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Corporate Speakers

- Carol Schumacher Wal-Mart VP - IR
- Charles Holley Wal-Mart EVP, CFO

PRESENTATION

Carol Schumacher: Thanks to all of you for that presentation. And now to provide an update on our financial priorities of growth, leverage and returns, and to provide the extra little bit of information you are looking for in CapEx, our CFO, Charles Holley.

Charles Holley: Good afternoon to everybody. We're winding it down. It's great to see a lot of familiar faces here today. Now, in the next few minutes, I'd like to build on the presentations you've heard. And I'd like to also tell you how it all gets pulled together in a consolidated story.

Now hopefully, what you heard today from our segments was that we are building an even stronger retail and membership business with a keen focus on our customers and members. Now, here the headlines you're going to be hearing from me in just a few minutes.

First, we will continue to deliver consistent performance across the entire company. Second, we will continue to invest in technology to help leverage expenses across every segment. And we will invest in our eCommerce businesses which will drive future sales and earnings. Now in addition, we will use a disciplined approach toward capital investments with an emphasis on improving returns.

Now finally, we will continue to focus on adding value to our businesses which will provide additional cash returns for our shareholders. When you put the portfolio together, over our history, you see consistency. And looking forward, you can still expect that kind of consistency -- growing the top line, leveraging SG&A, and delivering earnings per share growth. Our goal is to grow profits as fast or faster than sales. And we will keep generating enough cash to invest in the future for growth and productivity.

Now let's talk about what drives the total company performance. It's obviously the segments. And you've heard the operational strategies from Bill, Doug, and Roz, but I want to touch on what this means from a financial perspective. Wal-Mart US is both healthy and incredibly efficient. Over the last year, the economic environment has been extremely challenging, but when sales were soft, Wal-Mart US continued to deliver on the operating income line.

The Wal-Mart US segment has one of the highest operating income rates in the industry. Our focus going forward will be to invest in price and merchandise execution. We're also making it easier for our customers who shop with us whenever, however, wherever they would like.

We'll do this through our further investments in eCommerce as well as unit growth of our supercenters in small formats. Now, Wal-Mart International continues to be an important growth engine for the company even with the moderation that we've seen in the amount of new square footage. The international segment is a portfolio of retail formats operating in both mature and emerging markets. And the mature markets in international similar to the US are doing a great job with operating margins and we expect this to continue.

Now certainly, there are some emerging markets that Doug referred to that we need to expand our operating margins. But we have a real opportunity to take what we learned from the US and our other successful markets and drive growth in the bottom line as well as the top line.

Now Sam's Club, it's been able to deliver I think top line growth by adding value to its members. And you will continue to see this focus intensify going forward. Our long term expectations for Sam's are to grow the top line performance and market share. Now this will be driven by great merchandise initiatives, new club openings, and some moderate investment in pricing.

And you also heard from Neil about Global eCommerce. Now we've had great sales performance in our eCommerce businesses thus far and we're planning to build on our successes. And as a reminder, the sales in eCommerce are embedded in the operating segments. Going forward, you can expect eCommerce to play a more important part of our retail operations. We expect to grow the top line of our eCommerce businesses at a faster rate than the eCommerce industry as a whole.

We told you this fiscal year's incremental investment in eCommerce would be dilutive to the company by approximately $0.9 per share. Now, this is mainly due to our important investments in China with our acquisition of Yihaodian and our investment in Brazil's new eCommerce platform.

And we will continue to invest in eCommerce, but we don't expect significant increases and losses for next year. And we would expect to see those losses reduce as those investments take hold over the next two to three years. Now we believe these investments are important for our current and future customers.

Now, if you only have one thing to take away from today, it should be that we are totally energized and focused on growing the top line. We're making comp and sales performance a top priority. And we fully expect sales to be well over $500 billion in three years and that doesn't include acquisitions. And bottom line, we have incredible room for growth in all channels and formats.

Now, over the past few years, we've been investing in our leverage organization and Rollin touched on the five key leverage strategies a few minutes ago. We've already seen increased productivity in many of our operations and we're excited about the expected benefits over the next three years. Investments are always ahead of returns, and they're necessary in this environment, but we're going to be very disciplined in holding our sales accountable for realizing these returns.

So what are the financial impacts of these investments? Well, when you look at the P&L, you see the corporate support expenses growing. What's not so obvious is that where the benefits reside because they're in the results of the operating segments. And every operating segment, you can expect us to continue to reduce the cost of merchandise. You can also expect us to leverage our SG&A as we transfer best practices, standardized processes, and implement store scheduling systems across all our markets and formats. This progress will help us continue to improve our operating income which will allow us to invest in price and increase returns.

Now as a reminder, we committed to levering expenses at this meeting in 2011. That is growing expenses at a slower pace than sales. We also committed to levering over 100 basis points of our expense to sales ratio two years ago.

We made good progress on the 100 basis point goal in Fiscal 2013 but the road got a little bumpy this year. Sales have slowed globally more than we anticipated in spending around the compliance and SCPA has grown a little more than we expected.

Now as you heard from Mike and Rollin we are still committed to achieving the original goal. We continue to focus on expenses in the back half of this year and going forward, you can expect to see more progress toward our leverage goal.

Now when you break it down by segment, you can expect Wal-Mart US which already has a very healthy operating margin to grow operating income at around the same rate of sales. The international segment has great opportunities for SG&A improvement which will help them drive their increases and operating income at a faster rate than sales.

The Sam's Club segment now they're going to make some small investment in its -- of the operating income and the price as it focuses on growing sales. And for the total company, our goal is to grow operating income at the same rate or faster than sales.

So what does all this mean if you're an investor? Well, you can expect to see continued growth in earnings per share. Our leverage initiatives and merchandise execution will drive operating income growth and we will continue to repurchase shares.

Now before addressing our cash flow estimates I want to remind everyone as in the past we always start with our commitment to maintaining the double A credit rating. Our first priority is to grow business organically through investments in stores, leverage, eCommerce. And we will always evaluate available acquisition opportunities that will either add to the retail platform we current have or will support our operations.

We expect total cash generated to be between $25 billion and $27 billion this year. Now CapEx which we'll take a closer look at, shortly, it should be about flat with Fiscal 2013. We're committed to returning excess cash to shareholders and we're planning for share repurchases and dividends to match or hopefully exceed last year's levels.

Just as you can expect the business to deliver consistent performance, you can expect consistency in our capital allocation going forward. From what we know today, we expect total cash available to grow between 4% and 6% a year -- per year over the next few years which will be driven mainly from increases in cash from operations.

Now this of course assumes everything is the same as today, no changes in global economic conditions or new acquisitions. We expect we will continue to grow the business at a very disciplined manner with our investments, whether it's new stores or technology and we will return our excess cash to shareholders.

Now hopefully you also heard a consistent story of capital efficiency from Bill, Doug and Roz. We're focused on building more square feet for fewer dollars. Bill talked to you about the progress we've made in building supercenters faster with fewer dollars. Remember it's a bit different international. We're building a variety of formats in various markets and they're probably a little behind the US, but they are very focused on being able to deliver the same kind of efficiency results as the US And over the long term, we've been able to decrease the total amount of capital even as we continued to grow the company.

And the mix of how we invest our capital continues to change. What you can't see from looking at the capital numbers are the increases in technology spend. This portion of the total basket is growing rapidly. Technology shows up within our segments but it also makes up the lion's share of our corporate and support capital.

We think technology -- we think of technology as our information systems that drive leverage in global eCommerce excluding the fulfillment centers. Now this technology capital will grow about 70% from fiscal 2009 until the end of this year fiscal 2014. We expect it will grow another 12% in fiscal 2015. We view this investment as critical to future success in all channels and segments.

Now our shareholders are always a top priority. We deliver a consistent dividend growth for over the last 30 years. We doubled our dividends since the time of the financial crisis in 2008. Not many companies can say the same. And you could expect this trend to continue in the foreseeable future. This is a result of the strength and consistency of our cash flows.

Now in addition to dividends, we're going to also return value to our shareholders through share repurchases. When you combine dividends with share repurchases, we return $7.2 billion in the first half of this year. In fact, we've returned nearly $1 billion in the last 10 years and you can expect us to use our strong operating performance to continue great returns.

Now at this point you've seen capital guidance from all of our business units. So let me pull it all together. We expect fiscal 2014 CapEx to be between $12 billion and $13 billion. In fiscal 2015, we expect CapEx to fall between $11.8 billion and $12.8 billion. For fiscal 2015, we are expecting net sales to increase between 3% and 5%.

As for square footage, you've seen and heard from each of the segments and adding it all up brings the total company amount in fiscal 2015 to somewhere between 33 million and 37 million net additional square feet. In terms of leverage, our operating income will grow at least at the same rate as our sales. And we'll do it in a very disciplined manner with our expenses. As always we have a focus on generating free cash flow while making necessary investments to grow our business.

In summary, we expect consistency in results despite whatever economic or political headwinds exist. We have a lot of growth ahead of us through many different formats and channels. We will invest in innovation to drive SG&A leverage. We will make disciplined capital decisions and we will continue to deliver on our promise of strong shareholder returns.

Now before I turn it over to Mike, I'd like to mention a couple of items. In earlier presentations there were a few comments about how finance has been restructured. We made some changes to our finance organization at the beginning of this year. Previously, the finance teams in our international markets had a direct reporting relationship to the market CEOs with a dotted line back to finance in Bentonville.

Well, now the finance teams have a solid line back to Bentonville and in to my finance organization. This has created a much stronger control environment and from a financial management standpoint has enabled our senior leadership team to develop a much better understanding of the business as well as the challenges. And therefore we're able to react much faster to support the needs of the business.

Perhaps the biggest benefit has been the mobility of finance talent to key markets along with the development of much deeper bench. For example, our regional CFOs for Asia and LatAM, in fact Doug, you mentioned Ann Bordelon in Asia they have significant experience both within international within Wal-Mart. From a global perspective we had the strongest finance team our company has ever had.

The second item I'd like to discuss are the discrete items in Doug's presentation and those include the sale of our Vips restaurant in Mexico and the restructure of our business in India. We do not believe these transactions will have any financial impact on the third quarter.

There are a lot of moving parts in these transactions and we believe they will take place after the third quarter. Both of these transactions require regulatory approval so while we think they could take place in the fourth quarter, some of these could lead over entirely next year. Additionally, you heard that we decided to close some underperforming stores in China and Brazil. It's still early in our analysis of the impact but we believe most of this will occur in this year's fourth quarter.

Now the net impact of all of these discrete items is somewhere between $0.05 and $0.07 dilutive. Okay? Keeping in mind that the sell of Vips in Mexico will be recorded as a discontinued operation.

Now our next earnings release is a month away. We'll have more information that time it's November 14th. So thank you for your interest in our company. And I'll hand it over to Mike to give some closing comments and then we'll open it up for questions. Mike.