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PRESENTATION

Robby Ohmes - *BofA Merrill Lynch - Analyst*

Terrific. I think we are going to get started now with our keynote presentation.

Good morning, everybody. Welcome to the Bank of America Merrill Lynch Consumer and Retail Conference. I am Robbie Ohmes; I cover the large-cap discount stores for Bank of America Merrill Lynch.

We are very lucky to have Charles Holley, Executive Vice President and CFO for Walmart here with us today. I think most of you are very familiar with Charles. Prior to taking over the CFO position Charles was Walmart's EVP of Finance and Treasurer. He is also on Walmart's executive committee.

He has been with Walmart I think since 1994 in several different roles, including the CFO of the International Division where he led some of Walmart's international merger and acquisition activities. In addition to an amazing 17 or 18 year career so far at Walmart, Charles before that worked more than 10 years at Tandy Corp. and Ernst & Young. He is also on the Dean's Advisory Board from McCombs Business School in Austin and an active board member for the Cancer Challenge of Northwest Arkansas.

Charles, I apologize, I know I have left some things out but I want to give you some time to speak, so I am very pleased to turn it over to Charles.

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

Thank you, Robbie, and good morning to everyone. It's great to be back and see so many friendly faces again.

Before I start obviously I have got to go over the obligatory forward-looking statement. I am not going to read it; I would just ask you to read it and refer to all of our filings with the SEC in your analysis of our company.

What I would like to do this morning is cover a little bit of fourth quarter, the results that we released in February, and then maybe a little bit deeper dive into the year and give you a little bit of perspective. And then talk about where we are currently and what we want to see done this year as a company.

As we closed out this last year I think one of the highlights that you should take away is that all three of our business segments ended the year stronger than they began the year. We felt like that was very, very important.

Our first priority was to grow the revenue through comp sales, of course, and new store growth, and really getting back to basics with Everyday Low Price, Everyday Low Cost. We kind of drifted away a little bit from that and across the world, not just the US but some of our other global operations. So we really did put an emphasis back on that and a lot of hard work through last year to get us there.

We know, ultimately, our goal is to have superior returns and return that value to shareholders. We came in with $1.51 a share in earnings per share. Diving a little bit more into the income statement itself, we did have the 5.8% increase, $122 billion in revenue.

Obviously, the highlights, I think, of the quarter was positive traffic that we experienced at Walmart US segment. It has been several quarters since we experienced positive traffic. There was a lot of hard work.

If you remember, and we have talked to some of you at the beginning of this last year, you would have heard us talk about how we are having to add back assortment, adding back Action Alley, taking more pricing action, get better in stock. And it would take us a full four quarters to do that and it did, but I think it's a great -- the fourth quarter was a great validation of that strategy.

Just as a reminder, within the $122 billion there is about $2.4 billion related to our acquisitions of Netto in the UK and of Massmart in South Africa. Also, there is a negative impact of about $1.4 billion with currency translation.

Gross profit did dip a little bit, about 40 basis points. Most of that was planned but the Christmas holiday season was very competitive, price competitive, and I think that we have all seen that through our competitor earnings releases as well. Then, of course, that lead down to $1.51 in earnings per share which I just referred to. That is versus $1.41 of prior year. Both years had about $0.07 net tax, mostly primarily net tax benefit related to them.

So what did we focus on a year ago? A year ago we said we wanted to improve our US comps; we wanted to get them back to positive. We were able to do that. We said that we needed to grow our sales between 4% and 6% and we grew just below 6%. Even taking out the acquisitions we would have grown around 5%.

Said it was imperative that we grow our SG&A at a lower rate than our sales and we were able to do that. We were really focused to make sure we drive strong free cash flow, strong returns for shareholders. I think we were able to do that.

And deliver our EPS. Our original guidance was $4.35 to $4.50. Now we came in higher than that, but even if you take out those discrete tax items that we referred to we were still well within that guidance.

I think when I look back at this last year it was a tough rebuilding year in many parts of our business, especially in Walmart US as we referred to a minute ago, but also in International, which I will talk about in a minute, where we have to reestablish some of the everyday low pricing that we have gotten away from in some of our markets. But we feel very good about where we are and we feel, like I said, we have ended stronger than we began the year.

Now turning to the income statement for the full year, I am not going to cover the numbers. You have seen the numbers. But a little bit about what is behind the numbers, the $444 billion in revenue and $4.54 in earnings per share.

We did complete two acquisitions for the year with Massmart in South Africa and Netto stores as I referred to in the UK. That added about $4.7 billion of the $444 billion you see there.

Sam's Club continues to have great momentum. Their costs improved every quarter last year and they look really good. Finally, we are starting to make some real good progress, I think, in enabling our global e-commerce initiatives with technology. We have made some small acquisitions, we have -- really about talent. We have added some incredible talent and we will continue to do some of that in the future.

Walmart US had strong sales improvement during the second half of the year as you can see here. Delivered two consecutive quarters of positive comp. In all of our business categories except apparel we had positive comps in the fourth quarter and apparel had the best result that it has had all year. Food was very solid comp performance for the year.

Neighborhood markets for the year had about 5% comp and they had positive traffic all year. We really do like the neighborhood markets. The returns on neighborhood markets are now about the same as the return of a new supercenter, and we are going to build somewhere between 80 and 100 neighborhood markets for this next year. Actually some of that will be we call small format, but most of that 80 to 100 will be neighborhood markets.

During last year we also built out and added 119 supercenters and 27 small formats, added 9.7 million new square feet of retail space. Our comp guidance for the first quarter of this year is zero to 2%.

Now Walmart US, I think business model is working. Like I said, we have talked to you long and hard and we have worked long and hard over the four quarters of last year to get the stores back where we wanted them and the merchandise back where we wanted them. Obviously, we added the assortment. We added over 10,000 items back on the shelves.

Worked very hard on in-stock. In-stock a year ago was around 90%. It's 95%-plus right now and continues to improve. We have really focused on price leadership again and I think that you saw the results of that with the traffic and the comps in the fourth quarter.

There is no doubt that reducing expenses and then reducing the price is the right thing to do for the customer. One of the questions you probably have is what is going to happen with margin and what is going to happen with expense. Our plan is to reduce our expenses and then invest that in price. It won't be a perfect match quarter to quarter, but over the long haul and the year we would hope that they do match for the most part.

So, again, we are not trying just to drop the margin for the sake of dropping margin. We want to do it in a very deliberate manner, but it will take -- it won't match perfectly quarter to quarter.

We also, like I said, achieved our first positive traffic in the quarter. It has been quite a while. Strong holiday sales; we had a -- as you know, we reinstituted layaway for certain categories, like electronic and toys. Very successful for us. Also, we had the Walmart price guarantee over the holidays, had great marketing.

Black Friday was very successful for us. In fact, we sold 1.5 million TVs in that one day, pretty incredible.

Even with all of that great activity that we had early in the quarter with layaway and Black Friday and the marketing and the price guarantees, the best year-on-year increase in traffic occurred in January. And I think that speaks volumes about the program that we are running right now.

I think your take-away should be for the Walmart US segment is that our assortment is back, our price leadership is back, we are operating more efficiently, our comps are positive, and we feel like we are winning our customer traffic. We believe we can be much better, in fact, in this year.

Now it's still very early in the quarter; I am not going to give you any numbers. We still have a lot of work to do, but we are very pleased with our traffic and sales so far for this quarter.

Turning to International. Obviously our fastest growth engine and we are very focused also this year on improving their returns. Although we are going to grow in all of our markets, obviously the primary part of our capital expenditures in International will be delivered to those markets with the highest growth potential that are less mature.

We have added more than 42 million square feet this last year and that would include the acquisitions I referred to earlier, so now we have about 329 million square feet of retail space in International. Our new store development is really focused on markets like Mexico, China, and Brazil. There is an increasing, large increasing middle class being developed in those markets and we think it's right for everyday low pricing.

We are focused though improving overall returns, especially when you look at Brazil and China. Just as a reminder, Mexico and Canada, where we have invested the longest, have extremely high returns and we feel like we can drive high returns in all of our markets actually.

To give you examples of some of the EDLP and reinstituting what is going on, I think some of the good stories -- Japan. Nobody asks me about Japan anymore, which is a good thing I guess. But in Japan, for example, we have had our third straight year of positive comps.

We are continuing to grow market share. Our return on investment continues to grow. It's not where we want it yet but we are very, very encouraged with the progress that we are making there. Remember that we had a very tough beginning of the year with the tsunami that happened and earthquake in Japan.

Our fourth quarter was a killer quarter, it was great. We are very pleased with where we are going right now in Japan. EDLP is definitely a difference maker for us in Japan.

When we went in Japan I remember a lot of you asked us does the Japanese customer really care about price because they are so quality focused. And I can tell you that, yes, they are very quality focused but they are also very price focused, which is not surprising to us at all. Everyday Low Price does work there and we feel very good about our prospects.

ASDA has won more customers over the quarter with a simple pricing strategy of EDLP and the ASDA price guarantee. They have a website where you can go check your basket price and if it doesn't match up with competitors you can get the difference back. They had up to 1 million visitors per week during December at the price match website and it's just phenomenal what ASDA has been doing in a very, very tough market. Feel very good about the momentum of ASDA.

In Brazil we worked very hard to reestablish EDLP and it was a tough year for Brazil. We really like though where we are. I said that we finished the year stronger than where we were at the beginning of the year.

Again, Brazil starts their fiscal year in January so January 1. Through January and February we have very good, positive comps and very good results so far out of Brazil. Still very early in the year, but we feel very good about our prospects there.

So now let's move on to Sam's Club. We obviously have great momentum in Sam's Club which I mentioned earlier. We remain in the mid single-digit range with the expanded merchandise assortment and new services. Sam's continues to further define and target its merchandise offerings. We have done extremely well where we have improved the quality in our fresh categories and freezer/cooler, but I have got to also mention some of the GM things we have done.

If you look at the brands that we carry now, like Keurig or Apple -- we are the only club in the club channel that carries Apple; been very successful for us. Proprietary brands like Simply Right, Daily Chef, Artisan Fresh -- all have delivered double-digit comp growth for the year.

Then the membership revenue grew for the year. Strong growth from our plus upgrades in renewals as well as growth in the primary member sign-up, so we feel very bullish about Sam's and where it's going.

Had a great year and we expect another great year this year.

So looking forward for this year in FY '13 you would have seen a slide like this at the October analyst meeting. If we look back five years what it says is that our comp store growth was really a smaller piece of our growth pie. Going forward our focus is going to be to make sure that our comp store growth is much more prominent part of our growth story.

We know that comp store growth creates the greatest value for our shareholders. We know that is very important and we are really focused on driving productivity of the existing store base. We are still going to grow in organic growth and whatnot, may have some acquisitions out there if we like them, but we also know we had to have solid comps across our operations.

Our capital projection is still $13 billion to $14 billion which we told you back in October. That $500 million of that, though, will be dedicated to the acquisitions we mentioned in Netto and in Massmart; also the Zellers stores and refurbishing the Zellers stores up in Canada.

So what is the growth going to look like? Well, in Walmart U.S. supercenters remain, obviously, the best vehicle to capture market share and we are committed to growing through new supercenters, but as well as the smaller formats like neighborhood markets which I mentioned a minute ago. We will do between 14 million and 15 million new square feet of retail space in the US and we will also be very focused on efficient capital spending. We are still focused on bringing down the cost of stores per square foot and the cost of remodels.

Sam's Club we will add nine net new stores this year, that is the most they have added in quite a while. If you ask why are they doing that it's because of the results. They had very good results and we feel like it's a good time to start expanding Sam's a little bit again.

Overall, we expect square footage to grow by 4% to 5% this year. That is 45 million to 49 million square feet. Walmart now operates over 1 billion square feet of retail space worldwide.

We know we can't afford to grow, though, unless we manage our expenses well. It's just our number one priority as far as managing the business. We are accomplishing this through technology and associate productivity.

I think every year I get asked are you done. Is there any more left to get? It's just in our DNA. There is a lot more to get and we will get more.

We have done over 50 basis points reduction. We have been able to capture over 50 basis points reduction in our SG&A in the last two years and we know that we have got more to go. I think it's a real advantage as a global retailer that we are constantly increasing our best practice by sharing across the borders, across functions, and across our people. More importantly, I think we are very fast adopters of best practices in our operations.

To give you some example, by the end of the first quarter we expect to expand our customer usage of our self-checkout lanes. You may have seen those in our stores. We are moving the customer service manager to the Action Alley side to get him back closer to the customer. We are just looking for ways to lessen the steps to the checkout process.

I think it's very important to note that for every second that we can save in Walmart U.S. that equates to $12 million in savings that we can pass along to customers in the form of lower prices. And while Walmart will be doing this, Sam's will be doing something similar. I think right now Sam's currently has about 80 clubs that have some self-checkout capabilities. We will add about 220 more of Clubs this year for a total of 300 by the end of the year. Again, this is just a small example of the kind of things we will look at to lever expenses and be more efficient.

Operating for less, obviously a key component for what we have to do. Today our markets like Mexico, Brazil, and China have levered what they have learned from the US and the UK, and will continue those best practice learnings. Like I have mentioned, we have levered two consecutive years in a row. It has been a long time since we have done that and we will lever again this next year.

You have heard us state our goal is to lever more than 100 basis points in SG&A percentage to sales over the next five years. I would be very disappointed if we don't capture at least 20 basis points this year, very disappointed if we can't get at least 20 basis points. If we can grow in a disciplined manner along with leveraging our expense base, we should be able to continue to deliver good shareholder returns.

The past five years we have been able to grow our earnings per share on average over 9% and I think that as a retailer when you compare in our competitor set -- and we have looked at it there is about 27 or so retailers, 28 retailers, in the competitor set -- we are the only retailer that has grown our sales operating income and earnings per share every year for 11 years.

We are a very consistent story and we are committed to continue this growth. You see there our guidance, what we put out at the end of this last year for this year is $4.72 to $4.92. And we are committed to make sure that this chart remains in an upward projection.

Obviously that means also generating free cash flow, remains a very high priority. We ended up the year last year with about $10.7 billion in free cash flow and expect to see the free cash flow continue to grow. We would hope it would be well over $11 billion for this next year, which, of course, allows us to return cash to shareholders.

In fact, in the last five years alone we have returned over $61 billion to shareholders in the form of dividends and share repurchase. Of course, share repurchases will fluctuate year to year depending on the level of acquisitions, share price, capital commitments, etc., but there is no doubt we remain committed to returning to shareholders.

Kind of to sum it all up, we are focused on growing our company, leveraging expenses, and returning value to our shareholders. Last year alone we grew sales by $25 billion. No other retailer comes close to that. In the past two years we have decreased our SG&A the 50 basis points I just referred to, as a result we continued to grow our earnings per share and get back to our shareholders.

When you look at this slide on growth leverage and returns it speaks about, I think, momentum and consistency. You can see there is momentum in growth, we have got momentum in leveraging our expense base, and we have momentum in continuing returns to our shareholders.

Now just to review some of the goals that we have set out for this year that we put out in October, we do plan to grow our sales by 5% to 7%. This equates to $22 billion to $31 billion. Then throughout this presentation you have heard me talk about leverage. We do want to lever 100 basis points and I have mentioned at least 20 basis points this year.

Then, lastly, returns. Of course, we will remain committed to our shareholders -- $4.72 to $4.92.

Before I close out for questions, Robbie, I think what I would like to do is give you kind of my thoughts. If you ask me if I look -- if we are hear a year from now and I look back what would make Walmart successful, what would we be happy with as a company, and I will tell you it comes down to me -- have we levered what we wanted to lever in expenses, have we done that?

Have we continued the momentum that we set up in Walmart U.S. and in Sam's? Have we improved the returns in International, but particularly with Brazil and China? I think very critical. Then, last, have we continued to expand our global e-commerce capabilities in our businesses? If we do those things I think we will have a very successful year.

With that, Robbie, I turn it over to you for questions.

QUESTIONS AND ANSWERS

Robby Ohmes - *BofA Merrill Lynch - Analyst*

Great. Thanks, Charles. I will kick off the first one before I open it up. The neighborhood markets you have gotten to similar returns to the supercenters.

One of the questions I get asked quite a bit is, and maybe, hopefully, you guys can answer it, how are you comfortable with the idea that as you open up 80 to 100 of these neighborhood markets maybe every year for the next several years that they don't end up cannibalizing your supercenters and driving down the returns on your supercenters?

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

That is a good question, Robbie. When we started -- when we decided to accelerate neighborhood market growth I think we had around 150 neighborhood markets. We had enough neighborhood markets interspersed in with supercenters to see what kind of dilution you might have with a supercenter.

We do consider what kind of cannibalization you might have in a supercenter and we still feel very good that we can do that. We can have a little bit of cannibalization but still provide very good returns overall between both units. So we have looked at that pretty closely.

On the small markets I am sure I am going to get -- the small Neighborhood Market/Expresses I know I am going to get some questions so I will kind of the address that.

It's still a pilot. We don't have clear enough results to say it's a resounding success; let's just roll out thousands of them. That is not where we are right now but it's kind of like neighborhood markets. We are maybe not going to take near as long as we did with neighborhood markets.

The reason it took so long with neighborhood markets, by the way, is we had great growth opportunities with supercenters. Big bang for our buck with those. But with the Express markets it will take us a little while. Just like with Neighborhood Markets we are going to test and pilot and make sure we understand the dynamic.

Remember the Express markets are in -- we have got them in one urban market, Chicago, and then two rural markets in Arkansas and Carolina, North Carolina. Allows us to see different kind of dynamic and how they work. So we do look at that very closely, how we cannibalize existing stores and what happens to returns.

Unidentified Audience Member

Thank you. Two questions on a couple of comments that you had made. One is that you said so far year-to-date or quarter-to-date you are very pleased with what you are seeing in US sales and traffic coincident with that period of time is higher pump prices. So I am wondering in terms of seeing strong, good momentum continuing, do you think that is a reflection of your own execution or do you think that the underlying economy for your consumer psychology that is also improving.

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

That is a good question. I think there is a number of factors that weigh in to what we are seeing right now. The first, I think the very first thing, the primary thing is where the business has come from and the foundation that it has built. Very important.

The second thing is, as we know, we saw some delayed tax refunds. That helped a little bit also when you got into February. Then the higher gas prices I think that those are going to be real interesting to watch this year. We have heard $5, who knows.

I think that there is a little bit of a new mindset that has happened with our customer over the last five years. I think $3, $3.30 whatever it is would have been a disaster, as you know, four or five years ago. Today I think the customer has probably reset expectations and their budgets around that higher gas price.

Now having said that I do think gas prices are going to be critical going forward for the customer. If gas prices do start getting upward again and creeping back up to $4 and $5 I think that is going to be a problem for our customer.

Unidentified Audience Member

All right. Then second question I had was about your expense leverage objective. You noted that you had made 50 basis points of progress over the last two years. If I remember, really the period prior to those two years you had a very sizable investment initiative in IT systems and financials and HR and some other things.

So how much of a benefit was you anniversarying or coming off that expense period in terms of 50 basis points? Then probably more importantly, what are the benefits that you are getting from that investment that you had made two years ago in systems?

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

That investment was actually spread over a number -- probably three- or four-year period including through last year. That wasn't the reason, the primary reason that we were able to lever expenses. Most of that would come from the operating segments, particularly a Walmart U.S. segment. So that wouldn't have been such a huge impact on leveraging by comping that kind of an increase.

As far as the payback on those things -- is that what your question was? As far as payback, when you are a global operation you just can't operate efficiently when you have all of these many different systems. You need one platform, global platform. It allows you to do much more plug-and-play much more efficient, and that is part of the productivity loop that we want to get into.

We are starting now a Latin American shared services group that we will have out of Costa Rica. It's just early days but that is also going to also help. Having a common system like SAP is going to help very much just able to capture those kind of benefits for shared services.

Robby Ohmes - *BofA Merrill Lynch - Analyst*

Charles, you have been getting some press I guess about the last week about your strategy in Charlotte, North Carolina, going to head-to-head against Harris Teeter, both in promotions as well as in advertising about your prices versus Harris Teeter prices. I wanted to know if you could tell us, since that seems to be a different approach, it seems to me you are really trying to instill in the minds of customers that you are again the price leader if that was ever a doubt.

So can you talk a little bit about what your thinking was going into the market, if you see any success there? I know it's early days but also if you would plan to roll that out nationwide or other select markets.

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

I can't really comment too much on that specific market. We operate 10,000 stores and we try a lot of different things. I will be honest; I don't have all the information on that particular market.

I do know that we are very focused on not just being the price leader but making sure the customer understands that in every way possible. Not just with the real low prices but also how we use our media advertising and how we use social media and how we use the Internet. But we have been very aggressive in many of our markets, as you would expect, in making sure the customer knows that we are the price leader.

Unidentified Audience Member

Good morning. I had two quick questions for you, Charles. One, in terms of inflation/deflation in the basket of goods, what trends do you see as the year goes forward, cotton starting to roll over? The second question is to what extent did the improvement in Brazil benefit from the increase in the minimum wage January 1?

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

On the first question, we see the same thing that you -- if you were for the panel at the beginning, when you heard about for the most part inflation is going to moderate this year. I think that was the one word that I heard that we would agree with. We feel like inflation will moderate. And all that you heard about cotton and apparel we would agree with also. It's starting to moderate, especially in the back half of the year.

I think the one wild card though is going to be gas prices. That is going to be -- if oil continues to go up and I think that could be a drag on the economies around the world. What was the second question?

Yes, you know, it's a two-edged sword, I think, the minimum wage. It hurts your costs, but it helps your consumer. I don't know exactly; it's hard to know how much that really helped.

I will tell you though I think all the things that we have done to get us ready we continued to see improvement in that business and I think that you saw the start of that. We also, by the way, comp January is when we really started our -- January a year ago our focus on everyday low price, and so we feel very good about what we are seeing with that.

Unidentified Audience Member

Back on the smaller format strategy, you mentioned this coming year maybe 80 to 100 of the Neighborhood and maybe some the Express size. Question is if you could break that down and then what is the strategy there? Is the strategy to maximize return on invested capital of these stores? Are you trying to gain market share in underpenetrated markets like in the urban centers or what?

And if you do go slow on the Express side are you ceding the convenience market to the dollar stores and the Walgreens/CVS who are all collectively doing well over 1,000 to 2,000 a year?

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

As far as the Express stores, where we are -- again we are in one urban and two rural markets -- and what we are wanting to know is how can we better serve a customer that we think might be underserved. That is the first thing. In doing that can we do that can we do it and provide a good return to our shareholders? That is what the mission is.

As far as ceding anything, I don't think that we think of it in those terms. We are looking at can we serve an underserved market that we think -- like I said, still very early days in that and so we will just have to wait and see. As far as the 80 to 100, we haven't announced how many are going to be Express stores but the vast majority of those will be neighborhood markets. I think we have announced 14 so far and we have got 10 in the ground.

Unidentified Audience Member

Could you speak to the issue of international traffic? It seems to me that in a number of your international markets you have been reporting negative traffic trends and in some cases fairly sharply negative trends.

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

I think the biggest issue with traffic has really been around China. Most of our markets have had good traffic and good -- if you look at market share gains also they have been very good, very healthy.

China has been one that we have been concerned about. We are going through a lot of restructure there, new management team; feel good about our prospects. It's probably -- we are just now reestablishing price leadership there. It's probably farther behind than Brazil, but as far as significant traffic losses I am not aware that we are having significant traffic losses across the board in our markets.

Unidentified Audience Member

Urban expansion seems to be a key component of Walmart's growth in the near future. It seems as though one of the main reasons Walmart has been unable to penetrate urban markets has been due to community and labor opposition. I am curious if Walmart has plans to sit down with community and labor in urban areas in order to facilitate its expansion.

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

We have already done that. We did that in Chicago, which is our first urban penetration. We worked very closely with the mayor and the office and the city leaders on how we would approach Chicago as a whole, not just one store at a time, and what it would look like. I think that is the way to do it. I think it has been, so far, very successful for both sides.

But we definitely want to sit down and talk to city leaders. We think that is vitally important.

Robby Ohmes - *BofA Merrill Lynch - Analyst*

Charles, I have a question over here. International inventory levels, can you give us -- why has it been more difficult for the International divisions in aggregate to sort of accomplish some of the better management of inventory that we have seen here in the US?

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

What Robby is referring to is our growth in inventory in International has been much higher than the growth in the US. There are a number of reasons -- some good, some not good. I think the first thing if you look at where we closed at the end of year and we had a pretty dramatic increase. We added, I think, around 600 units last year in international, a lot of those in the fourth quarter.

So that is -- you have got a lot of new store growth that was in the back half of the year that created the spike in inventory. Another thing is when you get into developing markets and they are not everyday low price that means your vendors aren't operating in an everyday low supply chain.

What that means is your vendors are geared up for promotion so they gear up their manufacturing, they get a big promotion they shove it out and their manufacture comes back down. They gear it up -- it's like this, peak and valley, peak and valley. Your receipts tend to peak and valley the same way when you do that.

Trying to get the vendors on Everyday Low Price in that kind of supply chain is very important as you roll this out. We are working very hard, for instance, and we have been for the last year in Brazil to work with our vendors to make sure that we can get much smoother. It's much better for their business if the customer doesn't have to wait for that promotion and have all that inventory sitting there. That is another reason as we get or work with our suppliers to have a much smoother supply chain.

Then, quite frankly, we just hadn't done near as good a job, I think, using our logistics know how to reduce the inventory and get inventory out of the system. So I think it's a combination of a lot of things. Some of it's us.

Unidentified Audience Member

Charles, on the $2 billion of gross margin investment in the US is that all coming out of your gross margin? It's your own gross margin investment, is that right?

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

Yes.

Unidentified Audience Member

Okay. And so I calculate that to be maybe 70 to 80 basis points. And so I guess what I am wondering is, barring a mid single-digit comp, how is it that you can continue to get that kind of expense out of SG&A in order to make that margin neutral? Or are you actually planning for the US operating margin to dip for maybe a year or two and then come back as you get the rewards from the gross margin investment?

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

I am not sure that it's s that a high 70, 80 basis points. I think it's probably a little lower than that, but it will be funded in the long-term by expense reductions and we do feel like we can go capture that.

Unidentified Audience Member

Might you invest in the gross margin ahead of the cost cuts?

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

I think what I referred to in the presentation hat is important, is that you may see -- you are not going to see a perfect match every quarter between margin investment and expense reductions. You may see some quarters where expenses go down more than margin and some quarters where margin goes down a little more than expense, but on the long haul we would like to see that matched.

So we don't want to just invest and give up profitability. That is not our goal.

Robby Ohmes - *BofA Merrill Lynch - Analyst*

In terms of free cash flow and share repurchases could you give us a sense of how to think of that in terms of share repurchases that are baked into your EPS? Then would you increase your leverage to buy more shares or is the idea to keep your leverage steady?

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

Our leverage is really based on how well we perform, cash flow generation, and then our AA credit rating, so it really depends on all those factors. But the baseline is the AA credit rating.

If the AA allows us to take on more debt, we will do it. Then we will put that in our cash pool and, of course, our priority is going to be to build new stores. Second is going to be if acquisitions, if we like them we think they are going to be accretive to shareholders. Third thing is going to be the dividend.

Then the last thing we will do is what is left over goes to share repurchase, as long as it's accretive and we feel like it's still accretive to our shareholders. So that is how we look at share repurchase. As far as debt related to that, if the AA allows for more debt we would take on more debt and use that cash right now, if it's excess cash, for probably share repurchase if we think it's accretive to shareholders.

Robby Ohmes - *BofA Merrill Lynch - Analyst*

Charles, can you help us understand the strategy behind some of these e-commerce investments -- Small Society, Grabble, Kosmix -- I don't know if I can even pronounce this -- Yihaodian? Can you sort of -- it's a lot of little companies. Can you sort of paint the picture of what you guys are trying to achieve here? And WalmartLabs, what that is and what those guys are doing?

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

Double top secret, can't tell you -- no. Actually it's really about buying capabilities that we haven't had before and operating successful e-commerce businesses. We feel good about the foundation we have built, but one of the things we have known is our technology has been lacking in that area. These companies are really about adding capabilities, whether it's social media, whether it's mobile commerce.

We haven't been historically known for that or good for that and we want to build an expertise in that area. These are basically buying know-how and people that know how to do these kind of things, very specific know-how.

We are very excited; it's very early days for us. We don't have a lot to talk about them yet, but you will be seeing more I think rolled out on these kind of things and how we are using this technology with the Internet probably in the next six to 12 months.

Unidentified Audience Member

(inaudible - microphone inaccessible)

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

Yihaodian, we announced our intent to acquire majority interest in Yihaodian in China. It's an e-commerce business. Again e-commerce in China is growing so quickly and we don't want to get behind the curve on that at all.

We felt like it is a very good match for us and what we want to do with our Chinese business. Again integrating it in with our -- like we do in the US, with our existing brick and mortar I think is very exciting and I think can bring lots of benefits to the customers in China.

Robby Ohmes - *BofA Merrill Lynch - Analyst*

Then two other categories in Walmart U.S. I was hoping you could give us a little more insight into for 2012. The first is how you guys are thinking about apparel in 2012 as a category. You have shifted to basics; there were price increases probably continued in the first half for everybody here. How do you see the apparel category playing out first half/back half in 2012?

Then the second one, just so you can be thinking about it while you answer the first one, is consumer electronics and what you think is going on there. How committed Walmart is to the consumer electronics area, particularly as other companies are suffering in that area against Amazon.

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

Right. On the first question as far as apparel, as you know we haven't performed well in quite a while in the apparel area. I think we have been pretty consistent in answering that question in the last year.

Our misfires usually occur when we try to get outside of what is our selling zone, and our selling zone, our comfort zone really is basics and fashion basics. I am talking about denim and T-shirts, socks, and underwear. When we focus on those, we are really good in those. When we get outside of that is when we are -- we don't have the authority to sell some of that. It's just not who we are in our DNA.

We have gone back and looked at that and refocused on basics and fashion basics. We like the improvement that we saw in the fourth quarter. We are very hopeful that in this fiscal year you will continue to see that improvement and you will see positive comps by the end of the year.

The electronics category is an interesting one. As you know, it's changing quickly. You saw Sam's Club, we actually said in the earnings release where Sam's Club had an increase in units but a decrease in total sales because of deflation. We expect deflation to continue to occur.

Walmart U.S. has made a nice transition and continuing to. They are continuing to sell more units and probably less revenue dollars in TVs, but if you look in that entertainment category the tablets have really just taken off and done extremely well. New technology will -- always has and will play a part.

We will continue to look at our allocation of space for categories, electronics being one of them. As you probably know, we have already started to expand a little bit of some of the heritage categories over this past year, like sporting goods and even crafts. I have seen some of the fabric come back in some of the stores.

But we are constantly looking at that, Robby, and I think this year will be a year of tweaking the assortment. We have added back over the 10,000 items and Action Alley is back. We will be tweaking that assortment and also looking, though, at our spacing, how much space allocation is given to each category.

Electronics is one. Depending on which the city it's in and what the market is it may get reduced a little bit. You may expand sporting goods or you may expand automotive or some of the other areas that we think are growing faster, but we will constantly be on top of that.

Robby Ohmes - *BofA Merrill Lynch - Analyst*

We have time for one more question if there is one. I have one if nobody out there has one.

Acquisitions, you mentioned that we could see one this year. Can you give us a little insight? What are the -- if you name more than one area is it Russia and Europe or where are you guys on the ground --

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Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

If I led you to believe that we are going to do an acquisition this year then I misspoke. I am sorry. We don't have a plan to do an acquisition today.

Now that doesn't mean that we won't do an acquisition. We have to be opportunistic. The timing of these things isn't always in our own timing; it's other things in play. We constantly are going to look at opportunities where we think we can bring a value equation to a customer, whether it's an existing market or new markets.

You mentioned Russia and I know that has been in the press. We are still interested in Russia, but we don't have any immediate plans to do anything in Russia. We will continue to monitor it because we do think it's a very good retail market and will continue to grow, as are some of the other markets out there that we are not in. But today we don't have anything to say about any immediate plans for growth in new countries or acquisitions.

Robby Ohmes - *BofA Merrill Lynch - Analyst*

Terrific. I want to thank Charles for a great presentation.

Charles Holley - *Wal-Mart Stores, Inc. - EVP & CFO*

Thank you.
