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PRESENTATION

Budd Bugatch - *Raymond James Financial, Inc. - Analyst*

Good morning. Welcome to the Walmart Stores presentation. I am Budd Bugatch with Raymond James. With us today we have got Bill Simon, President and CEO of Walmart US, and Carol Schumacher, Vice President Of Investor Relations. Without any further ado, Bill, the floor is yours.

Bill Simon - *Wal-Mart Stores, Inc. - President & CEO, Walmart US*

Thank you, Budd; appreciate it. Thank you all for having me. It is great to be here today in warm Orlando and very, very happy to have escaped the freezing weather and ice that has chased us out of Bentonville.

We will be making forward-looking statements so please refer to the website for additional information. Hopefully this will be the dullest portion of the presentation and not one of the highlights, so let's move on.

I feel compelled to talk about what happened last year, start with a bit of an overview, but I don't want to dwell on it very long for a lot of reasons, not the least of which is hopefully you will all have poured over the results. Clearly, we could have done better in sales, comp sales, particularly, though total top-line in the US was around 2% for the year. Some external headwinds and we talked about those -- snap weather was a real challenge all the way through the fourth quarter into this week, in fact.

Some internal issues. We started the year out with some challenges around processes that led to staffing and in-stock challenges that we caught up with about mid year. But nonetheless, always an opportunity to get better. And we're focused on that. We were able to learn a lot and grow a lot about our current fleet. And it isn't all bad news. We're working on improving -- I gave this number out at our analysts' conference in October. And it still holds true today.

About 10%, our bottom 10% of our fleet have an impact of between 90 to 100 basis points on the whole year. So if we just had the top 90% and not the bottom 10%, we would have been about 100 basis points in comp than we recorded. So we're working on that bottom 10%, making improvements in that area. And we saw improvements in the fourth quarter in those stores and expect that to continue.

Several bright spots: we grew market share according to NPD and Nielsen in every category that we measure despite flattish comps. And we had some real highlights in our small stores, Neighborhood Markets and Express; in our eCommerce business; in our fresh areas; and in our home and apparel businesses. So not all bad, lots of opportunity to get better and we're going to be working on that.

I showed this chart in October and it is something I use to remind myself and others that we are a Company of innovation -- innovation in retail; started when Sam started with 5 and 10 and moved to discount; broke the model and rebuilt it with Supercenters; replacing the discount stores. We launched two formats, Neighborhood Markets and an eCommerce business around 1999. And now we are on, and excited to be on the edge of a new transformation in retail that we believe is going to be a new inflection point.

As we move forward we expect the Supercenter to remain vital. This is a powerful beast in profitability and in sales and it is healthy. Has its opportunity to get better; clearly, we talked about that and we're working on that, but about 3200 units, 80% of the fleet. And they really perform well, particularly in this stock-up occasion that we value to be about \$585 billion.



We have the ability to flex prototypes all the way up to 200,000 all the way down to 70,000 square feet. And we're doing a really good job with the stock-up trip.

Where we have been challenged is in the fill-in trip, the in-between shopping trip, mid-week shopping trip. And this growth in quick trips, about \$415 billion in sales, has been interrupted -- our growth, Supercenter growth in this area, has been interrupted by a rapid growth in smaller stores -- dollar, drug, hard discounters and others. Our numbers show about 11,000 in the last three years; 16,000 new doors opened since 2005. We now have an opportunity with Neighborhood Markets immediately and Express in the medium to longer term to really, really make an impact in this area.

And I'd like to spend some time today that I have with you talking in a little more detail about these two formats that collectively we have been calling small formats but individually are really just Walmart stores -- little bitty Supercenters, medium-sized Supercenters, all the way up to our large Supercenter fleet.

Neighborhood Markets for us in the fiscal year that we just finished grew 40%. About 4 comp for the year; 5 comp in the fourth quarter. I'm not sure I know any other that format that grew at 40% and had comps like this. Real pleased. This fiscal year we project to do over \$8 billion in sales in Neighborhood Markets.

Interestingly enough, when you compare sales per square foot of these stores to the major leading grocery chains, we top the major grocery chains in sales per square foot.

Also interesting stat for you is that every fleet year of Neighborhood Markets that we have from the first year right on through the last year that are on comp had positive comps last year. So this isn't being driven by the recency of the build, the comp sales; every year group of the fleet was positive comps.

Customers love the format. It is Walmart prices with easy access. And we're describing this store as a hybrid store. And I'll get into more about that in a minute. It is designed to not only compete in the grocery space but across a much broader space.

Data, internal data shows that traceable tender and other sales sources show us that we are capturing new sales dollars, new trips, and new customers when we put these stores in. Interestingly enough, you can put a Neighborhood Market in close proximity to a Supercenter and we see an additional \$300 a year from customer spend based on traceable tender. So this is additive to our business -- because they are different trips, because they are shopped differently. A stock-up trip at the Supercenter on the weekend; fill-in trip at the Neighborhood Market during the week.

We also have had great success in new markets and with new customers who are now accessing our brand in a more convenient way right in their neighborhood.

As I said, the performance has been really good and built throughout the year -- very solid in traffic gains; great pharmacy business; our produce has been doing very, very well. Every metric that we have been looking at is good in these stores. So we're very pleased with the performance.

We had previously given guidance that we would be at \$10 billion by fiscal 2016. I think we're going to easily meet or exceed that, though I am not changing that.

Want to talk to you about the hybrid nature of the store. And this is really what is exciting about it. It plays across a wide spectrum. They will all be enabled with fresh food, fuel, and pharmacy as we go forward. Those are the decisions that we have been made. Very effective in urban and suburban locations for us. And they compete against a wide -- a variety of formats. You can see the little chart across the bottom -- dollar, grocery, drug, and eCommerce. We have Walmart prices; we have gas for the trip; pharmacy. And in each and every case, so it's a pick dollar as an example. They've got prices but we have got fuel and pharmacy and fresh and connectivity to our Walmart.com eCommerce network, which we believe is a competitive advantage. So just sort of think about it, you can order from Walmart.com and pick up what you like when you stop and get gas at one of these locations. Very differentiated.



We see this as a great, great opportunity going forward. This format has a long runway in front of it. And you will see us -- and you have heard us more recently talk about the acceleration in this format.

Let me shift quickly to where we are on Walmart Express, another real exciting project that we have underway. Walmart Express is in stages of learning for us. When we opened the first group of them in our fiscal 2013 it was -- if you build it, will they come? Will there be top-line? What sort of traffic can you generate and what will sales be?

Answer -- yes, they will. Sales have exceeded what we had projected and we're very, very pleased with the top line.

During that timeframe we also tested a few other things: urban and rural. We tested with gas, without gas; with pharmacy, without pharmacy. We have the best results in rural and light suburban with pharmacy and with gas. And that is exciting for us. A very nice model there.

The next step for us was to understand whether -- we can build it and they will come. The second question is okay, can you make any money off of it.

So we built a dense group of them in the eastern part of North Carolina. And the answer is yes, we can engineer the supply chain and operations to the point where we like the profitability. So we're pleased with that. And by the way, in the second year they did really nice in comp sales.

The project we are headed for now is we have a paper model of what we think these will be nationally and it is significant. We now want to go to markets and determine whether -- and validate that paper model of how many stores this will be by learning how they interact and intersect in high-share markets, low-share markets; high-competitive density, low-competitive density; and various ethnic-skewed markets. So that we can then take the paper model, validate it with the real-world learning and determine where and how fast to go forward with this. We're very excited about the format, particularly the top line and we believe we can continue to progress on the bottom line.

And this is, again, this is a full-capability store, has fuel and pharmacy and fresh and 10,000 SKUs right in your neighborhood, right in your ZIP code. And fundamentally different and differentiated from the other formats that would compete in that space because of the breadth of the offering and the connectivity that we have through Walmart.com. That we believe we can build and are building into a competitive advantage against the entire spectrum of retail from pure physical to pure digital. That intersection is a space that we believe is very strong for us.

Similar chart to what you would have seen in Neighborhood Markets because we believe this too is a hybrid store. Again, competes well against all of the relative set of retail competitors that they would have with a bit of a rural skew because we can reach customers one more concentric ring out that we weren't otherwise able to do.

The connectivity that we are working at online is truly fascinating. It is work that we have from learnings at ASDA, in the market in the UK where we operate. And we are bringing this capability to the US. We have started as many of you would have heard in Denver, and I will cover that later with the grocery pickup opportunity at our Supercenters. Later this year we will be evolving into building the capabilities and opening three markets where we have a fully tethered distribution system and a fully tethered retail operation.

And I will just take a moment to explain what that is. A small store connected to our Walmart network is a bigger -- which means the distribution system, the commerce system and Supercenter network. So if you are on your way home today from wherever you are, you can -- and you know you need to stop for gas, you can place your grocery order to be picked up when you get your gas. And if you want a shovel to shovel your way out of the driveway when you get home, because it's not this warm everywhere in the country, you can also order that and it will be available for you. We can do that -- by May we will have one market up; later in the year we will have two other markets up. And that's a very, very exciting proposition for us.

We are testing and building new muscles in our real estate group. As you build small stores fast and transition from Supercenters where we will still build some Supercenters next year, though a large percentage of those will be relocations and expansions.



But the muscle that we need to build in real estate -- lower cost CapEx, speed to market, shortened construction time, has allowed us to accelerate the build out of some of these stores. They have done a terrific job in that group.

So when we met in October at the analyst conference we talked about -- I was asked the question, would you accelerate this or can you accelerate it.

And we said, we were looking at it all the time and we will if we can. We saw that opportunity and we added as you would have heard at our earnings release, around our earnings release, a doubling of the planned growth. So we're going to add about 300 or so small stores next year that consist of about 200 Neighborhood Markets and about 100 more Express stores. The Neighborhood Markets are a pull forward of an established pipeline that was scheduled to be built next year. And the Express stores are much more easy to site, and you will see those open up in that pattern that I described to you earlier in density and modeling of what would a national rollout look like.

It is exciting. We think that we have come a long, long way with these two formats over the last three years. We're excited about their opportunity. We believe they represent tremendous growth potential for the Company in a retail space that is defined on one end by digital and on the other end by pure physical. These provide the ability to compete as I have talked, across a wide array of competitors and many, many different spaces.

No need to build a drugstore. We have these. No need to build a dollar store. We have these. No need to build a grocery store. We have these.

And as we were describing it, they are all Walmarts. You can call them Express or you can call them little Supercenters. 10,000 items are available immediately. The rest of the assortment is available through our logistics and digital network. If you want in an hour, we can get it to you. If you want it in a day, we hope to be able to get it to you the way you want it, where you want it.

Neighborhood Markets have about 25,000 SKUs; Supercenters more. But all connected -- one Walmart from the smallest store to the digital realm. It's a very exciting, very exciting time for us. As I said, another inflection point opportunity in our business.

In order to deliver this we need to continue to build skills and muscles and strength. You would have heard us talk a lot about each one of these things -- or some of them, maybe not a lot about all of them. But these are the components that have gone into and will go into how we go forward with these small formats and opportunities for us to continue to learn. Building each and every one of these things potentially as modules that could be dropped into large stores or in different locations or in new places or maybe just totally virtually scan and go -- mobile self checkout. You have heard us talk about that. That is beyond the test phases and the beta phases and in implementation. We have lockers that we use effectively in the UK and we rolled them out in the DC metro market. Customer response has been very good.

Grocery delivery and pickup is something we have the capability to do. We have had it at our business in the UK for a long time. And we believe that the US market -- when the US market is ready for that, we will be able to roll that out at a rapid pace.

We're really excited about a drive-through format. You saw us launch it attached to a Supercenter in Denver. We're going to try some other interesting things with that -- standalone, attached to smaller stores, lots of opportunities for us to look at that.

Walmart on campus, we have a few of these -- interesting, wonderful little stores that give us a lot of learning about how young people shop and how they carry their habits forward when they leave the store. And convenience is an emerging area that interests us as well.

So a lot of exciting things all coming together around one customer, one brand. All the way from the one end of the physical realm to the other end on the digital realm and our opportunity to serve customers the way they want to be served; where they want to be served; and most importantly, when they want to be served all at the Walmart price.

One last little bit here and I feel compelled -- because I won't go anywhere these days without talking about the transformation that is going on in the US economy today around the opportunity that we have as a country to reestablish a manufacturing base here in the US. For us, this isn't a program although it has manifested itself that way. This is real. It is economic. It is math. It is working. And almost a generational shift because of the land, labor, transportation and energy components that exist today around the world.



There is an opportunity for us to rebuild a manufacturing sector -- not in every category, not in every place, but right now we are working on 140 active projects. And we're not doing this as I said, as a P.R. program. If you can meet our standards and our cost requirements, and make money you can do it in the US. And we are seeing suppliers come to us. The emergence of the middle class in China and in Asia in general has increased the demand over there for locally made products. This isn't take a factory from one place and close it down and move it to another place. The next factory should be built closest to the point of consumption. And if you think about that, that is where we are. We've had great success in certain categories.

The best example I can give you because it was the first one we announced was a towel manufacturer -- 1888 Mills. We used them at one of our conferences -- at our first conference. They were one of the early movers in this.

And so a year later, here we are. We've now got that product in about 1200 stores. We were able to get it to the customer fully loaded all the way for the same cost and the sales of the product are up 24% over the item it replaced. So customers want it. They don't need to pay more for it. Made in the US is viable and capable and we're really excited about it.

Let me end the presentation before I take some questions with one of the best television commercials I have seen in my business career. We aired these -- the first one on the Olympics. And it is for me, it is stirring. And I think it describes the problem. The more people we can get that are involved in this effort in industry and analysts and in our fellow retailers, the better off we are going to be as a country.

And let's see if we can run that.

(Playing video)

Thank you.

Budd Bugatch - *Raymond James Financial, Inc. - Analyst*

We do have about 10 minutes for questions. And so let's take them from the audience.

QUESTIONS AND ANSWERS

Unidentified Audience Member

So I am curious about the Express format. The thought of it being more of a rural market, you obviously have a disproportionate share in rural market. That is where you dominate. So I would have thought that the opportunity would have been more -- you can get real estate in Express format much easier than city centers where your share is significantly lower. So if you can just help me bridge those two.

Bill Simon - *Wal-Mart Stores, Inc. - President & CEO, Walmart US*

I am not saying that it is not an urban play. The Neighborhood Market is really effective in that space because of the extra square footage. And so we have been looking for opportunities to build that format out in those spaces before you get into the real, real small stores.

In those rural markets as we have described them for Express, the model when the Supercenters were built -- and this is 10 miles from a Supercenter, would have been no retail between here and there, right? Or maybe it is some local retail. But in the intervening period there has been dollar and drug intercepting that trip. So the rural markets are a great example of what I was trying to describe.

We have no problem with the stock-up trip in the rural market. Weekends and evenings are really terrific. The basket sizes are up. Our market share is pretty strong. The mid-week fill-in trip for a 15-mile drive for a gallon of milk has now been intercepted by our competitors' build of some of these small stores.

And so we thought, well, let's go build a small store that takes that back. We didn't really want to do that. What we wanted to be able to do was provide the same experience that you get at a big store in a small store closer to the customer.

So now, I just view them -- you can call them Express. We have internally debated about what we call them. They are mini-digital Supercenters -- virtual Supercenters. The fuel, food, pharmacy is available immediately along with 10,000 fast-moving SKUs. Everything else we sell is available digitally. So it is the full Supercenter offering. In fact, it is a full online offering with a portion available immediately; a portion available in an hour and one day and a portion available in a day.

And we are viewing Neighborhood Markets similarly. So you understand the trade area, build the right size box; keep a portion of the fast-moving items right there and then carry the rest through your digital platform. That is how we're looking at it.

Unidentified Audience Member

Is the pricing the same between the large-format and the small format or are you charging more for the convenience that you provide?

Bill Simon - *Wal-Mart Stores, Inc. - President & CEO, Walmart US*

It starts out the same. Let me put it to you that way. The aim is for it to be the same. And we don't charge more for the convenience. Sometimes we actually charge less for the competitive nature. So our thinking and our plan is -- we are an EDLP retailer. We build trust that you can get the product for the lowest price. And in a market where -- so we set the prices I won't say nationally, but we set them based on the cost delivered to the store by large category areas, right?

So if you have a Supercenter 10 miles away, we start out with the same price in those two stores. If the Supercenter is hypercompetitive against a store across the street to the point where they -- we meet and we exceed -- we meet competition's pricing all the time -- we may lower the price at a particular store. And so it might actually be less here than it is here but it's not because this is higher, it's because the urban or the more competitive intense store has lower prices where competitors have lowered the price for an ad, or a week, or a period.

If the pressures would go off there from a competitive standpoint, the prices would be the same.

Unidentified Audience Member

But generally you are matching --?

Bill Simon - *Wal-Mart Stores, Inc. - President & CEO, Walmart US*

We match locally. And same thing with a small store. If you have a local competitor who is selling a product for less than us, we will match that price. That is our business model. So we start the same and then we match where we need to.

Budd Bugatch - *Raymond James Financial, Inc. - Analyst*

Bill, when you described the tethering concept at the analyst day, I thought it was one of the most innovative things I've heard in a long time. And that project is supposed to start this month I think. Is that correct?



Bill Simon - *Wal-Mart Stores, Inc. - President & CEO, Walmart US*

We will open the first completely tethered store on May 2.

Budd Bugatch - *Raymond James Financial, Inc. - Analyst*

On May 2. Okay. And explain that. Can you talk about how that works? And maybe also give us a little bit of idea of the progress of the Denver and the San Francisco tests.

Bill Simon - *Wal-Mart Stores, Inc. - President & CEO, Walmart US*

Sure. The tethering is the full connectivity is, I guess, a shorthand for fully connected, and fully connected to everything: fully connected to our distribution system; fully connected from an associate/labor/store/assignment perspective; fully connected from a supply chain perspective. And it is the digital thinking of physical retail. So in digital, somebody orders something online, you find out where it is and you figure out how to get it to them the quickest way, the most effective way.

So from a distribution perspective, the small stores -- you don't want to bring everything to it on a 53-foot trailer. That last 10 miles for one pallet or two pallets would be very expensive. Yet on the fresh side for example, we have enough to be able to send a truck there. So hypothetically, the algorithm could tell you that we will send pallets in 53-foot trailers for the fresh product, but for the dry product we will cross-dock it from a Supercenter. And for the slow-moving items, we could ship it from the Walmart.com DC to the small store to be stocked on a shelf.

So you could ship it from a fulfillment center, a dot-com fulfillment center to a small store to be stocked in inventory, BECAUSE it is about widgets and cost from a logistic perspective. What is the least expensive way to get the item to the store, to the customer, or to the customer that we possibly have. And we have lots of different methods to do it -- the fulfillment center, the current distribution network, and the development of a cross-dock operation from a Supercenter.

From an associate perspective, we are tethering today some of the functions in a small store to a big store -- the back office function where you consolidate receivables and cash and all the functions. You don't need to staff that capability at a small store. You can do it from a large store.

We expect in the model to be able to assign associates, should they choose to, three shifts in a Supercenter and two at a small store that might be nearer to their home should they want to do that.

All of those abilities for us I think are going to be innovative and serve to lower the cost to serve.

Budd Bugatch - *Raymond James Financial, Inc. - Analyst*

Okay. And the other one that was on the direct -- on the --.

Bill Simon - *Wal-Mart Stores, Inc. - President & CEO, Walmart US*

Yes. The numbers are in their early stages. The customer satisfaction and the customer response to those have been very, very good. We have had about 90% satisfaction on the service. Again, we're not charging more for service. On the delivery side we do have a very low delivery cost, no subscription on the delivery side. And on the pickup there is no cost, so Walmart prices with the convenience of online. And that is really what we're trying to deliver and we are well on our way to that.



Budd Bugatch - *Raymond James Financial, Inc. - Analyst*

And any timing on decisions on that?

Bill Simon - *Wal-Mart Stores, Inc. - President & CEO, Walmart US*

Yes, we're going to move as quickly as we can. We are going to move as quickly as the customer demand is there. You will see us -- the tethering model in those three markets is an extension of that test. It's just done at a new location instead of an existing location. So you can pick up at a small store or you can -- in Denver you can pick up groceries at a large store. So it is all in the evolution of it.

And when we reach a model or a module -- and this is really important -- that is effective, we're going to roll it out pretty quickly.

In Denver we went and put pick-up locations into existing Supercenters, sort of kind of a module. We're going to try at some point the pick-up module without a Supercenter, right, just a drive-through like a -- I don't know, kind of like a Sonic. And we are going to try that pickup at a very small store in this tethering model in the Expresses. So we're going to create a depot; we're going to attach it to a Supercenter, testing all of those and then some of them will work in certain locations and we will go fast there. Some of them will work in other locations. We're looking at it as a bit of a modular play. We have this thing, we lug it on here, it works. We have this thing, we do it here. We have this thing, it stands alone. This one is a pure eCommerce. This one is a pure physical and everything else in between.

Budd Bugatch - *Raymond James Financial, Inc. - Analyst*

Thank you. We will continue at the breakout. Thank you very much.

Bill Simon - *Wal-Mart Stores, Inc. - President & CEO, Walmart US*

Thank you.

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