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CORPORATE PARTICIPANTS

Carol Schumacher *Wal-Mart Stores, Inc. - IR*

Duncan Mac Naughton *Wal-Mart Stores, Inc. - EVP, Chief Merchandising and Marketing Officer, Walmart U.S.*

CONFERENCE CALL PARTICIPANTS

Bob Drbul *Barclays Capital - Analyst*

PRESENTATION

Bob Drbul - *Barclays Capital - Analyst*

Good morning, everybody. Welcome to the Fourth Annual Barclays Retail and Restaurant Conference. I am Bob Drbul; I am the broad lines analyst here at Barclays.

We are pleased to welcome you to our home actually, big change of venue for us this year. We hope everything goes smoothly, but we think we have a pretty good plan to pull this off smoothly. We welcome you. If you have any issues, feel free to track us down and make yourselves right at home.

Ultimately, we have two days of meetings here. We are pleased to kick it off with Wal-Mart Stores. Walmart has been a mainstay and an anchor of our conference for the last 14 or 15 years, since I have been here, so we are pleased for that. Today we have Duncan Mac Naughton Executive Vice President and Chief Merchandising Officer of Walmart U.S. We also have Carol Schumacher, Vice President of Investor Relations.

Just some brief comments around Duncan overall. Duncan joined the Company in 2009. He was Chief Merchandising Officer in Walmart Canada. He has more than 25 years experience in retail and consumer packaged goods.

He moved to Walmart U.S. in October 2010. Today he has responsibility for merchandising, including consumables, grocery, health, wellness, soft lines, general merchandise. He is also responsible for their marketing efforts, including customer research, strategy, e-comm, e-comm marketing, private brands, and customer communications.

He has been with a number of other companies -- Kraft, H.E. Butt, Albertson's -- and before joining Walmart he was EVP of Merchandising and Marketing with Supervalu. So it gives me great pleasure to welcome Duncan and Carol. I think Carol has a few comments to begin the presentation this morning. Thanks very much for joining us today.

Carol Schumacher - *Wal-Mart Stores, Inc. - IR*

I would just like to remind you that today's presentation is about Wal-Mart U.S. and we would appreciate it during the Q&A if you would keep questions to the Wal-Mart U.S. business. But it goes without saying that we had a lot of activity at our company and in our stock yesterday.

I would remind you that the allegations in The New York Times article are simply that at this point, they are allegations. We are continuing our investigation and we have not announced a timetable on when we will have any follow-up statements.

The statement about the article in The New York Times and everything that our company has said about that can be found very easily on our website, which is WalmartStores.com. You can find it not only on the Investor page under Company Statements, but also on the Press Room part of our corporate website. So I would advise you that if you are looking for information about that to please refer to that website.



The other thing that I would say is that integrity is one of our core values at Walmart. I have been with the Company more than seven years and from the time you join the Company integrity is something that you hear about all the time. So we not only take that very seriously, but we take that FCPA, the Foreign Corrupt Practices Act, very seriously.

And so we are concerned about these allegations and our investigation is ongoing. At this point, again, I would refer you back to our statement.

So with that I would like to turn the program over to Duncan. Thank you.

Duncan Mac Naughton - *Wal-Mart Stores, Inc. - EVP, Chief Merchandising and Marketing Officer, Walmart U.S.*

Thank you, Carol. And thank you, Bob, for your gracious welcome and also your hospitality to be in your home. I will tell you it's a beautiful home. Our home is not quite this nice.

But it is great to be with all of you and it's really an exciting time for us particularly at Wal-Mart U.S. that Carol shared with you. That will be my focus today and we have a lot of exciting things to share with you.

Many of you know that follow us that we are almost at the end of our fiscal first quarter for 2013, which in essence will end here at the end of the month. You also know, most of you know, that we do not share monthly comps any longer, so I won't be giving you any financial insight until we report our earnings results on Thursday, May 17.

I will, however, ask you to look at the forward-looking statement, the obligatory slide, because I will be making some comments that are considered forward-looking by the SEC. So I would ask that you go to our website at WalmartStores.com if you have any questions about our filings. Also, Carol just indicated you can find some more information on our statements there as well.

I won't put you through the pain of reading that so we are going to jump right in.

As I indicated, I think the headline of this slide says it well -- the US business model is working period. I am excited about what is going on at Walmart U.S. We made a lot of changes last year in our fiscal year really to deliver on our customers' promises.

We added significant merchandise back to our stores across the store and across our categories. We expanded our assortment virtually in every corner of the store with a real focus on delivering against local relevance and innovation for our customer.

We also placed our Action Alley, which really to me brings the life back to the Walmart store and to the Walmart shopper. So Action Alley was replaced in all of our stores throughout our network last year. We continued our commitment to our customers about delivering great prices, and we invested in price throughout the year.

If you look at the three components on this slide, we talked about broadest assortment. Just to really articulate what we did last year is we did, in fact, add over 10,000 items into our store for our customer and that was based on our customers' feedback saying we want these items. We acted on that and it resonated in with our customer.

As we get into fiscal 2013 I will share some specifics by business unit with you. However, last year was really about getting all the assortment back in the store. This year is really about what we call micro strategy assortment, which is store by store, market by market fine-tuning those offers in our store that really drive relevance and engagement with our customer. So our team is working very hard on that as we speak.

Second piece is really about our core business model, about investing in price, Everyday Low Price commitment to our customer. Price leadership and price separation all driven by our productivity improvements that our operators and our logistics team work so hard on day in and day out to deliver savings so that we can, in fact, invest in our price model.



We have announced that we will spend \$2 billion in retail price between 2013 and fiscal year 2014, and you saw that if you looked at our Q4 release and our report. We spent about \$100 million, or 13 basis points in our gross margin rate, across price in our fourth quarter, which really is delivering against our commitment to the customer and delivering that price separation and price leadership.

That really will continue as we go forward in fiscal 2013. You are going to see margin compression throughout the year as we continue to take cost out, so it will be driven by productivity savings. So expenses go down, we invest it in price; we still deliver to our shareholders. That is the magic of our productivity loop and that is how we run our business. So you are going to continue to see that.

The third component that really resonated with our customers is on-shelf assortment and on-shelf availability. What you will see here is when the customer comes to a supercenter, whether it be 150,000 square feet or 200,000 square feet, when they come in the building their expectation is we have product in stock. It doesn't mean it's in the backroom. It means it's on the shelf for purchase.

We put some significant resources against that last year. And I am going to share with you some of the success that we had last year and some of the key strategies that we have in place to drive that to the next level in our fiscal 2013.

While we feel good about what is going on in our business model, the foundation and the momentum that we carried out of the back half of Q3 and Q4, our customer that we talk to daily. We talk to them via online surveys. We talk to them via traditional focus groups, executive listening groups. We have our Wal-Mart Moms that we talk to about what is on your mind, what are we doing well, where can we help you, and how are you feeling about the economy in general.

What you see on this slide is there is probably three key components that our customer says are still headwinds for them. It's really about jobs, the sluggish recovery pace, and then gas prices. Let me just touch on them briefly.

If you look at -- obviously the unemployment rate has been hanging at about 8% and change, 8.2%. If we look at our customer, specifically the deciles of income and the unemployment rate, the lower we go in income earning power the higher the unemployment rate goes. So while we might say that overall improvement, our customers are still under significant pressure.

There is about 23 million Americans that our, call it, unemployed, under employed, or working part-time just to bring food to the table. So we don't see real tailwinds here for the customer but contrary some headwinds that our customers are dealing with.

When we asked them about optimism going forward, their comments really are about a sluggish recovery. We don't see any step change improvement; that it's running the same old play. Why that is obviously critically important is during election year they don't have a lot of confidence, nor do we from the lens that we look at it, that there will be significant difference in the rate of recovery in the economy.

And then, finally, gas prices. While gas futures have softened recently and oil prices have stabilized, we are still in the \$3.85 a gallon range, which is up significantly from year ago. This does have a direct impact on disposable income of our core customer and how they manage their budget.

To date they have been able to really figure it out, quite frankly, and understanding this may be the new normal, but we see that that is still on the mind of our customer of the volatility within that very important component of their families lives. As we understand, about \$0.01 in gas prices has a \$1 billion impact on our customers' disposable income, so if you look at that you can see that it is compelling. And while it has softened, it's still one of the core concerns of our customer.

So that is why we feel the Walmart business model is so important for our customer. That is our mission and our purpose is to make sure that we are there to help our customers save money so they can, in fact, live better. We line up our merchandising priorities to make sure that we are driving against that day in and day out.

If you followed us last year, you know that we launched our merchandising priorities and we call them the Five Ps, which were, quite frankly, the traditional marketing Ps, plus the fifth P was people that we added. And I will share with you really our perspective across that.



So as we kicked off fiscal 2013 we basically reinvigorated the Five Ps and added an R for responsibility, which I will also share some updates with you as well. So Five Ps 2.0 plus responsibility is the focus of the merchants today.

The center of the slide on the right side where you see the Five Ps, in the center of that is our customer and that remains our focus. We talk to the customer every day looking for feedback, either it's in store or it's online. It's wherever we interact with our customer to make sure we are delivering against their expectation.

We then start at the top of that slide, which is price, the foundation of Walmart. That is our greatest equity is our price leadership and price separation. Then as we go around the Five Ps, we go to product and I talk to you about how important broad assortment is, particularly for our store.

Then place, which we define really is about that shopping experience, that final moment of truth when the customer is at the shelf deciding what they are going to buy; to ensure in-stock. And then promotion is about how we connect with our customer. Whether they are in the store or they are outside the store, whether it be on traditional media or on social media is where we talk to our customer.

Then, finally, the fifth P is our people. Two components there that I will share with you both internally and externally, our commitment to folks. On responsibility we have four key initiatives that we are working on across the merchandising team and I will give you some color around each one of those.

So let's jump in and let's start with price, the foundation of really Walmart's leadership and equity. On top of the slide you can see we will invest \$1 billion of price in fiscal 2013. The key here is our focus on investment will be in our food and our consumable business, because that is where we drive traffic.

As many of you know, we have about 140 million transactions a week that go through our store, so our goal here is to drive price where we have destination of traffic. Then our goal in store and in merchandising is to convert and leverage that traffic in our general merchandise departments as well as our soft lines department to finish that trip, to build that basket, and to deliver on the expectations for our customer.

What is really exciting about this investment this year is we have reengaged with the Nielsen companies and are using Nielsen data to really be a guidepost as to where we should invest, what level should we invest in. So it really comes down to item by item, store by store, market by market, category by category about where we want to make our investments. That we have a lens through what is going on in a marketplace where we might not have had that lens before, other than our own data and the sales momentum that we have.

So I feel good about the progress, I feel good about the data that the team is working on. Then I will share with you later in the presentation how we are bringing that to life with our customers so they can recognize our significant investment on their behalf. Again, driving traffic to food and consumables and then leveraging across the store.

I just want to give you six different components of where we are investing and focused on our second P, which is product. What you see here is really a food slide. There is three components there -- produce, meat, and then that is actually Texas honey, which I will talk about in a minute.

But what I just want to say is it's the product, quite frankly, that brings Walmart to life. That is where the action happens with our customer. It really makes Walmart feel like Walmart. It's really about when you walk in the door product first, price, great impression. It's really about enabling that customer and that shopping experience.

This obviously is very tied to our commitment to broad assortment. Our merchants are focused on new. We want to be first to new. We want to be the destination for new. We are focused on innovative products, products that help solve their daily dilemmas, whether it be in their food parts or their daily lifestyles, whether it be cleaning.

We also are focused with our suppliers on exclusivity, so how can we change that game with our customers. We say we are a house of brands, brands for less. We are about national brands where we can demonstrate price separation and make sure our customers feel good that they can get a full basket of national brands that they have great confidence in with the greatest price leadership in the business.



We work very closely with our suppliers to make this come to life. We want to be that destination for new. That is important for our customers, so when they see new products are available in the marketplace they can count on Walmart. That drives loyalty, it drives consistency, and it also will drive better long-term share in a category when they start to engage with us with new items in the category.

Some of the fun new products that we have delivered are things like Marie Callender's Fruit Pies. We have got Dole Fruit Shakers and Fruit Cups, and great items of innovation we have put in front of the store. Orgreenic, which is actually a green ceramic for pans that ties back to our sustainability initiative. So there is some great products that we are talking about.

Two areas that I just want to highlight on this slide is first our new beef program that you are going to hear more about in the media, particularly from our advertising campaign. Last fall we announced and launched USDA Choice Beef program which, quite frankly, was based on customer feedback. Our customer wanted better quality meat inside of Walmart, so we delivered on that.

We are very proud of the product integrity and quality that we sell in the meat department. We are going to start talking to the customer about that as we finish the roll out across the United States, because as you look at our food business both meat and produce become a halo for expectation of fresh foods.

The other thing you see here is produce. We are looking at our supply chain flow of goods to make sure that we are ensuring great quality that lasts a long time in our customers' refrigerator. So engage with them at store level and then ensure that we have great experience with the product when they get it home.

We feel good about the specs of the product that we are buying today. The key then is how do we flow it through our supply chain.

The last component I would talk about is really about being locally relevant. I talked to you about how we use the Nielsen price data; same thing goes for assortment. We can be in Northwest Arkansas and look market by market at the different brands that we sell across the business.

That is what is critically important for our merchants is we can do this the old fashioned way, get on airplanes and cars and buses and trains and see store by store where we have opportunities. Now we have the benefit of really seeing data so we can move quickly and meet the needs of our customer.

This example just shows you some Texas honey that obviously you would find in the great state of Texas, but we might not find across the river or in upstate New York where we have our stores. This is really about having relevance for our customer at great value and also supporting our local suppliers in the local communities.

The next area I would really like to talk about is -- I am pretty excited about this -- is entertainment. Two components on here I am pretty excited about.

The first is -- what you are seeing is our first store which is an Apple store within a store that we opened April 15 in Rogers, Arkansas. This is the first of 25 pilot stores that we are working with Apple on that we are going to roll out in the coming months.

What you will see here is really a focus on Apple products, which has got a great brand, great credibility. It's a destination for our customer where they can see great iPods, great iPads, great iPhones, and a real commitment also to new products that are real time, just like the Apple products are. This, again, will drive loyalty for our customer.

We also are very focused in this area on accessories and also appcessories, if you think about it, but densifying our accessory offer. If you look at our customer today, 53% of them own a smartphone, 32% own a tablet, and 75% own a laptop. So this is really about converting that next sale about what do they need to make all these different products run.



So in our stores you are going to see great signage, you were going to see a great environment, you are going to see staffing around the Apple stores, and we are pretty excited about it. Our first store, while it will just be one and it has been open a short amount of time, is exceeding our expectations so we feel really good about the rollout of our Apple stores.

The second component on this slide is really our -- this is the digital initiative that you have probably read about. And that really is about providing our customers a way to take their physical disc that they own in their house and then put it in a virtual cloud so they can use it on any piece of equipment, watch it anytime, anywhere. That is what our customer told us that they wanted.

This is a great initiative, because we are working with six different studios -- Dreamworks, Sony, Paramount, 20th Century Fox, Universal, and Warner Bros. And it's quite simple; we are asking our customer bring their DVDs back to the photo center and when they get to the photo center it just takes a few minutes. Many of you should have tried this; if you haven't, I encourage you to do so.

You can actually convert a physical disc to a standard resolution movie for just \$2. If you want to upgrade it to a high-definition movie it's just \$5. It takes very little time. We just stamp the disc and we give it back to the customer so they maintain it in their library, but then using Wal-Mart entertainment through VuDu the customer has virtual copies of their library today. So we are feeling very good about this.

Again, we have just kicked this off across the country. But again it's about what our customer wants and then leveraging our physical assets and delivering on virtual technology. I feel really good about what the team in Entertainment is doing.

Other things we are doing in Entertainment, we are just in the process of finishing a new television mod. What you will see in our stores now is a deliberate focus on different size screens. You are going to see our customers really engaged in 42 inch and above, so you will see 70 inch and 80 inch television screens in Walmart stores near you. And I think it's critically important. New brands like Sharp, Toshiba, some new Panasonic products that you will see in our stores.

We are also maintaining our commitment to the physical business, our DVD business, our \$5 DVDs, as you have heard me say before, continues to have a great engagement with the customers.

The next area would be hard lines; feel very good about our progress here. You have seen us use this as a number of examples, because it continues to drive authority and relevance for our customer on the hard lines side of the store.

We have had great momentum in sporting goods, fishing, camping. We just dropped in January our baseball new modular with new brands like Easton Bat, so really about good, better, best. Bookending our assortment for our customer. If you want opening price point, we have it. If you want a more aspirational product, we have it.

Great gloves in Rawlings, great ways to help kids practice baseball. So looking at the baseball modular you are going to see a different commitment to our customer and it is, in fact, resonating.

We are also very focused on the store of the community, so when it's hunting season it's hunting season, when it's baseball or soccer season we are going to be real-time, we are going to be relevant. I feel good about what the team has done there.

In hardware we launched a program called Projects Made Simple, which is really about a solution-based approach for a customer that says if you had to repair a faucet or a sink, here is how you do it and we have all the components for you, which we weren't there for our customer before.

In automotive we have launched a new initiative that allows our customer to order over 10,000 tires that will be delivered to our store within 24 to 48 hours. That also goes for rims and other professional car care products. So customers can come to Walmart and, quite frankly, almost have an endless assortment of automobile equipment.



We are also just concluding our crafts and our fabric modular, which we talked about putting fabrics back in our store. What we are doing now is making sure that it's easy for our stores to execute and making sure that we have the right products and the right environment for folks to shop fabrics as well as crafts. In the crafts you will also see solutions and project-based focus for kids and families.

The key here is also to take that outside of that area and merchandise it around the store. So you will see some of these interruptions in Action Alley. You are going to see it cross merchandised on the food side or the consumable side of the store. All with a deliberate focus on interrupting the customer and making sure they understand our commitment to the broad assortment on this side of the store.

Next area I talk about is really health and wellness. As you know, we still have great price leadership with our \$4 generics for 30-day prescriptions and our \$10 for 90-day prescriptions. We are also focused in store and out of the store focused on acquiring new pharmacy customers. There are some folks that are looking for somebody to deliver on their needs today and we stand ready for those customers.

What is really exciting about that is as we deliver on that commitment they get to see some great prices on over-the-counter merchandise. We have been working really hard with our supplier partners and our logistics team to get PDQs and shelf-ready products on the floor so we can handle high velocity in this area as we get new traffic and new customers.

In addition to health and wellness and consumables, we continue to work very hard on our mod integrity, which means we have the capacity inside our stores to deliver against the high velocity of our consumable products. So we can make it from Thursday through the weekend still having all the assortment that they expect to have and then activating that with Walmart Loves Pets and Baby Days at Walmart.

Next area that is pretty exciting to talk about is our apparel business. You have heard us talk about this for years; you have heard me talk about it for about a year-and-a-half. I am excited about what the new leadership team is doing in our apparel business as we relocated them from New York back to Bentonville in Arkansas.

Our focus here is quite simple. It's about, of course, price leadership but it's on basics, it's about quality, and it's about conversion inside of the apparel pad. If you look at how we think about the apparel business, 50% of our basics is done in -- 50% of our apparel business is done in basics. We define that, quite frankly, as socks, underwear, and denim; that is who our core customer is. We deliver great price leadership there and it resonates with the customer as we have delivered on that expectation.

The next 40% is what we call fashion basics. So this is an aspirational fashion, this is a polo shirt with a stripe; that is really what we are focused on. Focused on what our customer wants. We are not going to stretch our customer; we are going to deliver on their core expectations.

The 10% remaining is what we would call trend, and trend is really focused probably on Missy and Juniors, which is more trendy. It might be jeans with glitter or diamond-looking stud. It would be a little more seasonal and relevant.

We work with domestic importers to make sure we get in and we get out on products that make a difference for our customer, and we have had good progress across the apparel business.

We also know that national brands make a difference here; that ties to our 50% in basics. We have great partners like Hanes and Fruit of the Loom, Levi's Signature Jeans, Wrangler, Rider by Lee, Dickies. We have a great work apparel assortment for our customer. Hello Kitty, Carter; so you really can see brands across our apparel pad which is driving penetration into that business.

We also have done a great business on license T-shirts and graphic T-shirts; that is who our customer is and you will see that as we go through our spring and fall season.

Bottom line is we have to simplify the shopping experience, deliver on the quality expectation that we are working very closely with our supplier partners. We are also buying our seasons tighter, so we get in and we get out, which is critically important. So people can see the message and the commitment to color and the new products that we have to offer.



As we move that pyramid to more basics and fashion basics, we have less labor requirement to turn product over so it really starts to drive the productivity loop across the apparel business.

The next area I talked about is really our home business. Our focus here has been real deliberate on good, better, best assortment at price leadership. This is about item and price merchandising. This is what Walmart is. This is what folks come to us for.

They come to us for consumer electronics at great prices, and we are delivering on those. You can see that when you walk in the store on the left side of the store, on the general merchandise side of the store you are going to see item and a price.

What you see here on a picture on the upper right-hand corner is our home hotspot. You can see this is seasonally kicking off really drinkware in plastic colors for the season. On the back wall you can see really a demonstration of price leadership and density of merchandise.

So this is again about good, better, best assortment. It's about being relevant and it's about being bountiful in displays. I will tell you also we have got great momentum in our business in outdoor living. We didn't really have much of a winter across the United States, we had an early spring, and we optimized that with our outdoor living business. So we focused on lawn and garden.

We put back Murray lawnmowers into our outdoor living area and we started with opening price points that go all the way to more features and benefits for our customers. And it resonated. Our customers were back in our garden centers. They were shopping not only for flowers, but for lawnmowers.

We launched a new Scott's lawn fertilizer and sprinkler which drove innovation in that space, but also with great price leadership. We see a great opportunity in lawn and garden for the consumable business, which is about herbicides and fertilizer. As people get back outside and we have had some rain in some drought-stricken areas we are starting to see people get back, and we are making sure that we demonstrate and capitalize on that.

We have got a good patio furniture offering which again goes from good, better, best, depending on what folks want. We have got color coordinates out there that we take from the home side of the business and say what you want for plastic cutlery, what is the mission that you want to have, what is your color, and your price in what products look like. Goes from the pool -- from towels to beach to pool accessories as well. So I feel real good about how we are really leveraging home and the outdoor living area.

On the slide you can see also the \$1 lower right-hand corner with the plastic drinkware. This again is great value when you think about other areas that we compete against. Whether it be dollar stores or it would be mass merchants, the key here is to make sure that we have value in opening price point all the way to products with features and benefits.

So I am excited about what the home team has done, the customer has resonated with it, and we are making real good progress there.

Now we will get to the third P, which is place, and that is really about making it come to life; on-shelf availability and our commitment here. Last year we shared with you that we changed the way that we looked at on-shelf availability from an in-stock metric to an on-shelf availability metric. So we changed the way we measured it, changed the expectation at store level, and we used a third-party audit firm to say is the product there or not, can the customer buy it or not.

With that focus, the cool part about Walmart is when our team focuses on something things happen and it makes a difference. So we improved our on-shelf availability that said can I buy that product or not by 665 basis points last year.

That is the demonstratable difference for our customer. When they come they can buy it. It builds confidence, it builds loyalty, and I feel very good about it.

So what is next? OSA 2.0, which is on-shelf availability 2.0. This is a system-driven process that we actually are taking from ASDA in the UK that drives -- it basically looks at our POS system and says -- it's predictive.



It says you haven't sold an item in the last 15 minutes. You may be having an out-of-stock; you need to go check that. So we send alerts to people in our store that say is this product in fact out of stock or not. It allows them then to go to the backroom and fill the shelf if in fact it is out of stock.

This is, obviously, much more expansive and inclusive of products across the store because we have POS data across the store. It also focuses our folks in the store on where they can make a difference for our customer, so we feel really good about this.

In ASDA alone they went from third place, if you will, on on-shelf availability to first place in the marketplace when they rolled this initiative out. So I feel very good about that because it's predictive and it drives real-time action in the store.

Other things we do on on-shelf availability is making sure we are aligned with modular capacity back to our supply chain. We are rolling out a new program called Global Replenishment System, which is a better forecasting engine, so that we will be more real-time with our suppliers on what our expectations and our needs are and we will deliver better real-time inventory to our stores.

So minimizing inventory at store level, improving out-of-stocks with better forecasting; so it really is an end-to-end commitment using technology to drive better performance in the store. So OSA is, again, a core focus for us as we launch our new initiatives in fiscal 2013.

The fourth P is promotion. Our focus here is about a seamless integration for communicating to our customer, so what we are talking about outside the store pops when they walk inside the store. Whether it be TV, whether it be radio, print; if it's social or Facebook. As you know, we have Facebook pages for all our stores. It comes to life when they walk through.

What is on the cart rail resonates to how we talked about them in our FSI or our tab. It talks about our television campaign. It brings it all to life for our customer.

We are -- at the home office we are planning 80% of the feature places across our stores. So if you think about Action Alley, you think about front end, you think about the end cap displays, 80% of those spaces are being planned by the home office back in Northwest Arkansas. We can do that because we have real-time data that ties to our strategy, it ties to our advertising campaign.

The 20% balance is done for store choice. What we do is we build a menu of options for the store managers to pick from something that would make sense for them. We approve local vendors as well so they can populate it for them. This, basically, will then balance that national commitment to communication with local relevance for our customer.

We also have store maps, so when our leadership teams are out in stores we can say where are the permanent end caps, are we in compliance or not? So as we work with our suppliers on growth programs we have a mutual expectation and accountability to one another, which really drives performance for our customer.

The last thing I just want to talk about is how we are communicating some of our price initiatives to our customer. So I have three ads that I am going to share with you.

The first ad is going to be actually a grand opening ad. As you know, we have got about 14 million to 15 million square feet. We plan to put in the ground this year 210 to 235 stores. The key here is being locally relevant and telling the customer we are in town and we have great products and prices for you.

The next two you are going to see -- the next one is going to be our low price guarantee campaign, which is a national program, which really highlights our price investment across the business. Then the third one is a focus on drugstore channel pricing as I talked to you about the importance of our pharmacy customer and how delighted they are when they see our pricing on over-the-counter products.

So with that let's roll the three ads.

(video playing)



I like the campaign, obviously, for the new store. It's about communication and awareness, but then on the price campaign you saw a national campaign and then locally where it's real-time. It's focused on price. It's focused on their basket -- not mine or not yours. It's about what is relevant to them and we feel good about that.

It's also low cost to produce because those are real customers. So we feel good about the campaign and we will continue to do that.

Fifth P is people. Two components -- internal and external. From an internal perspective it's making sure that we invest in our associates in store to make sure that they have development plans so they can have an enriching career. It's also about providing them tools and productivity initiatives so it makes their job easier and makes them more productive in the store, which is a critical component about our investment in our associates.

The external piece would be the supplier collaboration piece. We kicked off over 200 joint business planning sessions with our suppliers, and that is really about setting mutual growth targets with our big suppliers where we can make a difference in our category for our customer.

It's about sharing our resources with their resources, having a transparent dialogue; so we share our strategy, they share their strategy. We look at upstream innovation so we can meaningfully make any difference for our customer in how it comes to life in the store.

This is really about driving exclusivity and innovation that is exclusive to Walmart and also partnering with our suppliers to make sure that we are exceeding the growth level of the marketplace. And we have great traction there. We also are -- continue to do this across both local and national suppliers, so feel good about the commitments in People.

I talked to you briefly about responsibility. What you can see on this slide is on the upper left-hand corner is our global responsibility report which we released last Monday. That really talks about not only our key sustainability initiatives, but also the top 10 of what working on and our progress there. You are going to see some great progress in some and you are going to see some identified challenges in others.

We also had our milestone meeting for sustainability last Wednesday. I spoke on a panel there with many other merchants. The magic was really about how we can take our productivity loop about taking cost out while we make the environment a better place. So our merchants actually talked about many ways that they changed the game, really with an eye on lower costs but also on sustainability.

The four areas of responsibility for us are first the sustainability index which was really about working with our supplier partners to build better products that are more sustainable and better for the environment. The second key initiative was the women's economic empowerment initiative where you have heard us made a commitment of \$20 billion purchases in the US by 2016.

The third area of responsibility is healthier foods, about lowering trans fats, lowering sugar levels. Working with our suppliers and making healthy food more affordable for our customer. You saw us launch the Great For You icon earlier this year and we are going to continue to do that across the business.

Then the fourth is an area about domestic sourcing where we are working with some folks that want to bring jobs back to the United States; can we help in that dialogue. So we are talking to our folks across that dialogue.

I feel good about where we are in the responsibility matrix and particularly the supplier sustainability consortium. Working with about 100 members, both retailers as well as suppliers, and academic institutions to make a difference.

Bringing it to life on this slide you see three examples of bringing sustainability to merchandising. The first is a shoebox. As you know, many of our shoes we don't merchandise them in shoe boxes. We hang them on a peg.

This was a way that the packaging team actually said we can make this more efficient for the stores, we can actually lower the weight of the box, and we can drive store-level productivity. Just this alone saved \$1 million on the shoebox. So if you look at these kind of opportunities and how we can leverage those across the business.

Oakleaf is our private-label wine. We saved \$2.9 million on this initiative by taking the punt out of the bottom of the bottle, which basically lowers the weight of the glass. We also put recycled labels on it and we changed the corrugate of how we shipped the wine. That is just about a \$3 million savings for the business.

That is how the merchants are bringing low-cost focus and a sustainable focus to our business.

The last one is the trash on it which is, I think, the spirit of our culture. It's about cheap and cheerful. I have already got four pens, Bob, but I plan to take more from you. I will tell you -- I am not kidding, see. But this really about being frugal for our customer, because where we save money we invest it to our customer.

This is just a trash audit where folks will go through the trash, not too try to find anything personal, but saying did you throw away a binder that we could reuse, a pen that still works, or are you making color draft presentations. So this is just the spirit of how we are focused on saving money for a customer so they can live better.

This is all driven by our productivity loop -- operate for less, buy for less, sell for less, and grow sales. This is the magic of Walmart all focused on that frugality.

Operational improvements are critically important. Gisel Ruiz is our new Chief Operating Officer and she has got the team focused on where seconds make a difference.

You see on this slide we are working on things on the front-end for instance. Leveraging self checkout utilization; taking our customer service manager and putting them on the other side of the registers to help people get familiar with self checkouts. Making sure they feel comfortable and we can help them through that transaction.

Because seconds make millions. At Walmart one second on the front-end costs us \$12 million, so where we can make a difference we can take those savings and leverage those into our price of product.

Four key areas that the merchandising innovation and the operator people are working that I think is critically important is emerging innovation, workforce management, inventory management, and then on-shelf availability. In emerging innovation, I am happy to announce that now our cash paying customer can shop on Walmart.com and go to the store and complete their transaction by paying cash for that. That has been a big gap.

As many of you know, only 15% of our customers have credit transactions so we are 85% either cash tender or debit cards. So this brings up a whole other opportunity for our customers. Also, it drives store traffic, so they pay for that final product at store level through Walmart.com.

We are also working on floor-ready packaging. Basically it comes from the manufacturer, to our warehouse, to the sales floor with minimal touches, which is critically important for us. And we are going to start to expand our electronic product codes where we have had the chips in our products on tires and jeans and DVDs that say how do we maximize and simplify in stock as well as labor in the store, where we can do it magically with a wand rather than do physical counts.

In workforce management it's about directed work. Our associates come to the store now and they basically have a work plan without having to wait for a manager to go tell them what the expectation is. We also have -- we are working very hard on aisle locators, so if you will see our stores there is some aisle locators now than direct stocking so that we go from truck to aisle to fulfillment, which is saving footsteps and it's saving hours, and it's saving money for our customers.

Inventory management; we are working very hard on modular design. We have implemented some new ways to do our modulars, both mini, minor, and major. It sounds kind of silly, but that is really about if we are only going to touch four items, let's not touch 20 feet.



So we are making a difference, we are making sure we have the right capacity, and we are working with our suppliers to say what is the most efficient way to design that package to fit on our shelves. Then we are working with our replenishment team to say what is the trigger to make sure we minimize inventory but maximize on-shelf availability. We are also doing that, as I talked about, in our OSA 2.0. So I feel good about the progress there.

So I guess the message is we are executing our strategy at Walmart U.S. -- broadest assortment, low prices driven by productivity initiatives, and low prices. Our customer experience scores are strong. It's resonating with the customer; you saw that in the back half of last year.

Our merchandising improvements are coming to life in the store, and if you walk a store, I think you will see it. Our productivity improvements are being executed and, quite frankly, we have got a long list, as you can see on that last page, to really focus on where we can make a difference for our store operators.

Then bottom line is we are here and we are committed to our customers, and we are committed to our shareholders to make a difference. I can tell you, Bob, I am quite proud to be part of the Walmart corporation. We are making some great progress on Walmart U.S. and I feel good about where we are headed.

I would be happy to take some questions.

QUESTIONS AND ANSWERS

Unidentified Audience Member

One quick question; in a conference a couple of weeks ago the Central Division President mentioned that you are seeing the paycheck cycle moderate somewhat. I was curious if that was just marginal or if this is something you are seeing across the US and the extent to which this is a glimmer of hope for that low-end customer of yours.

Duncan Mac Naughton - *Wal-Mart Stores, Inc. - EVP, Chief Merchandising and Marketing Officer, Walmart U.S.*

Sure. I think part of that customer feedback I shared with you is what is on our customers' mind. A couple of things we have done to make it easier for our customer is we really do feature higher pack sizes and, quite frankly, higher priced items in the first 15 days of the month. Then we switch our merchandising strategy to smaller pack sizes and lower price points for the balance of the month.

I do think our customer -- we still do see the impact of pay cycle as well as end-of-month phenomenon. It's not as pronounced as it used to be. I think two things. I think we are helping the customer and the second is I think our customer has gotten smarter about how to really deal with it, quite frankly.

Bob Drbul - *Barclays Capital - Analyst*

I have a couple of questions. On the Apple shop-in-a-shop, couple of questions. Will it sell Macs and is it just iPads, iPhones, and iPods? Will there be any pricing difference versus the Apple stores? And how quickly -- you said it's trending pretty well so far, but how quickly can expand, how many stores, regions? Can you elaborate a little bit on the Arkansas test in terms of really what you have seen since you started?

Duncan Mac Naughton - *Wal-Mart Stores, Inc. - EVP, Chief Merchandising and Marketing Officer, Walmart U.S.*

Sure. As you know, Apple is a great brand and our pricing will be the same as the Apple stores. At this point we do not have Mac computers in our store. We hope someday that we will be able to sell computers if it's a successful test.

Our first rollout of the next 24 stores really will be on the East Coast, so it will be relatively accessible to you, from New Hampshire down to Maryland. We looked at really store density, we looked at opportunity for entertainment sales, and where we could basically convert some folks. So that is our goal, quite frankly.

Based on that test, together with Apple, we will make a decision about accelerating that and perhaps adding assortment. But we feel good about having that as a destination.

Unidentified Audience Member

(inaudible) [35] stores, how many are superstores and how many are neighborhood markets?

Duncan Mac Naughton - *Wal-Mart Stores, Inc. - EVP, Chief Merchandising and Marketing Officer, Walmart U.S.*

We have announced that 80 to 100 would be our small format stores which would be neighborhood market or smaller.

Bob Drbul - *Barclays Capital - Analyst*

I think we are actually out of time now; we will try and keep it on schedule. Just like to thank Carol and Duncan and everybody for attending this morning.

Just a little housekeeping, a lot of the presentations are on the 32nd floor. We should have two elevators up to the stairs that have been commandeered to make sure that we can facilitate this. Thanks, everybody, for attending and thanks for your time this morning.

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