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# EDITED TRANSCRIPT

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**Dan Binder** *Jefferies & Co. - Analyst*

## PRESENTATION

**Dan Binder** - *Jefferies & Co. - Analyst*

Good morning. For those of you who that don't know me, I am Dan Binder. I cover broad line and hard line retailers for Jefferies. I am pleased to have you here today.

I wish we could have ordered up a little bit better weather but we are very pleased to have Walmart here today, both their representation on the International and US side. And today we have in this presentation Jeff Davis. Welcome Jeff.

Jeff is the Executive Vice President and CFO of Walmart US. And Carol Schumacher is the Vice President of Global Investor Relations. So we will have a presentation for 15 or 20 minutes and we will open it up to your good questions.

And with that we will get started. Thanks Jeff.

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**Jeff Davis** - *Wal-Mart Stores, Inc. - EVP and CFO, Walmart US*

Good morning, everyone. Hopefully this presentation will put a little bit of sunshine in our lives here.

Before I get started, I also wanted to just introduce you to a couple other members of our team that are here with me. We have Brad Sikorski, who is our Vice President of our Segment FT&A. And also Christine Allen, who is our Vice President Finance for Softlines.

And of course we will be making some forward-looking statements today. I refer to you to this disclaimer as well as the fact you can if you want to read this later on our website.

As a result of us being in the middle of our second quarter, I am not going to be providing any updates to our performance so far this quarter. But just to remind you that on August 14 we will have our earnings release and of course you will be able to get more of the details for the quarter. So let's get started.

The Walmart US team as you can see is really focused on four strategic pillars which we believe are going to help us drive sustainable sales growth and also leverage off of what we believe are our strong fundamentals.

The first plank that you see up on the slide is with respect to sales and our desire to drive sales not only in our physical stores but across our digital platform. It starts off with making sure that we are in stock in our stores. It carries on to making sure that we have a great, fresh presentation and you will see that not only in produce and meats but in deli, one of the other areas we are continuing to double down in.

But one of the things that you know us for is being a house of brands and providing great brands and services. And what you will see here on the slide, you will see a little asterisk by a number of these items and I will go a little bit more in depth in each one of those as we go across the page as we get further into the presentation.

But what I think you are going to see here as I talk a little bit more about some of these new [disruptive] services we believe are adding to our offering that will help drive traffic and ultimately sales for our organization.



Second plank is save. And our customers look for us to help them save money so they can live better. But it all starts for us with respect to this in the productivity loop and we continuously look for ways to improve by keeping our costs low, being a low-cost provider.

One of the things that we are doing here and had a recent announcement after having a test in seven markets, is an item called Savings Catcher, which is another opportunity for us to provide savings to our customers in a very easy way.

The third plank you see is on service. And with us it starts with the customer and keeping that customer first. But for us it is all about having an engaged, talented associate that is providing that service and we are doing some new things in our organization to help make sure that we have the right people in the right place and position. It is about making sure that we have that right talent.

As we mentioned earlier in the year and at the end of last year, that we continue to focus on a small portion of our overall store formats that quite honestly are underperforming but we are seeing traction in those particular stores and we've actually seen about a 200% increase in the comps in those stores as a result of these very directed efforts.

And finally around selection. Walmart is known as having the broadest selection of product but we also want to be known as having the ability to provide access and convenience to customers as they change their shopping patterns and behaviors.

As you know, we are accelerating in our neighborhood markets but we are also on the third leg of a test that we are doing with Express stores which is a small rural supermarket. But it goes beyond that. And many of you may have heard the efforts that we are doing with respect to tethering stores together which will allow us to not only provide greater access to customers but use the combination of both digital and physical assets to provide a broader array of services and products to customers in the marketplace.

And then finally, one of the things that we have just broken ground on, there is a new test that we are doing and it is in the Rogers area in Arkansas. But it is a drive concept and we will talk a little bit more about that and what that would provide to our customer.

So let's get a little deeper into some of these planks. And the first one is sales. As I said, we are definitely focused on in stock. What we've done this past year is we really try to demystify what we were doing. Previously we had a number of algorithmic exercises we were asking our associates to go through in order to make sure we had the right product in the right place. But we just quite honestly we got down to the basics and basically went back to simplifying it, it is about receiving inventory in the evenings and getting it on the shelf. It's about making sure that if it is not on the shelf that it is appropriately put into a bin in the back and then if items are sold, our POS lets us know and it tells us to go pick it and get it back on the shelf. It is that simple.

And what is amazing about this is we actually have seen a significant improvement not only in our associate satisfaction, our productivity, the customers are also responding and we are actually seeing a lift in our comps in those stores that are actually executing the best on this what we call OSA First.

And what you have seen here is our goal of 95% on stock availability is now increased to the upper 90s, about 96%, 97%. So we're really pleased by what is happening there and it is helping us drive our comps in certain key categories.

We also recognize that our fresh and fresh impression in the store really sets the tone for the entire store. So we really focus on improving our quality and specifically our experience in our fresh departments.

One of the things that we have done over the last several years is really focused on how we can go upstream and actually work more directly with our growers particularly in produce and vegetables. By doing so we have been able to increase our specification while reducing our overall cost by continuing to reduce some of those middle costs.

The other thing that we have done here is we've also allocated additional labor particularly in these areas to make sure that we are culling our inventory and making sure it has the right presentation for our customer. And finally one of the things that we have done is we have instituted



quarterly -- excuse me -- weekly audits of these particular areas and make sure that we are executing against our plan and these reviews also identify areas in which we need to improve upon.

So the combination of all those things actually has great results particularly in produce and many of you know that we came out with our freshness guarantee. And that guarantee and the quality of the product that we have is actually driving great results for us in those particular categories.

So on the right-hand side of the page here we talk about strategic investments. And in the first quarter we've seen some pretty significant cost inflation particular in meat and produce. And one of the things that we have done here is we have actually not passed on a lot of that cost inflation to our customers. Being the agent for the customer was really important for us to be able to hold back on that as best we could. What we've seen is actually unit lift and comp increase particularly in these areas as customers are responding to that quality and that price and that value.

But you also see in the second quarter and as we move through the course of the second quarter here, is that we are focused also on bakery and deli and prepared meals. In bakery we have come out with a rollback on our French bread. We have rolled that back to \$1.00 everyday price. And then our rotisserie chicken, we've also reduced that by almost a full \$1 also. So our customers are actually seeing great produce, great product being extended beyond and further into our stores in fresh, and deli and bakery.

I want to talk very quickly about two new services that we have added which might be our great examples of how we are known for EDLP and products but how we want to also be known for EDLP within services. And on the left-hand side of the page, you see a new offering that we added called Walmart 2 Walmart. And back in late April, we introduced the opportunity for customers to be able to transfer money from one Walmart store to another Walmart store at a price that on average is less than 50% of the prevailing price for those services in the marketplace. We have only been out now for about a month and a half and we've been able to drive about \$7 million worth of savings to those customers already. So as we call it, it saving money upon money.

And then there is another service that we just started and that was in early May. We opened up a Walmart care clinic in the front of the store in the tenant lease space. And what is particular about this offering is that for our associates that are on our health plan, they can come in and get primary care services for just \$4. And anyone that is not an associate on our health care plan or the general public, they can come to these same locations also and get those same services for just \$40 per visit. We believe this is a great opportunity for us to help manage the rising cost of our healthcare as well as take some of the pressure off some of the health services that you see in the marketplace particularly in emergency rooms which are often at a higher cost. So really excited about just those two new offerings that we have.

The Walmart care clinic was the first one that we've opened up. It is in Texas. We anticipate opening up approximately another dozen over the course of the year so we can get an understanding of what the needs are. It is a great opportunity for our store associates, our individuals working in the distribution centers and transportation centers to gain these services.

Talk a little bit about the Savings Catcher that I mentioned earlier. This we believe is a great offering. It is one that is very quickly building trust with our customers. We have been ad matching for an extended period of time but this new service what it allows customers to do is not have to worry about going from one store to another, having someone's advertised price versus another. They can come to our stores and shop. They can take their receipt, go online either to Walmart.com or to an app and actually input their receipt and then based upon the items that they've purchased, we go through and actually do the match for them. And we match against not only our prices in the marketplace but the competitors' prices and in doing so to the extent there is an additional savings that they would have qualified for, we give it to them immediately on a new gift card.

So what we have seen here very quickly in the tests that we have done in several markets that we have been able to improve our pricing compression as you see in the bottom of the slide. We are seeing more frequent trips and ultimately increased spending along the way. So we're really excited about this. And we will be rolling this out nationally later this summer.

Talked earlier about the need especially with our customer to make sure we have the right talented associates and engaged associates. So recently here we opened up in Irving Texas a central hiring center. In doing so, this center has a focus and attention on one thing, getting the right talent in the right positions and being able to hire to a particular standard that is consistent in the marketplace.



What we find is that in doing so, this center also allows individuals to be appropriately on board and understand the culture of what Walmart is and actually getting training before they actually get to the stores. So this facility is equipped with authentic training capabilities such that hourly associates and management can actually do hands-on training, gain a level of proficiency in the store in the store environment before actually being assigned to a store. And we believe these are the types of things that will help us improve associate engagement when they first get to the store and make sure we have the right people in the right places as it relates to maybe evening stocking or those jobs that are more customer facing.

You hear us talk about tethering from time to time and I just want to spend a moment here to talk a little bit about what the concept is. Here also in the month of May we opened up an Express store that was tethered or connected to if you will a supercenter that was about 30 to 40 miles away. That supercenter was in New Bern, North Carolina; the Express store was in Oriental, North Carolina, a town of about 1000 people. And what customers can do is they can go into this essential rural supermarket and have the capability of ordering anything that is in that supercenter. If they order by noon, they can get the same day. If they order an item through our dot.com network, they can get it within two days. And we believe that is very powerful.

The other thing that we are doing here in tethering the Express store with the neighborhood market is we are being able to actually move product specifically in deli and prepared meals from the supercenter that has the capability of producing that doing it fresh daily, getting it to the Express store that would not normally have either the space or the capabilities because of the capital requirement to do so, they can now provide those same services to their customers as a result of being tethered to that supercenter.

So at the end of the day customers in a rural area have access to over millions of items if you consider everything that is available on dot.com and they do all this with an a 10,000 square foot facility.

We talked about creating convenience and as you know once again with the neighborhood markets and the ability to use that format to fill in certain markets where we already have supercenters providing ease and access to our customer for that fill-in trip, we are going one step further and two step further.

The first item that we have is the ability -- we are looking at a concept called drive. And many of you may be familiar with what is happening in Europe particularly in France but basically what we are looking at testing is a customer will be able to go online and build their basket. In doing so, they can also select then the time that they will want to pick up their item. They would then drive to our drive depot and upon arrival be able to receive their merchandise without getting out of their car. So once again, we look at this as an opportunity to allow customers to shop how they want to, when they want to.

Within this depot, it will have access to about 10,000 items. Many of those items are driving the majority of the volume in a neighborhood market so as you can imagine, these are high-volume items and it is not only in grocery and fresh and dry, but it also would include anything in our over-the-counter market also.

The beautiful thing about this is it is the same everyday low pricing. So it's the same pricing they would be able to get if they had gone to a neighborhood market or a supercenter.

So just to wrap up. Hopefully you will see the Walmart US leadership team that we are differently focused on driving sustainable sales and sales growth not only in our physical stores but using the conversions of our digital assets with our physical assets. We are committed to being that trusted price leader and we want to be the agent for our customer.

As it relates to service, it is so important that we have a dedicated team of engaged associates and what we are doing there to ensure that we continue to bring those associates on board, get them well trained and ready to service our customers.

And finally, it is about bringing innovation and bringing that innovation to allow us to expand access and convenience once again to that customers whose shopping patterns and behaviors are changing every day. We want to be able to be the Walmart not only for today, tomorrow but for the future.



And with that I will take any questions.

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## QUESTIONS AND ANSWERS

**Dan Binder** - *Jefferies & Co. - Analyst*

We will start with any questions from the audience.

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### Unidentified Audience Member

Can you talk a little bit more about the challenges on the (inaudible). I don't know -- it is hard for me to figure out how you can actually get supply to the littler store, then let the customer know about it and do that in a cost-effective manner. What is behind your ability to do that? Or what (inaudible).

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**Jeff Davis** - *Wal-Mart Stores, Inc. - EVP and CFO, Walmart US*

Like anything else it's around our cost to serve. But currently today in Northwest Arkansas, we have an Express store tethered to supercenter. And what they're actually doing, it is a small carrier that actually has the ability to carry not only ambient or frozen but general merchandise also. So when a customer comes in and places that order, once again, through that kiosk they are placing that order and they have -- they know that if they order by a certain time they would be able to pick up later that day. And they will get an estimate of what the time would be.

But what is interesting about this is that you already have labor at the supercenter that is preparing pickups and deliveries in some situations. That same labor is pulling that merchandise for other orders -- these orders instead of it going to a customer's home is actually going to the Express store.

But one of the things that we have to determine is one, what is going to be the level of demand, the frequency of demand and size of basket? But what we're seeing currently is a very good acceptance of this and especially when we look at some of the rural areas where individuals today don't have as much access and/or require a much longer drive. So those are the types of things we're looking at and quite honestly our finance teams are going to make sure that as we are working through this, we are reducing our overall cost.

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### Unidentified Audience Member

(inaudible) what generally is the mileage range that (inaudible)?

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**Jeff Davis** - *Wal-Mart Stores, Inc. - EVP and CFO, Walmart US*

So in the -- today we really are only operating this in two markets. We are going to expand it to three to four other markets. The one in Northwest Arkansas, the range is less than 10 miles. And then the one in North Carolina today, the first test that we are doing there is about 30 to 40 miles. So one of the things that is important for us to understand and maybe getting back to John's point is where is that appropriate tethering point? Is it six miles, 10 miles, 30 miles? What is the appropriate level and where can we be effective, where is the demand for those types of products? But those are the reasons why we test these things before necessarily going to a full rollout.

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### Unidentified Audience Member

(inaudible - microphone inaccessible)

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**Jeff Davis** - *Wal-Mart Stores, Inc. - EVP and CFO, Walmart US*

We haven't necessarily broken down between what elements are most profitable but when we look at the project itself, the opportunity for us is to have our associates being able to get services at a low cost. It also takes pressure off of then the services that we would otherwise be paying for if they were going to their other primary care. So having the access, having the quality care which is important at that lower price. The other ancillary things that happens is that you have individuals -- it is now a traffic driver if you will to that supercenter. So it may not only be for opportunities for health and wellness of services in either optical or pharmacy but the idea they are now coming to our store also and the opportunity to pick up an item on our grocery or GM side. So it is all the above.

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**Dan Binder** - *Jefferies & Co. - Analyst*

Any other questions in the audience? Jeff, I had a question for you.

As you make these price investments particularly -- specifically to your example on the protein price increases and the slower pace at which you are passing it through, it makes a lot of sense to stand out in the market in that kind of environment. But I'm curious, do you get a halo effect where aside from the customer coming in and let's just say cherry picking you on those items where they can get below market price, are you seeing a transfer of shopping to other parts of the store? So it seems like that would be really the main point of doing that so that you're not giving away too much margin.

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**Jeff Davis** - *Wal-Mart Stores, Inc. - EVP and CFO, Walmart US*

Sure. So first and foremost one of the things that it's important is that we actually see the elasticity as a result of dropping those prices or holding our cost for our customers. And as we are seeing that, we are not only seeing it in a particular item but more importantly in the category. So one of the things that we hope to see is that as we continue to improve our quality and price that as people look at Walmart as a retailer that has strong presence in these particular areas that they will continue to increase their purchases.

One of the things that is really hard to determine for us is as a result of pricing that we may take and grocery how it is impacting other general merchandise, we don't necessarily have those direct correlations but we are seeing the traffic particularly increase in those baskets that now include not only the items that are marked down but items elsewhere in the store.

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**Dan Binder** - *Jefferies & Co. - Analyst*

Another question for you. I get a lot of questions about the small format strategy and ultimately what it means for supercenters and cannibalization as you accelerate small formats. It is been such a small piece today that it hasn't really shown up in the numbers but maybe you could discuss with us a little bit based on the stores that you have had open for a while, what type of cannibalization do you see in neighboring stores particular the supercenters as you bring those supercenter prices more local to the customer?

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**Jeff Davis** - *Wal-Mart Stores, Inc. - EVP and CFO, Walmart US*

Sure. You know one of the things that we do recognize is that our smaller formats if they are in very close proximity, when I say very close proximity I'm talking about one to two miles. And that is few and far between but to the extent that we have small formats within that diameter of the supercenter, we are seeing some impact.

But that is one of the things that was important for us as we were looking at rolling out the neighborhood markets and understanding our learnings is that we needed to stay necessarily outside of those businesses to have less of an impact on the supercenter but also what we were seeing is that many times when we were dropping in our neighborhood markets or our Express stores, we were taking market share from other competitors in



the marketplace not necessarily the supercenter. And that is what was really important for us and we understood that the opportunity for us was not necessary to impact our own stores but to impact the competition in the marketplace.

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**Dan Binder** - *Jefferies & Co. - Analyst*

So what does that radius look like in terms of where you want to put those stores relative to the supercenter as you think about that cannibalization equation?

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**Jeff Davis** - *Wal-Mart Stores, Inc. - EVP and CFO, Walmart US*

What we have determined is that it is important to be outside of one to two miles of a supercenter.

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**Dan Binder** - *Jefferies & Co. - Analyst*

And should we expect that going forward? Is that sort of part of the bigger strategy? Or do you think you will --?

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**Jeff Davis** - *Wal-Mart Stores, Inc. - EVP and CFO, Walmart US*

Well, I think the market is going to dictate what -- I mean if there is an opportunity for us to be closer as a result of market share against our competitors, we would consider it. But as we think about once again sort of the core criteria if you will, that is one of the criteria that we would use is that we would be outside of a certain radius of that supercenter.

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**Dan Binder** - *Jefferies & Co. - Analyst*

And then just jumping back to price investment again, you have unveiled the Savings Catcher program recently. Can you discuss -- I mean this goes a little bit beyond your typical price matching programs and my impression is talking to a lot of retailers that relatively small, a very small piece of their business ever is done on price match. And so your program I think is more interesting because it goes a step further.

But I'm just thinking from a margin perspective, can you sort of outline how you fund that program? Is it just a reduction of other price investments elsewhere to balance that out? And what do you expect the -- what you've seen so far in terms of percentage of transactions that will go through that program or any statistics you can share with us on that.

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**Jeff Davis** - *Wal-Mart Stores, Inc. - EVP and CFO, Walmart US*

You know what is really important here is that Savings Catcher is really an opportunity for us to build a deeper level of trust with our customers. Because today as other competitors are using high-low on particular items and customers are having to run to one store versus another, that is very inconvenient and time-consuming. Today, our stores on a local basis are very aware of what the advertised prices are and many times what we are doing is we're trying to figure out do you keep, are you copying against one competitor one week and another on the second week and at the end of the day, they are all the same items.

What this allows us to do is for us to set that everyday low price as we believe is important for our customer. To the extent that there is a lower price in the marketplace, there is always some other action being below us on a high-low strategy, that customer has the assurance that they can actually get that from us.

So as we see it, it is marginally incremental to our overall margin as a result of these additional items that are below our everyday low price. We today already are investing in price on a local perspective and keeping our prices low. But it is something that for us, as we understand also what are the price elastic items where we need to bring our prices down, we will make sure we do so.

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**Dan Binder** - *Jefferies & Co. - Analyst*

Well, I think that is about all the time we have for Q&A. Do you have one on one set up for you though throughout the day.

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**Jeff Davis** - *Wal-Mart Stores, Inc. - EVP and CFO, Walmart US*

We do.

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**Dan Binder** - *Jefferies & Co. - Analyst*

(inaudible)

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**Jeff Davis** - *Wal-Mart Stores, Inc. - EVP and CFO, Walmart US*

Thank you very much.

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