Margins, I think are going to be relatively stable in terms of gross margins. As we bring SG&A down, operating income margin will tic up. What's hard to call exactly is how fast we'll accelerate the eCommerce investment and how the blend will play out.

But the underlying brick and mortar core margins from an operating income percentage will tic up over time to drive the return on investment.

Unidentified Company Representative: Okay, Dan we'll go to you next.

Daniel Binder: Dan Binder with Jefferies. Earlier in your presentation you said something to effect of chipping away at the asset base in Japan and I was just wondering if you can clarify what that means exactly.

And then maybe if you could expand a little bit also on the pace of getting EDLP rolled out across many of the markets, you had that one slide that gave us a rough idea of what the challenges were but I'm just -- in terms of time frame and what you've run into in some of the markets like China and Brazil more recently.

Doug McMillon: Sure.

Daniel Binder: Thanks.

Doug McMillon: Scott, you want to take Japan?

Scott Price: Yes, so in Japan, as Doug mentioned, we've got a really successful supermarket portfolio. We also have some large malls, [living] in some multi-story hypermarkets within which we have some very successful supermarkets as well. What we're trying to figure out is how to do the -- what to do with the rest of that portfolio.

So chipping away with the assets could be multiple steps in that process but maintaining that supermarket focus moving forward, we believe will allow us to help bring Japan's ROI up which is the objective of that slide.

Doug McMillon: As it relates to EDLP, Dan, each market's in a unique position. They'll all move in time but they won't all move at the same pace. And I don't think it's a situation where 12 months from now, we'll stand up here and tell you we're done. I think it's going to take longer than that especially in some markets.

One of the things that I've learned going through this experience is how the sequence matters. And on the chart that we put up, we had three blue boxes, the lowest cost structure, being known for having low prices and then using EDLP as a real advantage to give you a more cost out, so you can drive the basket.

In Brazil, what happened is we took high-low as far as we could go. We started having P&L pressure and we converted the retail side of EDLP out of sequence. I'm not sure we really had a choice because we had taken Hi-Lo as far as it could go and we're already having turbulence in our P&L.

So what we did was negotiate with suppliers over time to get the retail price lower and we created a basket spread. Rough numbers, Enrique, we're sitting, I think, at about 7% in Brazil right. But what we didn't get done is to get the cost structure down to deliver the returns. And the integration work and the other things we're doing in Brazil will help us with that over time and that too has taken longer than I thought it was going to take.

Brazil is a very promotional environment and you may have read recently, one of the stories out of Wall Street Journal about the consumer credit bubble in Brazil. It doesn't make sense to buy dry grocery items on installments but people do it. At some point that's got to get resolved and I think EDLP will be tremendous advantage in that environment. Marketing communication could be better.

I mean, China, they have taken into account learning’s from Brazil, learning’s from Japan, Scott, and we formulated a plan and we're starting to move towards more of an EDLP position. I think we're going to manage that in an appropriate way at an appropriate speed. And again, I think it'll ultimately be an advantage. But we've got to manage all the components as we go through it. So that's an answer specifically related to China and Brazil. But we can talk about other markets if you want to.

Enrique, anything you want to add on Brazil?

Enrique Ostale: Yes. Good morning. The EDLP journey is a long term journey. Business is a trust, if you don't visit from one day to another, so it's consistency and focus. And I think in Brazil we are seeing encouraging numbers in some of the food and consumables. Actually, what Doug presented in the screen, in terms of gaining market share through the Nielsen figures, most of that gain comes from the food and consumable business.

We are most struggling in the general merchandise business. You know that usually is a more Hi-Lo promotional business. But also we're encouraged in the last few weeks with the numbers we are seeing in the [GM]. So we are very confident that we are building a stronger foundation in terms of our price perception.

Doug McMillon: Dave, you've done a lot of work on EDLP, anything you want to add?

Dave Cheesewright: Just to add that I think one thing that's different versus maybe a couple of years ago, as well as understanding the pathway, we now have a very robust definition as you move through from immature to mature. Every country now fills in twice a year at self-diagnosis of wherever they are. And we're now able to play back to countries individual, customized, prioritized plans about what the next step they should be work on and then connect them with experts around the globe that can help them on it.

And the other thing which potentially has a big benefit for us is the interaction with [Nail's] business. And some of the technologies that are emerging from there in terms of how you can look at pricing and respond to it and make sure to invest in the right place, I think are very exciting with their application to core retail businesses.

Doug McMillon: Well, the reason we're so committed to it, I guess, includes not only do customers want to save money, but they want to save time. And then it also helps us take cost out. So in case there are people that are new to this subject, reducing the number of marked downs that are driven by Hi-Lo, reducing the advertising expense that you have, reducing the labor that's required to set ads and take them down, all of those things figure in to a lower cost structure. So all the pieces have to come together as we go down this path.

Carol Schumacher: Doug, we're going to over to this side to John kind of in the middle.

John Zolidis: Hi, John Zolidis, Buckingham Research. On these stores that you're closing or divesting, it's about 6 million square feet as you mentioned. Are those stores that were primarily built by Wal-Mart or were they acquired somewhere along the line? So can you talk about that a little bit?

Would you say that you grew too fast and that's how you ended up with these locations? Is that a fair characterization or is there some other way that you arrived at this state? And then, can you just let us know if you're continuing to see 100 basis points of ROI improvement over the next five years or by, I guess, FY '17.

Doug McMillon: Yes. As it relates to the first question, it's a blend of both. I mean, in the case of China, there's a blend of Wal-Mart Stores and Trust Mart Stores that are in those closures.

The commonalities that exist are related to location and layout and then maybe secondarily to logistic support. Concentric circles matter. Where we have low market shares, we're not as profitable. You may remember that pre WTO in China, pre-2003, we were only allowed to have one store basically per city. So we ended up spreading out.

Post-WTO, we started supporting those markets as hubs. We should have I think gone back and thought about logistics and done an even more deliberate effort to create concentric circles and cost leverage.

In the case of Brazil, it's a mixture of stores that we built and stores that we acquired. The Maxi units, in particular, continue to be a soft spot for us in recent times as Enrique described it, been getting a little bit better. One of the things we learned from Maxi is that Brazil really is a regional country, big country. And then as it relates to the regions, we took a format that worked well in one region, expanded it to another one in numbers that were too large, grew too fast and didn't figure out that that region really mattered and it was a different situation. And we've struggled outside of its home region as it relates to that format in particular.

ROI, relative to our plan, last year, we talked about 100 basis points. Given the rate of growth, our improvement in ROI has moderated a little bit to that 100 basis point number. But the reason we didn't call out a number today is also partially driven by the fact that as we improve our ROI through expense leverage, we want to have some flexibility to invest back in eCommerce and mobile commerce. And the visibility to how those investments will drive comp store sales and blend this out is something that we don't have crystal clear, three and five years out.

So we still will see double digit basis points improvement, closer to 100 than to zero but I'm hesitant to give you an exact number because I'd like to have the flexibility, we would like to have the flexibility to invest back.

John Zolidis: Thank you.

Carol Schumacher: We'll go to Matt next.

Matt Nemer: Thanks. Matt Nemer with Wells Fargo. I have a question on the M&A pipeline. I'm wondering if you can discuss opportunities to expand the international footprint with more of a capital light format, online only, online first, more Yihaodians, and maybe less bricks and mortar.

Doug McMillon: Obviously, I can't speak to specifics. I think what you've seen from us and Neil, I'm sure, will elaborate on it more is that we're building capabilities with the acquisitions that we've made. And we wouldn't rule out entering new markets in a much more capital-light environment.

Now, having said that, I believe stores still have a role to play. And figuring out what size those stores and how they're configured and how they come together in a way that serve the customer, is work that we're progressing on. It's not completely clear how that blend or work out in the international markets around the world.

The U.K. gives us a place to go and look and learn a lot given how far along that particular market is. But the concept of what you're describing and the way we invest is consistent with the way we're thinking about it.

Carol Schumacher: Okay. Chris next.

Chris Horvers: Thanks. Chris Horvers, JP Morgan. Following up on the real estate question. Did lease renewals have any sort of gating impact on the number of stores that you could close? In other words, did you want to close more and suggest that there could be more in the future? And then, are there other markets that you would say that you don't have the right density around your supply chain or the right real estate locations are two mid-formats where you would want to go out and look at sort of adjusting the foundation and looking to build from there?

Doug McMillon: Chris, good question. I should have mentioned it. We should have talked about the fact that we've been closing stores all along. And we managed that portfolio of stores in an ongoing way. But this particular instance, because it's around 50 stores, a little more than 50 stores between the two markets and split evenly, it was appropriate for us to be more transparent about that.

We're closing the stores we want to close in China and Brazil. We will continue to close stores here and there and if there are any that bunch up in a way that it's appropriate for us to be more clear about the amounts, we'll do so. But we're not holding back on additional actions that we need to take. This is the action we need to take right now.

Judith, anything you want to add to that?

Judith McKenna: No, just to say that lease renewals have no specific part to play within in these ones. So occasionally, it does happen where there's a lease renewal but it's not that common for us.

Chris Horvers: And then just a follow-up on Brazil. Last year, you talked about it being a three-year EDLP journey. It seems like maybe it's going to last a little bit longer there. I guess, stepping back, why is it being pushed out and is there a point where you say, well, maybe even go more foundational and say, maybe we don't have the right strategy in place, maybe we have too many different formats. Maybe what we're trying to put in to Brazil is not eventually going to be successful.

Enrique Ostale: I think the EDLP journey is going well. I just gave you some numbers in terms of mainly in the food and the consumable. So we are pleased with what we're seeing and we are pleased with trust we are building.

Maybe what we need more focus on, where we are focusing now is now we're EDLC strategy that supports our EDLP, where Doug mentioned in his presentation that we still have a lot of things to do and that's why we are very focusing first upon strengthening the team there. And you have seen some changes we have done in the past few weeks and also we continue to very much committed to that.

We are also improving our short-term business and performance and that is mainly with a special focus in Maxi, Stack (inaudible) and also our general merchandise business and the [inaudible]. And last, continue to build a stronger foundation for the future, and that is bringing our cost structure down. It has to do with the EDLP, the EDLC and also our integration of efforts.

I think the closure of the stores is just -- it's very much aligned to bringing our cost structure down to have an EDLC strategy that supports our EDLP. So finally, Chris, we're very pleased about what we see in terms of our ED appeal strategy.

Carol Schumacher: We'll go to Greg next.

Greg Melich: Thanks. Maybe to twist, to change gears a little bit, the U.K., Canada and Mexico, three really big important markets. You mentioned interesting things about all of them. So could you just sort of quickly update on the competitive environment in each of those markets and particularly in Canada, not just because the target entry but what [Lob laws] is doing in Canadian tire and people are doing REITTs and buying shoppers, (inaudible) martin. Specifically, in Canada, how you see the competitive environment but also touching U.K. and Mexico.

Doug McMillon: Dave, why don't you take the U.K. and Canada first and then Enrique can follow up with Mexico.

Dave Cheesewright: Sure. Let's start with Canada first. So yes, as you say, an awful lot going on in Canada over the last couple of years. I think our focus in the same as we talked to you at the analyst meeting out there. And in a year or so ago, we're focused on being the best Wal-Mart we can be rather than responding too much to what competitors do.

Lots of the times, the competitors coming in is really helping us become a better business. So we target. We spend a lot of time looking at our apparel and home ranges, put a lot of innovation, a lot of warning is incoming. And those two categories, in particular, in Canada, we are very, very pleased with the progress on those areas. Market share gains have remained very, very consistent throughout the entry of new players. So we're pretty happy with the performance there at the moment.

The U.K. is a very tough market. And what you're seeing is a relatively benign performance from the traditional big four. I like to say, we're just about holding our own there at the moment so we're in the pack. I think the really encouraging thing about the U.K., and Doug touched on this before is that they've take a very clean approach in terms of what they're going to invest money on.

So you'll see in the U.K. market an extraordinary amount of vouchering going on at the moment from Tesco, [Saint Brees] and Morrison's. Almost running continuously now. I think it makes it very hard for customers to understand exactly what value is out there. And we've chosen to stay of that this year completely. And what we're seeing is some very significant improvements in our underlying price positions. And I believe that pose in a very, very, strong position in the long term.

So, it's tough going for team there at the moment but I think they’re laying the foundation for some strong growth in the future.

Enrique Ostale: In the case of Mexico, we must admit that in the last few years, our competitors, our direct competitors the -- the struggle a little bit or commercial Mexicana with their, financial troubles. So Diana, the acquisition of the Chigante and [inaudible] with the acquisition of the cart food stores seen mainly in Mexico, City.

So but whet we've seen now, they are being more focused and more consistent with their performance. So the competitive pressure is increasing. That's why we need to even improve our business more than what we have done in the past because also, as you know, we are facing some challenging economic environment now in Mexico. And that's why the Mexico team is very much focused on enhancing their price advantage, also improving their productivity and execution, and also leverage in the relationship with suppliers.

And I think we are very pleased what we have seen in the last few weeks and we are very encouraged that we would be able to continue to maintain our difference with our competitors, even in this environment, which is the higher competitive pressure.

Carol Schumacher: Jason?

Jason Derise: Hi, it's Jason Derise, UBS, again. Just taking a longer term view of where you've been from an international, it kind of went from it's going to be the Wal-Mart way to it's just going to be local. And now it's back to their share processes.

So, I guess I wanted to ask about that and how comfortable you are that we're not going too far than the other direction again? And then secondly, just to put in context what the potential savings are from global practice in the international markets are, maybe relative to what you give today in terms of the store closures? Which do you think will be larger, maybe by how much?

Doug McMillon: It is interesting to think back through the journey that we've been on in international. And I think it makes sense that when you start an international business, you only know what you know. So you take the Wal-Mart way and you start to install it in places. And it didn't work everywhere, as you know.

So then we went to more autonomy and now, we're back to, if we're going to get the benefits of being a global business, there are areas where we need to work together and be common. And we need recognize that we know a lot about retail. And the things that we really believe in, EDLP would be one of them, will work everywhere and are working where we're implementing them well.

So I think the key and what we've learned going through this experience is that we have to be very selective about where we work together and where we don't. Customers are local. They shop one store at a time, one Web site at a time, one mobile app at a time, one transaction at a time. So we have to make sure that our products are relevant and that our decisions about what we carry and how we go to market, think of marketing are local.

But on operational processes, systems and especially rolling to backend and other areas like that, it makes total sense to work together to get the cost structure down so that you can do things that a local competitor might not be able to do by getting the advantages of global scale. And the art isn't how you mix that. And this team has spend a lot of time, along with our country presidents over the last few years, debating, discussing, working through this together to a point where we're confident that we're clear and have made the right choices about where to work together and where to leave everyone alone.

I mean, as it relates the second part of your question, I'm not sure I tracked exactly what you were saying. The leverage of process will have much more upside relative to our operating income percentage and our return on investment than closing around 50 stores out of 6,288.

Jason Derise: Could you share a magnitude of that? I mean, I guess it was roughly 50 basis points of benefit in next year's financials that you get for closing the stores. I mean, we're talking two x, three x, just to help us understand why we should be comfortable that SG&A is going to come down enough while you're managing the business.

Doug McMillon: Cathy, you can chime in if you want to. I think the first thing I would describe to you is that sales matter a lot. And while we're focused on expenses and we're committed to taking dollars out and we have been taking dollars out and we know how important leverage is to you, it's more important to us. That the way to drive expenses as a percent of total down includes driving sales up and being good merchants and investing in eCommerce.

So when we're having conversations about the markets that we're in today, we're leading with growth and what do we do to become even better merchants to drive sales and at the same time take out all unnecessary costs, whether they'd be home office related or at store level.

And when we put that chart up that showed our return on investment by market, one of the things that I would say relative to how much upside you should put in your model that makes it particularly hard is that as we take those markets where we said we have improvement and we improved, we would like to have the flexibility to invest to some extent back in Mexico and Canada to drive growth and manage that portfolio.

So some of the discretion that we have as managers kicks in here and it's why I'm hesitant to say we know exactly how many basis points it's going to be because that's contingent on the sales forecast and related to how much we put back into some of the other markets to bring the total up.

And what we're doing, I think it's apparent from our conversation today is we're leaning into growth to an extent, thinking about expenses and leverage to another to manage both of those pieces as we grow. We're not only looking at sales and we're not only looking at return. We have to pull these levers as we go to manage the total up.

Unidentified Company Representative: Yes. So I would only add, when I think about the leverage benefits we're going to get, some of it will go back into the business. So you wouldn't model it all going to the bottom line anyway. That's not prudent so we can invest back in price where it's our assumptions that are going to help us with those wage inflations that Doug was talking about.

They will have an advantage over some of our competitors. So that's where all of the leverage efforts we have over the next several years where many of them are expected to go back into the business.

Doug McMillon: It is clear that we upside as we're implementing these processes back into markets and the units per labor hour metric was a good way for us to show that to you. But we also don't know with complete clarity what wage inflation is going to look like in some of the markets as we go forward. And given the labor environments that we're in internationally, we have less flexibility than we do in some of our developed markets to make adjustments during the week. We're managing things on a monthly basis or contractually. And so that slows down some of our flexibility.

And if you look at the first half of the year, that's one of the reasons why it took us longer to get expenses leveraged in the lower sales environment because we have employment practices and other things that prohibit us from moving faster.

So we really have to have sustainable process improvement to take cost out in a way that will last, insure compliance, improve productivity and (inaudible) and make the jobs even better as we make those changes. So there are so many variables in that equation, it's hard to tell you it's x number of basis points.

Jason Derise: That's helpful though. Thank you.

Carol Schumacher: Faye?

Faye Landes: Hi, Faye Landes. It's Cowen and Company. Two things; first of all, I just want to clarify this. The slide that you have where we were just sort of discussing, the operating income benefit from Brazil and China, so is what you're saying that those are not numbers that are necessarily going to -- the 20 and 30 bips are not going to necessarily drop. We're not going to see a 50-bip increase from that necessarily?

Doug McMillon: Yes. Do you want to take that one?

Judith McKenna: I was just going to say there for the market. They're the improvements for the market.

Faye Landes: Okay, that's for the markets. Yes, that was going to be my next question.

Doug McMillon: Yes. Sorry, Faye, just one quick add-on there. The percentage of sales, I meant to mention it, in China and Brazil related to the store closures would be in the 2% to 3% range for each market. So next year, as you model it, 2% to 3% less growth in those markets in revenue but a benefit of the 20 and 30 basis points in FY '15 just for those two markets, if you only took those closures and evaluate them quantitatively.

Faye Landes: Okay. Thank you. Now, here's the real question. Unfortunately, soft traffic is going to affect life for you in a lot of the markets that you've been competing in. And we talked about it as being to some markets to extent secular trip consolidation as markets become more Westernized et cetera. That hasn't really come up much in the presentations we just heard in international. Can you talk about how you think about it, how we should think about it and if this is an ongoing issue, how that affects how you plan your business and what you do in the stores, et cetera.

Doug McMillon: I think it's an important metric. It's just not the only metric. And the truth is there's so much variance down market and as you said, in some cases, it is secular. I mean, why has people in China has more automobiles and more refrigeration, there is a change there. But that's not the whole story.

Let's take Brazil for example. In our supercenters, what we've seen as we implemented EDLP is that cherry picking has decreased traffic. So in the past, people might have been coming in for a Hi-Lo ad and that drive trips and as we've changed our tactics, that has an impact. Convenient shopping transactions that are lower in dollar ranges, less than $20 in Brazil are where we're seeing the decline. Bigger baskets, we're seeing traffic increases.

In Japan, Scott, after 5 pm, we've seen traffic pressure. We look pretty good during the day but the [Bento Box] business in the evening going home is more of a pressure point. So the traffic answer is different depending on the market and the format.

So I'm concerned about it. I have some relief in terms of the basket growth that we're seeing and it makes sense as we grow EDLP. Over time through the combination of mobile commerce, eCommerce, getting the right formats, we would like to have improved traffic. I'm not denying that at all, just to ask you to look at the total picture as you evaluate the business.

And as we can, giving you more visibility into what's happening by market, we'll try to do through our earnings release. I know you're all trying to evaluate it.

Faye Landes: So if you saw, if you had a crystal ball that showed you this traffic transfer were going to continue let's say three to five years, like this is a fact of life, would you be doing anything differently if you know for sure that that's the way things were going?

Doug McMillon: Yes. I think format would come into play. And today, we have roughly a third of our stores, again, 6,288 stores in international, a third of them are smaller than 25,000 square feet. And if you look at what's happening with global trends around the world, more single-parent households, more women working, time pressure is increasingly an issue in addition to money.

So what we've got to do through our combination of investments including eCommerce and mobile commerce is to be the most convenient retailer to do business with regardless of how they want to interact on that trip because customers will be different depending on whether it's a weekday or a weekend and what they need at the moment, and then have a logistics network that gives us the ability to be the lowest cost provider regardless of the path they choose to receive delivery.

Judith put up a chart that shows you can pick it up in the store or you can do click and collect, we can deliver it to your home. There's a continuum there that will continue to test and pilot and when we see the right customer response invest in so that on the logistic side we get it right, and then build out the access points on the other side so they come together in the right way.

So will we change format portfolio mix? I think we already are and we'll continue to do that as a result of it. And our traffic does vary depending on whether it's a smaller store or a bigger store. But I don't want you to conclude that supercenters for example are yesterday because the truth is they're not in some spots. And the advantage that we have at Wal-Mart is we can evaluate where do we put a supercenter.

Let's think of a market in China for example based on how people are shopping. Not the largest supercenter in the world but a supercenter that's right sized make sense in China. But will that make sense in Japan? No. That's a different format choice, I should say. And that's what we're managing.

Carol Schumacher: Doug, our last question is on your right from Patrick.

Patrick McKeever: Thanks. Patrick Mckeever with MKM Partners. Mass Mart, you didn't talk too much about it, mentioned I guess in one of the slides or shown in one of the slides but maybe a quick progress report on Mass Mart.

I mean, that market has also had a fair bit of governmental obstacles and union opposition and what not, certainly not to the extent that you are seeing in India. But just a progress report on Mass Mart and then just updated thoughts on the opportunity for growth in Africa.

David Cheesewright: So after two years of being in that market and working with the Mass Mart business, I'm confident that we'll be extremely glad in the long term that we're in the continent of Africa and the growth prospects there in the long term are as solid as they have ever been. And I think we brought a great business with a very strong leadership and a model that's very well equipped to handle to complexities that you'll need to handle and operate across Africa.

We got some outstanding assets whether it's the physical stores or the brands that we have over there which gives a lot of flexibility to go to market in a number of different guises. It's a very tough economy. It's obviously dominated by South Africa, that's where the bulk of the business is at the moment. And economic conditions there are very tough as you see from the results from pretty much everyone. We experienced those just like everybody else. But our team are very focused, I think at handling those and building for the future.

I think some of the investments we've made over the last year particularly in owning more of our assets and in the central distribution network that's pretty well built out now are very, very positive.

A couple of other things that called out. Their way of working has been very interesting so they're very good at working across the different formats that they own. And we've taken a lot of those learning's now, apply those across the region. So some of the progress we're making with Rollins team around to operate for us across the region and setting up virtual teams is a very low-cost and very effective way of sharing best practice which we've learned from them. So we're seeing benefits coming back from the Mass Mart team.

So yes, I think it'll be a good investment in the long term and we're very pleased with the progress. We pretty much finished all of the integration work now, so the basic foundations are in place. And you will now start to see more and more benefit coming from Wal-Mart whether it'd be the work that Rick Webb and the team are doing and helping them get the most efficiency out of their network that they've built or whether it'd be the sourcing alignment that we've got.

I think 60% of all the Vips trips now are aligned with the US and the U.K. team. So they're starting to see some big benefits and purchase leverage. So yes, I think it will be a good continent to be on in the long term.

Carol Schumacher: Dave, in your wrap up, Dave, you gave us a good trigger for one of our kick-off presentations this afternoon. We will be, as Dave mentioned, hearing from Rollin about sourcing and some of the other benefits.

So with that, this stops our Webcast for a lunch break. For those of you who are here in Bentonville, lunch is going to be out of those doors --