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PRESENTATION

Dan Binder - *Jefferies & Company - Analyst*

Good morning. I'm Dan Binder and pleased you could join us for the Walmart presentation. More importantly, we have Michael Dastugue, CFO of Sam's Club, with us. We will have a presentation and then we will open up to Q&A. And we look forward to your questions. Thanks. Michael.

Michael Dastugue - *Wal-Mart Stores, Inc. - SVP & CFO Sam's Club*

Thanks, Dan. Good morning. I think, unlike some of the other companies that you are going to hear from over the next day or two, Sam's Club is the only retailer that actually charges its members for the opportunity to shop at the club. But because of this it is our responsibility to make sure that we are providing merchandise that has great prices, great quality and value and that's exciting, all in an easy shopping experience.

So in addition to merchandise, I'll cover some of the recent developments in our membership program and also update you on our real estate and wrap up with how we are using innovation and technology to improve our club members' shopping experience. But before we begin, our lawyers require me to inform you that I may be making some forward-looking statements today.

So just quick recap on the channel, the wholesale channel is about \$140 billion here in the US and it is composed of three main competitors that I am sure you are familiar with. In effect, Sam's Club provides Walmart with the access to this fast-growing channel and as well as the e-commerce and the opportunity to exploit our business. Under the Sam's Club banner across the world Walmart operates 800 clubs in four countries. But today I'd like to focus primarily on our US operations, which is 620 clubs in the US.

So when I joined Sam's Club five months ago we were just finishing up our fiscal year and it was clear that we could have not achieved the success that we had over the last couple of years without the hard work of our associates. Their alignment to our strategy and their ability to create lasting relationships with our members have resulted in our ability to achieve top-line leverage and profitability objectives. So maybe it would be helpful if I spent a moment talking about how Sam's fits into the retail landscape.

We play an important role in Walmart's portfolio of businesses. If Sam's was a standalone company our \$56 billion of revenue last year would put us at number eight in terms of brick and mortar here in the US. But although we are a wholesale business we compete with retailers across different areas. But I think what differentiates us is the value, the quality and the membership experience that we provide. And this is in our roots -- this year Sam's Club is celebrating its 30 year anniversary.

So just touching on our recent results, even with the more challenging economic environment our strategy has enabled us to achieve consistent results in the first quarter. We grew our first-quarter net sales and delivered positive guidance -- positive comps within our guidance. We leveraged our expenses and we grew our membership income and this all translated into a 7.4% increase in our operating income.

So now I would like to just touch on our real estate program. Currently we are accelerating our new club openings, giving us an opportunity to serve members across the country. As this map shows, the Company really grew out of the Midwest and the South, but we are always looking at opportunities across the entire nation. Work is underway to open between 15 and 20 new and relocated clubs this year and most of which will be opening in Q3 and Q4.



Our real estate strategy plays a pivotal role in our ability to acquire members long-term. And it's a disciplined and balanced approach as we balance both long-term growth and return. So now while the new locations are a great way to grow membership, we are constantly looking at ways to grow our membership in our existing locations.

So the first question is how do we create value for our member? As I said earlier, it's a unique thing about the club channel that we actually charge our members to shop. So we are focused on building relationships with our members, those shopping for business and those shopping for personal needs, giving them the best value for what they want or need. And if you are not aware, roughly about half our revenue comes from our business members and half our revenue comes from our Advantage savings members.

So let me give you a little more clarity about what we mean when we talk about member value. There are three things that we think create member value -- price leadership; differentiated merchandise; and a compelling shopping experience.

In terms of price leadership, a recent survey showed that Sam's Club members saved on average 33% versus traditional retailers. From a differentiated merchandise perspective I think our buyers do a great job of shopping on behalf of our members. After all we are a house of brands and our members love to find great items at great prices.

Our merchants have focused on finding top branded items through alternative sourced avenues; an example of this is our jewelry department where we have a whole house collection of unique brands. Also if you look back about six, seven years ago we barely had a mattress business and today we're one of the top mattress resellers in the country.

So regarding shopping experience, I think it's important to note that members love shopping in our club. Recently the Temkin Group recognized Sam's Club as the number one in the US for customer satisfaction. And I think part of the overall shopping experience is that it is both brick and mortar and online.

So as we think about new ways of reaching out to members, we recently did something a little unique and innovative as far as reaching out to new prospects. In March we worked with LivingSocial, which is, if you are not familiar, the social network deal site, to provide a \$45 offer that included a one-year membership, a \$20 gift card and then several fresh items that could be redeemed throughout the year.

So let me tell you that the results were great. In 48 hours we had more than 157,000 people sign up for this offer. And I think it's important to note too that to date we've already had over 90% of those folks that had signed up come into the club and redeem their membership.

We believe that our members, both existing and future members, are very savvy digital users and so that we need to make sure that we figure out how, where and when they want to shop. But I think it's important to note also that membership is as much about retention as it is acquisition.

So we continue to enhance our membership offering and we recently decided to simplify our offering with three clearly named cards making it easier for members to understand. We now have a Sam's Savings card which was formally our Advantage card, we have a Sam's Business membership and then we have a Sam's Plus. This new -- the new membership program allows us to offer new benefits like an Instant Savings book that I'll touch on in a moment and additional Instant Savings offers that are exclusive to just our Plus members.

Additionally, we continue with a test that we started in the south-central region where we are testing rewards for our Plus members where we give members up to -- we give the member \$10 to spend for every \$500 they spend. The initial response to the test that started last fall has been positive, but we continue to evaluate to make sure that we understand the long-term financial results to the Company.

So additionally, after looking at our membership program from a competitiveness perspective we realized that we were underpriced based on the value that we were delivering. So in the middle of May we announced an increase in our base fee for both the Savings Advantage membership and the Business base membership to \$45. The Sam's Plus fees remained at \$100.



I think it's important to note that this was the first fee increase that Sam's had undertaken since January of 2006 and that we are pleased to date that there has been very limited pushback from our members. I think part of the benefit here is they see that with things like the new Instant Savings book that they're getting a lot of value for their membership.

So let me just touch on -- make a few comments around the recent Instant Savings book. It started in the middle of May, right around the time of the increase in our membership fee and it ran through June 9. It included over \$3,500 in savings on nearly 100 items. It covered items in every category from grocery, consumables, general merchandise, health and wellness, technology and it covered both in club items and SamsClub.com only items.

So, for example, over the 26 days members could save over -- could save \$200 on a Nikon camera bundle which was already a great value at \$979 before the coupon. So the initial response has been very positive and we are encouraged that over 50% of our members who shop during the event purchased an item from the book.

From an online perspective I think it's interesting to note that we advertised four office chairs, as an example, and in the two days -- the first two days of the Instant Savings book we sold more office chairs online than we had in the first -- in the three and a half months of the year prior to this. So clearly it created an awareness with our members of items they probably were not familiar with.

So I think we will continue to see us look at things like the Instant Savings book because we think it's important to our club model. We know that the right merchandise for our members drives acquisition and retention. And simply put that the membership drives -- the merchandise drives membership.

So as we think about merchandise and we have to remind ourselves that we operate in a very limited SKU environment and that our buyers have to make edited assortment decisions on behalf of our members, it's important to talk about our framework around merchandise. The key items that we think about are price, bulk, quality and excitement.

Two of the top reasons why members join Sam's Club is because of price and because of bulk, which makes a lot of sense when you think about it. If you are going to pay a membership fee you are trying to recoup your membership fee through savings on the items that you purchase. I think a great example of this is in the baby diaper category where our price/value offering has led us to pick up market share here recently as validated by Nielsen.

Additionally, bulk has the same effect when you buy in larger packs to save money, which is especially beneficial to our business members.

Additionally our members tell us that quality is an important part of their renewal decision. And I think an example of this as the slide illustrates, this is a 12-inch assorted pie sampler. This was an item that we tested over 12 months. And we utilized, if you haven't heard, a test kitchen where we test all of our new products. And in fact our taste testers sampled 1,700 items last year and about 80% of these received a passing grade, but approximately only 15% make it to our club shelves. So I think our members expect this level of quality and scrutiny.

Another top reason that members join is excitement. They are curious to see what items that we offer and want to find new things that they can't find anywhere else. So a great example of this is a nationally branded mixer, KitchenAid, a popular product for both Savings and Business members with a bright color exclusive to Sam's.

It's important to note that we are a house of brands, which is one of the reasons why members pay to shop with us. But it's more than just having the right product in the right club, it is making the merchandise come to life in the club. So we are continually looking to try to heighten the level of visual communication and excitement in club. Price, bulk, quality and excitement are the foundations of this merchandise strategy.

So finally, as I said, we are continually trying to improve our shopping experience for our members. And we are using technology and innovation. Over the last year we have rolled out self checkouts and convertible registers, which provide flexibility to our members on the way they want to shop. The self checkout is a standard checkout that you've probably seen in other retail environments. The convertible is an interesting one because



it allows the club to use it as a fully staffed POS terminal during certain parts of the day and with a few clicks and movements they can turn it into a self checkout during other times of the day.

Also we have other innovations such as click and pull. If you are not familiar with that you can go to our website, especially for a Business member who is time constrained. They can order their supplies for the next day, week, the night before and then pick it up first thing in the morning on their way into their business. This provides a lot of flexibility.

And then finally, we are also testing scan and go which you probably heard from our partners at Walmart which is a pilot that allows a member to use their smartphone to scan items as they shop and then it makes the checkout process much quicker and much easier. I think all of these different things are how we differentiate ourselves in the wholesale warehouse environment.

So to wrap up I think our momentum remains strong and our strategy remains consistent. We have accelerated growth plans from both our new and remodeled clubs plus our member driven merchandise with strong price and value offerings. We continue to use innovation and technology to drive productivity but without sacrificing the member experience.

And finally, through an enhanced membership offering, which not only provides more value to our member, but also helps grow our bottom-line. We remain committed to creating value for our members which will allow us to grow into the future. And with that, I think we still have a little time for questions.

QUESTIONS AND ANSWERS

Dan Binder - *Jefferies & Company - Analyst*

Great, thank you, Michael. Do we have any questions from the audience? Well I will start with a couple. You seem to have hit on something pretty big here with the coupon program based on what you've seen thus far. A unique way in the club channel in particular to create some buzz and excitement when you have sort of a dedicated shopper base that is not necessarily comparing prices every day against other retailers.

So as a price investment vehicle, as a marketing vehicle, how much of the membership fee increase do you think is used to fund that program in particular, other types of price investment, marketing investments and over what period of time -- or I should say what frequency do you anticipate doing the coupon books?

Michael Dastugue - *Wal-Mart Stores, Inc. - SVP & CFO Sam's Club*

Sure, Dan. I think a couple things, one on the Instant Savings book it was really the first time we had done something like this in a big way. And I think when you look at competition there is -- Costco does this I think about 11 times a year. So we think there is an opportunity for us, maybe not 11 times a year, but to put this out there in front of members and not only show them the price information, but also make them aware of the product categories like we talked about with the office furniture.

I don't know that we think necessarily that we are going to take a certain percentage of the fee increase and necessarily translate that into price investment. I think when you think about that we've got \$3,500 already of price investment embedded in the Instant Savings book there already is a lot of value. We are getting to a certain extent partnership with our vendors to providing financial support on the book, but then there are also certain items that they are our private brands that in effect we are funding.

So I think we will continue to test and evaluate and figure out how it -- how our members react. I think what's interesting to me coming into this channel is the wealth of information that as a retailer you have with a membership card, being able to see what your members are purchasing and how do you reward their behavior. So I think there is more work to come on that.



Dan Binder - *Jefferies & Company - Analyst*

Next question is on the product mix. I think on the last quarterly call there was some discussion about how there were some higher-end items that may have come into the club that the higher income consumer in your club was reacting well to. Any changes that you see going on in the mix in how you are skewing across good, better and best?

Michael Dastugue - *Wal-Mart Stores, Inc. - SVP & CFO Sam's Club*

Sure. Well, I think when you think about Sam's; we are a limited SKU environment. So compared to Walmart we are not necessarily going to have the capacity to have a good, better, best offering. We really have maybe one or two items in a particular category.

I think in terms of if you think about some of the comments we made in the last call, our business in the first quarter -- we saw much better traffic from our Advantage Savings numbers than we did from our Business members. Part of that is a function of certain groups like convenience stores that have a lot more competition and are impacted by tobacco business competition.

So the thing that we are pleased with was that it seemed like that certain items were moving, the higher price point items. I think the only challenge with the higher price point items in the first quarter were that some of the patio sets, because of the unusually cool spring we had, were a little slower to move and we started to see some better results in the second quarter.

Dan Binder - *Jefferies & Company - Analyst*

Okay. And then on real estate, over the years and the different management teams at Sam's, there seemed to be one common thought which was that the real estate was not always ideal. And so, there was this relocation program that has been underway for quite a while. Maybe you can give us an update on where you stand with the quality of the sites that you have today, how much of the store base do you think still needs to be relocated to better sites and how -- what you are looking at in terms of criteria today when you open up a new club?

Michael Dastugue - *Wal-Mart Stores, Inc. - SVP & CFO Sam's Club*

Sure. Clearly it is got to be a balanced approach because I think in terms of the 15 or 20 clubs that we are opening this year, approximately seven of them are relocations. So that kind of gives you a perspective on -- I don't think you will see us do all brand-new clubs, I don't think you'll see us do all relocated clubs.

We do have a kind of a systematic approach that the real estate team is working on trying to identify those clubs that are most vulnerable. And try to make sure you have the right spacing between your clubs so that you are not creating too much cannibalization, etc.

So I would tell you that our investment model is incredibly extensive and to the level of detail in terms of not just what the new club is going to generate in return, but also the financial impact that would be on the surrounding clubs. So we are very cognizant of that -- not just the sales impact but the cash flow impact.

Dan Binder - *Jefferies & Company - Analyst*

So if you look at the sales productivity against your biggest competitor is still a gap; I think some of that has to do with just geographies that you are in. So when you look at the Sam's Club opportunities regionally is there a focus to get more into bigger more populated markets?



Michael Dastugue - *Wal-Mart Stores, Inc. - SVP & CFO Sam's Club*

Yes, and I think, as the map showed, there are certain markets that -- like Texas, Florida that I think we are happy with, but there continue to be opportunities there, places like California where we think there will be more opportunities. When you do get to the California's and then up here in the Northeast there are fewer -- there's probably higher barriers to entry in terms of available real estate. But we are pretty open-minded in terms of whether it's doing a ground up development or doing takeovers of an existing piece of real estate.

So I think we are pretty open to whether it's kind of in our -- where we've traditionally been located which is in the South and Midwest or if it is on the coast. I think the opportunity is not just a real estate opportunity but it is also the exciting merchandise -- differentiated merchandise that I think we can continue to do a great job on.

Dan Binder - *Jefferies & Company - Analyst*

Question from the audience? Maybe to just touch a little bit on the membership drive -- quite a fairly successful LivingSocial membership drive. Thoughts on continuing to do that? And maybe longer term thoughts around discounting a membership and what that does to the image? Is that a good thing? Is it something that you just do infrequently and doesn't really impact the image. I guess longer-term I wonder if when you discount it a consumer then sort of expects that to come again?

Michael Dastugue - *Wal-Mart Stores, Inc. - SVP & CFO Sam's Club*

Yes, I think that's a fair question. I think historically my understanding is we tended not to discount our membership or give away free membership. I think what was unique about this is the -- while the new member paid \$45 they got a gift card, but they also got in effect the ability to come in over time, so not all at once but at different points in time over the year and redeem it for a box of cookies or a pizza. So it enabled them to come in and try different product categories that maybe they wouldn't otherwise reach out.

And so I think the other thing we think is that these types of offerings target a demographic that you have the ability to reach out to say new moms. So someone who is building a family. And the value of that member may be different than a member that is at a different point in their life. So I think you will continue to see us do some of these more nontraditional unique things.

Dan Binder - *Jefferies & Company - Analyst*

And on the subject of competition. I know in our conversations with your biggest competitor they have definitely seen some increased activity -- see it showing up in their core margin. They sort of described it as here and there, regional, not necessarily consistent. I am curious if you can give us a little bit more color outside of the coupon program what you are doing on every day price in the club. Are there specific regions that you are targeting, specific categories, specific competitors and so forth?

Michael Dastugue - *Wal-Mart Stores, Inc. - SVP & CFO Sam's Club*

I would tell you that I would say all 620 of our clubs are very vigilant about going out and shopping both competition from folks like Costco who they are a tough competitor, but others in retail. And it's not one or two categories, it is across the club. Because our members are very sharp and if you try to take advantage of them on certain categories they will know it pretty quickly and they are quick to go in and grab the club manager and say something about it. So we have to be sharp across the entire box.



Dan Binder - *Jefferies & Company - Analyst*

Is there -- I mean are there any studies you have done that gives you some indication on what the crossover is in your membership base? I mean as a paying member you are going to go to Sam's. Are you going to go to PJs Wholesale or Costco? Do have a good understanding of how many of your members are holding both that they can actually compare pricing versus both?

Michael Dastugue - *Wal-Mart Stores, Inc. - SVP & CFO Sam's Club*

Yes, it's interesting because I have seen some analysis that it was a meaningful number, it was a meaningfully higher number than I would have expected. I don't want to quote it because I'm not sure how accurate it was. But it was -- I mean it's not like half of them, but it is definitely a material number that actually holds a dual membership. So like in a market like Dallas-Fort Worth where we both have a material number of clubs, there are people that are shopping both.

Dan Binder - *Jefferies & Company - Analyst*

Great. We probably have time for just one more question if there is any in the audience. If not we can wrap it up there and we will have Walmart management both for Sam's and Walmart US just outside the tent if you have any additional questions on either one of those businesses. Great, thank you. Michael, thank you.

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