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PRESENTATION

Mark Wiltamuth - *Morgan Stanley - Analyst*

Okay, next up we have Walmart. Please see our published research on the Morgan Stanley website for the required legal disclosures.

I'm Mark Wiltamuth, Morgan Stanley's discounter, food and drug analyst. Today we have with us Bill Simon, President and CEO of Walmart U.S. Bill was previously COO of Walmart U.S. from 2007 to 2010, and before that he was the father of the \$4 generic drug program. Now, he can add to his resume the turnaround of the US business, which he has turned around after a two-year decline of same-store sales.

So here to talk about the turnaround is Bill Simon, and after his presentation, we will take a few minutes of questions. Thanks.

Bill Simon - *Walmart U.S. - President, CEO*

Thanks, Mark, appreciate it. How is everybody doing? Thank you all so much for having me. Thank you, Mark. Appreciate the introduction. It's great to be in Boston. I'm a bit of a local boy. I grew up in the Hartford area and went to UConn, so anytime I get a chance to come back to New England, it's a bit of a homecoming and kind of exciting for me. So thanks for the invite and thanks for putting on the conference.

Of course, let me start with the forward-looking statement that we are required to show you. I will be making forward-looking comments. If I weren't, probably half of you wouldn't be here today. So let's please make sure you understand everything that goes with that. And if you need more information, of course, it is on our website.

So let me jump right in. We had a strong start to the year. We were really pleased with our first-quarter result. What you see here is a summary of what we would have given you at our earnings release. Comp sales above guidance, earnings better than we had expected, operating income better than we had expected. What we saw was strength across all of our geographies and all of our store formats, so Supercenters, Neighborhood Markets, discount stores, uniform strength across our business.

And while I looked at some of the reports written and some of the results our competitors gave, we were a little bit different in that the end of the quarter for us was just as strong as the start of the quarter. So we had pretty consistent performance across the quarter, which encompassed warm-weather weather benefit and maybe some weather headwinds toward the tail of the month. It had high gas prices and certainly the threat of even higher, and then moderating gas prices. So we feel pretty confident about and happy with a consistent performance.

All of our merchandise categories were positive as well, with the exception of electronics, driven by price reduction/deflation, primarily in televisions and consumer electronics, that you all would be aware of.

New for us and I'm very happy to report a rebound in our apparel business. For the first time in very many years, we had positive comps, in fact, mid-single-digit positive comps, across our apparel business. I'm going to talk a little bit more about that later. But what we are seeing is a very basic apparel strategy, is in basics, less fashion, almost no fashion. Basics and what we're calling fashion basics, a mass merchant discounter approach to apparel and that strategy is working.

Grocery, which is food and consumables, for us about 55% of our business, also delivered a solid result. And that has been pretty consistent through the ups and downs. That remains very good despite a changing inflation situation, and we reported the net impact of our inflation in our earnings release.

Strong top line, strong bottom line and leverage. We grew operating income 220 basis points faster than we grew sales. So all in all, the first quarter is a demonstration of what we have been working hard on over the last year or so, and we saw it come to fruition in the first quarter.

I'm going to talk you through some of the detail of what happened in the first quarter so you can understand where we are going. And I'm putting it in the context of what you would have seen before on the inside of this circle, which is the productivity loop that we talk about quite often.

What I overlaid in the yellow bars are the result of the first quarter and how that productivity loop is working for us. And particularly noteworthy -- and I don't want to comment on it -- I will probably say this several times during the presentation, it's a loop, it is not a line. So a line sort of talks about a start, and maybe there are infinite lines. But this is a loop.

It's a loop because it is a self-fueling cycle. If you buy for less, you can sell for less, you can grow your sales to deliver leverage into your business, which allows you to operate for less and fuels the next cycle. And that is exactly what we saw in the first quarter.

It's Sam Walton's business model. We were able to deliver leverage, and I'm going to talk to you about where that came from in just a moment, which allowed us to continue our investment in price. And our investment in price is primarily focused on traffic driving food and consumables, and that is where we have been focusing.

So we leverage our scale to invest in price on food and consumables to drive traffic to our stores to leverage a basic general merchandise strategy, which allowed us to grow sales; in fact, sales above what we had believed would happen, which then gives us leverage again to start the cycle all over again. That is our core strategy, that is what we are executing. The entire team in the US is focused on it and delivering against it.

So let me jump right into leverage. I just picked the last, say, five quarters to show you. The four quarters before that I left off, mostly because they hurt me and they were all negative and I didn't want to talk about that. So what you can see is over the last five quarters, we leveraged four out of the five quarters in the US business. And the one with the red X, we didn't leverage; we missed by two basis points.

So there is leverage in our business. There is leverage at a 2.6% comp, which is what we had in the first quarter, and there is leverage at a negative comp, which you saw in the first quarter of last year. And by the way, the four quarters that I left off that were hurtful to me, all negative, all leveraged, all of them leveraged. Our business model can deliver leverage, it can consistently deliver leverage and it does.

I was asked several years ago how much longer can you continue to do this. And the answer is we can fuel leverage for a long time; I will say forever. Because that is what we are designed to do and that is what the business model is designed for. When executed properly, that is really what we are trying to do. It is not just one or two initiatives that drive it; it's the entire system that is designed to deliver leverage and fuel the productivity loop.

I'm going to go a little bit deeper today on an area that I think might be underappreciated, and maybe it will help many of you understand the sources of some of that leverage. And that is our supply chain. And this is a really basic, simple chart that shows across the bottom, the black line, the number of distribution centers that we've owned and operated since fiscal 2008. Flat line. Flat line.

During that time frame, store count has been up about 7.6%, let's say 8%, because it's a nice round number. So by definition, leverage exists. Without doing anything, showing up, leverage starts in the system. When you add on to that comp sales -- and there were comp sales during that time period -- over this time frame, we added about \$24 billion in sales without building a new distribution building, none, period. That is leverage.

That is like adding -- I don't know -- like nearly Macy's volume to a distribution system. It creates leverage; it is the start of that momentum that delivers leverage in our building. And once you get the optimal distribution network in place, it becomes a velocity game. You don't need to build new ones.



Now, I'm not saying we're never going to build a new one. But we haven't built one for many years and we don't have any capital planned to build one this year or next year. We could get to a point, frankly, where there is an opportunity as we expand our food business into markets that we don't go to where we might need an odd new food distribution center or fresh distribution center. But by and large, the infrastructure and the buildings, physical buildings is really what I mean, that fuel our growth and feed our buildings is in place and provides leverage.

Now we are updating them and we are remodeling them and we are keeping them up to speed, so I'm not trying to tell you that we're not spending capital here. But we are not building new buildings. And that is just the box.

So if you move one step further, what you see inside the box -- and this is a year-on-year-on-year improvement in productivity. And this chart just shows one metric, and that is cases per labor hour in the distribution centers. The number for this year -- let's see -- in the first quarter, 3.2% improvement in the first quarter. And that is on top of a 3% to 5% improvement the year before that.

So the physical asset, the box leverages by definition. The productivity inside the box leverages by definition. And taken a step further, the transportation numbers that we've given you recently -- and we presented them to you as a sustainability story, and they really are -- are a phenomenal leverage story as well.

In the first quarter, we reduced the cost per case shipped by 5.4%, and that is with a fluctuating fuel price. So the transportation network that actually feeds the stores on the back end of these massively leverageable distribution centers also delivers leverage to us. And one of the most fascinating things -- and we keep track of this, as you would imagine -- over the last five years, we shipped 360 million more cases and drove 290 million less miles. That is a leverage.

So leverage exists in our business on a very, very large scale before the product even gets to the customer. Before -- by the time it arrives at the back door of the store, leverage exists already in our business, and that allows us an advantage and opportunity a bit of a head start.

One of the really fascinating parts of our business -- and I first mentioned this a couple of years ago; I spoke a little bit more about it at our October analyst conference -- is the opportunity to take those capabilities that exist in our supply chain and bring it to the store. Which, by the way, is where about 70% or so of our inventory resides. So we have incredible expertise on the supply chain, and now we are bringing that expertise to the store.

And I talked to you in October about how the pallets are now arriving at the stores. They are sorted and stacked and built in the distribution centers by aisle, unique to every particular store. So when the pallet comes to the store, the associates in the store that unload the truck now unload the pallet and take it straight to the shelf, because the products come sorted by the aisles.

Another really interesting piece -- and that is what that's A-6 is there -- a distribution center sort of capability and technology that uses aisle locators and then builds that into the product identifier in the distribution center and in the store now. You will see these little numbers all over our store; they would have gone in in the last, say, 12 to 18 months. So now the product comes off an assorted pallet with an aisle locator number on the label that tells the associate not only what department it is in, but exactly what location to go to. So that technology and capability that exists in our supply chain will provide us a long, long runway of leverage opportunity across the 70% of inventory that exists in the store today.

And so our leverage in our business is more about one singular initiative than it is about a culture of leverage, a focus on -- a passion for reducing expenses so that we can reduce costs, and reduce price to our customers.

Let me move on to that, because we've had some progress in that over the last year or so, and particularly in the first quarter. We were able to reduce our gross profit rate by 24 basis points, again, primarily strategically focused on traffic driving food and consumable items, with a strategy that says, if it drives traffic or delivers more gross profit dollars, it is something or something with elasticity, we are going to invest in price on that item.

And that is designed to bring traffic into our building -- we were up 1.1 in the first quarter -- and give us an opportunity to sell the rest of our assortment to the customer. And we are thinking of it, as I was talking to some folks this morning, as an ecosystem rather than each independent departments in the store. Everybody has a role, everybody needs to deliver against their role.

Let me give you a little more color on what that looks like. Everyday low cost, we talked about it, drives everyday low price -- it fuels it -- and we start to see traffic in our business. Last year, I was asked a question, how do we know if this is working? And I said, I think it is already. We are starting to see ticket in units as well as dollars go up. We believe that the customers that were in our store would see the assortment that they like, more basic, expanded assortment and start to buy more items and they did, and that traffic would lag sales, and so far that seems to have played out.

Our pricing strategy today is not a key item focused strategy. It's not 50 items or 100 items that are most shopped. It's not the Nielsen top 50 that any retailer, small or large, 3000 square feet or 200,000 square feet, can copy and choose to identify to match a price on. It is a thousand and thousand, a full assortment pricing strategy, that is driven by elasticity in our ability to drive traffic and gross margin dollars.

And I was saying this morning, there is items in our building that we are going to lower the price on that we may be one of only two people that sell in the market. And it is a simple economic equation. If we can lower the gross profit percentage, but get more gross profit dollars, we should lower the price. It doesn't matter what the gap is. It doesn't matter if we're the only one that might have the item. If we can lower the price to our customers and do well for our shareholders at the same time, we should lower the price all day long. And that is the rational, logical, analytical approach that we are taking.

Now, it's not an exact science, and there are some successes and some learnings in play, and we are striving to be better. But that is really what we mean when we talk about the power of the assortment, the power of Sam's business model.

Let me quickly give you a couple of examples. We've talked to you about hardlines before, but only item and department level. We talked about how fishing, when we added assortment, how wonderful that had done, and we talked about hunting. But in the first quarter, we reported sporting goods up double digit. So that is everything, from treadmills to baseball, some influenced by whether, some not at all influenced by weather. I'm not sure paint -- indoor paint is not a weather -- it's probably an anti-weather item. So that is working, and that is an assortment-driven strategy, leveraging the traffic that is in the building.

Our soft line business, again, really, really good quarter, with a focus on basics, a focus on basics, and an assortment that is not really simplified -- maybe not the right word -- but a very basic -- what does a customer want transactional, velocity. Really, a big box, mass merchant discounter, and we are proud of it, approach to selling soft lines and general merchandise.

A lot of weather issues. And I know lots of people reported on it. We benefited in some categories by that as well, particularly our seasonal businesses. But I'm giving you a tale of two wear here today. And every time we talk about underwear, somebody writes about it, so please write about the swimwear and not the underwear today. But this is just an example.

Swimwear was up 6% in the first quarter. Clearly, I think everybody would realize a weather-influenced category. We are happy to have it and did well. Underwear was up 12%. Now, there was some cotton inflation in it. But as far as I can tell, not a weather impact item in underwear. What it is is a mass merchant discounter approach to selling underwear. And that has been a success for us as well.

Just, again, a little bit of perspective. We have about 140 million customers and week in our stores, right. A 1% increase in traffic is 1.4 million incremental visits a week -- a week. And if you can take some single-digit percentage of those 1.4 million transactions and sell a basic towel or a pillow or a swimwear or underwear, the impact on the comps of those departments are very, very significant. That is the strategy that Sam Walton gave us, and that is the one that we are trying to execute as well as we can today. It about leverage, but leverage inside of the building.

And our marketing campaign is focused on today we've made a change to talk to the customer about this. And the campaign that you are seeing today aired is a very, very price-focused, basket price message. Not singular item or key value item or top 50 item focus; it is the customer's own shopping trip shopped at Wal-Mart and the savings are double-digit. I think we have a couple ads, so let's run those.

(video playing)

The campaign is actually less expensive to run. It's shot on one camera. It's perishable, because you will notice the date on the bottom of those, where we are directly comparing receipts -- these are actual receipts. They are not a top 50 item list. It is what the customer bought, bought across



the street or down the road and purchased in our stores. And the savings are double-digits. And the customer -- that resonates with the customer and this communication for us has been very effective so far.

And let me just get back to this slide one last time and talk to you really about what that means to our business. So traffic drives growth, and that is what we are seeing. It is a -- we believe that it is -- it has historically shown to be a loop and not a line, that now, heading into a very, very competitive summer season, we believe -- we believe our P&L is in great shape. We are focused on the results that we've been able to deliver in the first quarter. Our team is really, really energized by the work that we are doing on every element of this loop, to make sure that that loop continues to flow through.

I'm just going to give you the slide -- this is the trailing three and the guidance that we gave last week around comp sales. As we said last Thursday in our forecast, we believe 1% to 3%. There is still a paycheck cycle. It's different. Timing of some of the checks in some of the states has made it a little bit harder to read. The customer is maybe getting a little used to the difficulty, economic situation. Gas price threat is not gone, but the promise that we were given of \$5 a gallon gasoline thankfully has not materialized.

While there are challenges ahead in the year, there is a team that is ready to work on those challenges, and we feel confident and very pleased with what we were able to deliver in the first quarter.

Before I get to questions, I want to very quickly transition to growth opportunities that we still see coming down the horizon, and talk about our real estate plan and where we are in the US from a real estate perspective.

Supercenters remain -- and we have said this -- a great growth vehicle for us. Lots of folks are writing about big box and their impact on the marketplace. Our big boxes are not as big as our old -- our new big boxes are not as big as our old big boxes. But fundamentally, the business model that I just described to you requires traffic to leverage general merchandise sales. And that still works for us. In every case as we analyze it, the returns are very, very good for us.

And our plans this year are to open 100 plus new Supercenters. That is new, expansion and relocation, so it is not all new square footage. And that is well underway. We opened 27 or so in the first quarter, and so far are happy with where they are headed. The second quarter that accelerates. The second quarter will also see a fundamental change in our opening strategy. I want to talk to you about that. We will open between 40 and 50 new units. And for the first time, 16 Neighborhood Markets in one quarter on our way to even more.

Let me talk a little bit about Neighborhood Markets and what that format has been doing to us. As you all know, it is about a 40,000 square-foot-ish, 40,000-ish square foot format that we have been running for about 10 years, since -- I think 1999, we opened the first one. We've got it now to a place, and we've been talking to you about this for about a year now, where we are very optimistic and comfortable about the returns, approaching Supercenter returns. And the comp sales that we've been able to deliver from this format have been amongst the strongest that we've had in the business, and very consistent throughout the pattern.

This strategy is not really different. You know, the thing that makes these really cool -- and that is a picture, I think, on the left-hand side of the Neighborhood Market in Chicago, in downtown, where we can leverage GM sales through the site-to-store capabilities that we have. In that particular store, for example, we are seeing a much higher-than-expected level of site-to-store sales. So you do grocery shopping, but if you want a television or a futon, you can go to Walmart.com and have it sent to the store and picked up the next time you are in the store.

What you see there are six stars. Those six stars, those are six Neighborhood Markets that opened in the first quarter, Florida, Texas, Oklahoma City, not new markets for us. The second quarter will mark our entrance into some new markets. The first, actually on the West Coast, will open on Friday in West Linn, Oregon, near Portland, in the Portland DMA. The community there is excited about the opening of the store and we are excited to provide customers with the opportunity to save money on food and have access to the rest of our portfolio through site-to-store.

We also -- you will have heard in the press -- we haven't actually announced it, but others have written about LA. And we will open Panorama City by the end of the year, and the downtown location should open in 2013.



But just imagine this little map on the bottom. By the end of the year, nine months from now, there will be about 81 more stars on that market than there are today. And we have about 160 or so Neighborhood Markets today, so effectively what we will be doing is adding 50% to the fleet in Neighborhood Markets, and a very robust pipeline exists today going forward.

Finally, a little bit of an update on Walmart Express. We are pretty happy with the initial ten that we put into the ground. We put these in as more of a proof of concept. These are 12,000 to 15,000 square feet, designed as a bit of a hybrid between a food, pharmacy and convenience; some have gas, some don't; most have a pharmacy, but some don't.

What we wanted to do was proof the top line; we are very happy with the top line. What we are also happy with -- and this is a bit unique in our experience, as well as in others who have been trying to deal with a small-format entry -- what we are finding is that inside of 12 months, they are turning profitable. So we didn't actually project that. We didn't even try to engineer that; that is the next phase. What we were really trying to do was proof the top line, and what we're finding is that inside of 12 months they are actually delivering a positive bottom line as well. So very optimistic about the actual box.

Now, the next phase for us is about how big could this be. And I think that's important in that we're moving into a phase where we are going to work on the construction costs and we're going to work on the distribution costs. Again, already profitable, but we want to get them up to what would be the fleet average, or hopefully beyond that. And we're also going to work on density, like how many can you build in a market and to what point do you have to get you for this to matter on our large base.

So you will see us in the back half of this year go to a market and build them out very densely so that we can understand their interaction with the rest of the market, including us. And more to come on that once we have it, but I would tell you so far so good.

Quickly, to wrap up before we get to questions. Q1 shows the strategy is what we'd like it to be. We're going to lower expenses so that we can lower price so that we can drive traffic so that we can sell everything we have in our box to drive comp sales to fuel that productivity loop yet again. And everybody on the team is focused on that, and I do believe, and we have demonstrated, that the productivity loop can sustain itself and that there are opportunities for us to continue to grow in markets across the US.

And then a quick commercial. 50 years of Walmart. July 1, 1962, Sam Walton opened store number one in Rogers, Arkansas, just down the road from us. And this is what we do today, it's our culture, it's the business model he gave us, it's the one that changed the face of retail and we are very privileged to have the opportunity to run that so that our entire Company can be focused around helping people save money so they can live better. Thanks. Mark, questions.

QUESTIONS AND ANSWERS

Mark Wiltamuth - *Morgan Stanley - Analyst*

We'll dive in on questions. And we are running a little short on time, so we will probably be doing most of the questions up here from the stage.

So since we have some new news here on the smaller stores, let's focus a little on that. You are happy with the top-line story, working a little bit on supply chain and some of the cost side of things. What is the challenge on supplying these stores? All of Walmart is built on a case pick and even pallet delivery to those big stores. So how do you handle these smaller stores that really need to each pick into those little totes that you usually see at the drugstores?

Bill Simon - *Walmart U.S. - President, CEO*

You just described the challenge. I think the good news is that the top line is higher than we had expected it to be, and that has resulted in a bottom line that is better than we believed it would be.

So we are into the refining stage instead of the re-jiggering stage -- I don't know if that is a technical term or not. But we believe now that there is an opportunity for us to do some really innovative things. We haven't done them to date on the supply-chain side of it.

But imagine if you can get to a density market where you actually do the trailer drops to a Supercenter that is nearby, and a small truck to run a route of Express stores. So that you almost use a Supercenter as a cross-dock opportunity to deliver to a smaller store. That is kind of the mentality and the mindset that we are into as we look to refine those.

Mark Wiltamuth - *Morgan Stanley - Analyst*

Okay. And then the question -- you alluded to it a little bit -- is it really that you can get to enough of these in terms of density where it matters? Because we have done some math lately; you added 100 small stores; it may change your EPS by \$0.01 a share. So can you roll out hundreds of them at a time?

Bill Simon - *Walmart U.S. - President, CEO*

At our peak, we opened 350 Supercenters in a year. So you convert that into square footage, I think we have the ability to open -- if the market would absorb them, and that is really what we are trying to understand -- how many would it take and what impact would it have on the marketplace -- I think we can, I don't have any doubt about it.

Mark Wiltamuth - *Morgan Stanley - Analyst*

And then with the new Neighborhood Markets rolling out, you have now reached a point where the returns on those are commensurate with the Supercenters.

Bill Simon - *Walmart U.S. - President, CEO*

Commensurate was your word.

Mark Wiltamuth - *Morgan Stanley - Analyst*

Okay -- better?

Bill Simon - *Walmart U.S. - President, CEO*

I'd say approaching.

Mark Wiltamuth - *Morgan Stanley - Analyst*

Okay, approaching. Okay. If you're going to be rolling out 80 of those, do those need to be between Supercenters as a fill-in? Or can you use them as a trail blazer into some of those tougher markets, like California and the I-95 corridor, where it's a little more difficult to get in there with real estate?



Bill Simon - Walmart U.S. - President, CEO

We've had success in both and we've had challenges in both. So I think that the answer is driven by, as everything in retail, location and execution. So you will see a little bit of both for us in that.

So the Portland opportunity is a new market. Oklahoma City is not a new Walmart market, but an expansion of our brand in that market. And the Dallas Metro, we already have a significant number of Neighborhood Markets and 100 plus Supercenters. So we think there is opportunities for both of those.

Mark Wiltamuth - Morgan Stanley - Analyst

If we stop and think -- let's shift gears a little bit and talk about your pricing. Because that was one of the success stories in that productivity loop here.

We did a survey last summer showing that 60% of the consumers no longer thought that Walmart was the lowest-priced. But yet we also do a grocery survey that shows that you are in fact 15% to 20% lower than the grocery store competitors. So is this a perception issue or is it really an actual price gap issue? And how are you kind of attacking both the perception and the actual price gap?

Bill Simon - Walmart U.S. - President, CEO

I think the answer is it doesn't matter. If it's perception, it's reality. And I think to a certain extent, we've got to do what we do, and that is lower prices, provide value to the customers. And value for us has to be driven a basket, and not an item.

We have a promise that we won't be beaten on an item. We have that -- that's in our brand promise. But our value comes in the basket. The basket that you shop every week, the promise that a customer doesn't have to clip coupons, travel all over the place to buy [eaches] at different stores who are trying to get them there.

We will give you a basket savings and we'll make sure that we match a price that somebody is running on a high-low ad. And that's really what you're seeing in the advertising and that's what you're seeing executed in the stores.

So the action that is needed is -- it doesn't really matter whether it's perception or reality. We do -- we see the same things in our studies, that it's more perception than reality. But when you focus on key items, some people -- on 50 items -- and we were guilty of that -- from time to time, we slip into that trap. If somebody wants to match you on a price of milk, they will match you on the price of milk or beat you on the price of milk. And that leads to that erosion of trust.

And when you do high-low, if you are low on milk for three weeks or a month and you go back up, you lose the trust and you lose the perception. So we think some of the activity that was driven in the marketplace -- some of it we did; in some cases, we were responding to -- that level of activity, high-low activity erodes trust and erodes the promise that you were describing, that our customers may have reflected in some markets.

It takes discipline to run EDLP. It takes discipline to run EDLC. And it's very tempting to throw up a high-low ad on Memorial Day weekend for something. It's tempting, because it might work for a weekend. But what it does is over the long run, as you described, it erodes the confidence in your business.

Mark Wiltamuth - Morgan Stanley - Analyst

So, we saw the TV ad emphasizing the basket. So are you going after that basket approach or are you taking a more laser shot at, hey, how can we counter the dollar stores? That is one of the popular themes out there for investors; they think the dollar stores are attacking you.

Bill Simon - Walmart U.S. - President, CEO

I think if you focus on 50 or 100 items, every one of them, the dollar store will have. And if they choose to, they can match you on price or beat you on price. When you focus on 200,000 items, they don't have 200,000 items. We are lowering the price on things they don't even have, and that is really hard for them to combat. And I think that has been one of the learnings for us and I think it has been one of the things that has been driving our result.

Mark Wiltamuth - Morgan Stanley - Analyst

Longer term, as you are looking at the whole Walmart equation here, your role in the US, how do you think you really help keep the returns moving up for broader Walmart with your US story?

Bill Simon - Walmart U.S. - President, CEO

We have a great business in the US. We are very, very privileged to have a wonderful customer base that counts on us, and we take that responsibility very seriously and we will deliver for them. That's our commitment in whatever market; we try to do the best we can for our customers.

Almost every new person who comes in will come in and go, hey, I found this opportunity for us to take our price up and make more margin here. And I go, we don't raise our prices. What we try to do is figure out how to get more value for the customer, while we get more value for our shareholders at the same time. And that is why elasticity is the key for us.

And that's our business. There is opportunity for us to mine growth in the business in the US. There are opportunities for us to grow market share, and that is why we continue with the real estate strategy that we have. And that is our role for the Company, we keep this business moving forward and that is what our team is focused on.

Mark Wiltamuth - Morgan Stanley - Analyst

If you look at all that you presented here, it sounds like it's more of a traffic-driven story. Or are you also trying to grow basket at the same time? Which one is really going to be the driver in the next (multiple speakers)?

Bill Simon - Walmart U.S. - President, CEO

I think we need to find a way to grow both. It's always very difficult to grow both every quarter, and so I can't sit here and tell you every quarter from now on you will see positive growth in both of them. But ideally, in our business model, the way that productivity loop works, ticket should always lead traffic. If you are not -- if traffic is leading ticket, then I think you are leaking leverage, you are not selling all the way across the store, in theory.

But you will see fluctuations from month to month even, God forbid one day, maybe one quarter, a negative number. I'm not saying that we are planning on that. We are certainly not doing that. But over the course of forever, you will see some variations.

Mark Wiltamuth - Morgan Stanley - Analyst

So with food and consumables 55% of your sales, how do you think the comp reacts as the food inflation normalizes from a 5% number down to maybe a 2% by the end of the year? I think you had mentioned 3% in the quarter. So how does that really change the arc of the comp as the year progresses?

Bill Simon - Walmart U.S. - President, CEO

We have a little bit different business than many others do in that our customers just flatly don't accept price increases on most items. So we could take the price up, and we tell many of our suppliers who come in with a cost increase, you are taking a cost increase at your own peril. The trade-down impact in our business is very, very significant. They will move to smaller pack sizes, they will change brands, and they will move to private label if they need to in order to get value.

So the impact of inflation on the upside for us is much more modest than it is for others, and we see the same thing on the downside. We even see trade back into -- as disinflation and maybe price reductions one day come into play -- back into larger sizes and more premium brands, as they become more accessible. So that opportunity for us, I think, cuts both ways.

Mark Wiltamuth - Morgan Stanley - Analyst

And lastly, I just wanted to give you one opportunity to expand -- or at least respond to some of the media attention out there. There was a New York Times article that said that the Mexico scandal could in some way impact your US store rollouts. Maybe you could address the issues there. I mean you have had your detractors for years. Has the tenor really changed there in the discussions with municipalities and has anything really changed from your perspective?

Bill Simon - Walmart U.S. - President, CEO

We have a robust real estate pipeline that is already in place. Impact we have -- we haven't seen any impact like that in the US to date.

Mark Wiltamuth - Morgan Stanley - Analyst

Okay. Well, I think we are about out of time. I think we will -- Kimberly has got a question here in the front, so go ahead.

Unidentified Audience Member

I just had a really quick one for you. You talked about the elasticity of demand and the opportunity to lower price and create more growth profit dollars with that strategy. I'm interested in understanding how you execute that. Do you take a market, you lower the price in that market, you watch to see unit demand, and you have a certain expectation on the increase in velocity on that price reduction, and then you understand at that point if it's working or not working? Or do you roll it out across the chain? Just any insight on how you identify whether you've got the appropriate elasticity curve or not.

Bill Simon - Walmart U.S. - President, CEO

All of the above. It is not a precise science, so it starts with data. It's one of the reasons we got back into scanner data with Nielsen and IRI after 10 years out; we wanted to have the best data available, the same data everybody else was looking at.

In some cases, we have done -- we were so confident in it we've rolled it nationally. In some cases, we've piloted it. We've even gone to a market in the US and pushed accelerated price reductions through, to try to see -- sort of as a leading edge to find out where items would be elastic, knowing that we would never do all of it all at once everywhere.

And so we send out kind of an advanced party to figure out where in some cases were the elasticity is, and then we bring that back in and replicate it in like markets.



So it is all of the above. It is science and art combined. A and what we are seeing is -- and what we're trying to give our merchants and operators are the tools to be able to do that as best they can.

Mark Wiltamuth - *Morgan Stanley - Analyst*

Well, great, I'd like to thank Bill and [Carol]. Thank you so much for coming to our conference.

Bill Simon - *Walmart U.S. - President, CEO*

Thank you.

Mark Wiltamuth - *Morgan Stanley - Analyst*

And with that, we will move on to the next session. Thank you.

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