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CORPORATE PARTICIPANTS

Doug McMillon
Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International

Cathy Smith
Wal-Mart Stores, Inc. - Finance and Strategy, Wal-Mart International

CONFERENCE CALL PARTICIPANTS

Adrianne Shapira
Goldman Sachs & Co. - Analyst

PRESENTATION

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

We're always happy to host Wal-Mart as our keynote. We gain insight into their business and in retail in general. And to help provide us with this broad perspective, there's really no one, probably, at Wal-Mart more capable of doing that than Doug McMillon.

His Wal-Mart tour of duty has touched every major division at Wal-Mart. He started in 1984 in Wal-Mart US as a Summer Associate, rose through the ranks of SVP and General Merchandise Manager. He moved to Sam's, where he was President and CEO from '06 to '09. And now he's running Wal-Mart's fastest-growing division. They added 24 million square feet and acquired another 18 million just last year. And just to think about that, that's like putting on an entire Dollar Tree footprint in one year.

So International sales of close to $110 billion last year. That accounts for 26% of Wal-Mart sales and 20% of profits. So we're very pleased to host Wal-Mart's International President and CEO, Doug McMillon.

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Good afternoon. I'm happy to have a few minutes with you today to give you an update on what's happening in Wal-Mart International in particular. I'd like to start by introducing Cathy Smith. Cathy, if you'd please stand. Cathy and I work closely together. She's responsible for International Finance and Strategy. And when we get to the Q&A section in a few minutes, I may ask her to answer all the hard ones.

I've got just a few slides to tee up the conversation for today. If we could go to the first one, please, the forward-looking statement. I'll skip that. Wal-Mart International, just as Wal-Mart globally, has a focus on delivering growth, leverage, and returns. You probably think of growth first when you think of Wal-Mart International, because we are expected to drive a lot of growth for Wal-Mart, globally and corporately. But there's an increasing focus within the division on increasing our amount of leverage so that we can drive returns up at a faster rate, and I'll talk about that as I go through today's presentation.

When you think about growth in Wal-Mart, and in Wal-Mart International, please think of it in four pieces. And the first that we would prioritize is comp store sales growth. Comp store sales growth is the best indicator of the health and quality of a retail business. It already relates to the invested capital that we have, and we want to drive comp store sales by being good merchants and serving customers more effectively. And every morning when we get up, it's the first thing that we're looking at -- what were comp store sales yesterday?

Across the division, we have two primary areas of focus to drive comp store sales growth. The first one is Every Day Low Price. And across the International Division in Wal-Mart, we have not consistently operated through an EDLP business philosophy. In some markets -- Brazil's a poster child for it right now -- we never implemented EDLP in the market. We offered it very similar to how traditional retailers operate, with a high-low pricing strategy, and I'll talk some more about that in a moment.

But Every Day Low Price is something that we're driving across the entire division. Not every country has yet implemented EDLP. Some are yet to come. But we've started, and most of our markets have already been there or are moving to Every Day Low Price.

The second area of focus that cuts across the entire division is becoming even better merchants. When you walk a store, we have opportunities to improve as it relates to our stock count or assortments, how we think about opening price points, good-better-best merchandising, the role of rollbacks, new items, seasonal timeliness.

And we're increasing the level of focus we have on developing, teaching great merchants. We're launching Merchants Academies across Wal-Mart International to teach these fundamental principles, doing business in a Wal-Mart way as it relates to how to implement a strong merchandising strategy, not only in the side counters, but throughout the stores.

Each country that we operate in has a very deep and rich strategic plan. We go through an annual planning process where we give input and listen to those strategic plans around the world. And I just picked out two themes here -- Every Day Low Price and developing stronger merchants -- as two themes that cut across all of International.

The second dimension of growth that we would emphasize would be new store growth, our organic growth program in particular. In October, we said that this next year we would grow between 23 million and 24 million square feet. We're on track to do that. And in fact, this pie chart that is represented here has a higher number on it, because we've included not only our new store growth, but also the stores that we've acquired through the Netto acquisition in the UK and, most recently, the investment in Massmart in South Africa. So you can see this big slice for this year that's coming from sub-Saharan Africa.

But if you looked at this by country from an organic point of view, what you would see is strong investments in markets like China and Brazil and other emerging markets, with less of an emphasis on more developed markets. Asia's slice is 8.2, and then Canada and the UK, represented in yellow and green there.

The third dimension of growth is e-commerce and multichannel. In some markets, this will show up in comp store sales as we add customer capabilities that enable us to do a better job of serving customers through mobile commerce or through e-commerce. In other situations, particularly in emerging markets, you may see us invest in or develop e-commerce verticals that are more of a pure play approach to growing our sales. And in that case, it will show up more in total sales than in comp store sales.

Technology is changing the way customers shop virtually everywhere. Every market that we're in around the world, something's happening. Whether it's with a handset in India or it's with a laptop in Canada, things are moving from a technological point of view, and they're moving quickly.

The fourth dimension of growth is acquisitions. And frequently, they capture the headlines, but they're not actually our priority. Our priority starts with comp store sales, as I was talking about earlier. But from an M&A point of view, what we want to do is build scale in some of the existing markets that we're in today -- markets that are muscling markets for us, like China and Brazil, but also markets like Japan, where our scale isn't sufficient to accomplish everything we want to accomplish from a returns point of view.

And then secondarily, we're focused on large, high-growth markets. It's the reason why we went to sub-Saharan Africa -- not only because of the opportunity in South Africa, but the opportunity throughout the region. And so, as we go forward, that's what you can expect from us, is a focus on large, high-growth opportunities. Those are the two characteristics that we're looking for.

One example would be in Mexico and Central America. You may know that Wal-Mart's first store outside the United States was in Mexico. We went to Mexico City with a Sam's Club in 1991. So from an International point of view, the market we have the most experience with is Mexico.

But you might be surprised to know that we still have a lot of room to grow. This map shows Mexico and Central America combined. And you can see that, at the end of 2010, we were in 384 cities and towns. This year we've opened so many stores, we're now already in 435 cities and towns. We've been very aggressive through the first part of this year in opening new stores in Mexico. But that still leaves 260 cities and towns without a presence from us in those markets. So there's a lot of room to grow throughout that region, even though it's the market that we've been in the longest.

One of the great characteristics about our business in Mexico and Central America and, in fact, throughout International, is that we've got multiple format approaches. I, as Adrianne mentioned, was in Wal-Mart US for a long time and then Sam's Club for six years. And a number of things, but one of the things that I didn't fully appreciate, moving over to Wal-Mart International, is just how flexible we are. And it makes the business a lot of fun.

We can go to an urban center in China, where infrastructure exists and ring roads are being developed, and we can put a Supercenter in place that serves customers very effectively. But we can also take a small store that serves customers with a lot of food, for example, to an informal market in Latin America and help customers transition to more of a food safety-quality retail environment as they move from informal to formal retailer, to retail. And we can do that in a way that generates returns. So small stores, large stores, stores that sell predominantly food, stores that sell predominantly GM, like in the case of Mexico, we have the Suburbia format, which is an apparel retailer. We can do all of those things. And now, with the addition of Africa, we've got a DIY business, a home business, that we can learn from, from the Massmart team.

So when I look at this slide, I see Supercenters that we're excited about in some locations, really excited about what we call the discount compact hyper format, which is this Bodega Aurrera that's featured in the middle of the slide here. That's a format that we've taken from Mexico to Argentina. We plan to take it to other markets. We've done so in Central America. It is a nice returning format that is core to our mission, our purpose of saving people money so they can live better. Bodega Aurrera, and in Argentina, Changomas, are exciting opportunities for us to grow -- strong growth, good value for customers, and strong returns over time.

So this multi-format opportunity gives us the opportunity to grow share and put stores closer together with different brand names and different formats than we might otherwise be able to do. So a core competence of Wal-Mart International is this multi-format capability.

This morning, in a number of one-on-one sessions, usually the first question is, "What's happening in Brazil?" So I want to spend a minute talking about that. And what you see on the slide here is a representation of how we're approaching some of our in-store signing and our attempts to communicate to customers that we have the lowest prices in Brazil.

What's happened is that if you went back a little over a year ago now, Brazil started having a difficult time from a P&L point of view. And we had an operating model that was not sustainable. As I mentioned before, we had done too much high-low activity. We hadn't built customer trust. And we hadn't converted to the Wal-Mart EDLP approach, which helps us build trust with customers, improve our in-stock levels and, just as importantly, get our costs down.

The cost structure in International is a big opportunity, and we want to move it, we want to improve on it, we want to become more productive. And by moving to Every Day Low Price, you smooth the business throughout the week, throughout the month, and throughout the year. And as that smoothing happens, you can take cost out. You don't have the inventory markdowns related to high-low, you don't have the labor to move the product around to fit an ad.

Because of the inventory spikes that come with high-low, you get damages and accidents, more shrink because of the amount of price changes, for example. So by moving to EDLP, you can take inventory-related costs out of the system. So not only do we have the opportunity on the SG&A side to drive increased productivity and reduce costs, but we also have a big opportunity to reduce inventory-related costs that help fuel lower prices, not only on the basket, but on individual items -- known value item, key value, KVI, or Tier 1 item.

It's important to lead on price on that tier of merchandise. Customers frequently know the prices of those items more so than they might Tier 2 or Tier 3 items, but they do know, especially with the number of transactions that we have, what the prices are on less recognizable items. And as we drive the spread with competition on Tier 2 and Tier 3, we can create a pricing reality and a pricing reputation that drives traffic and ticket.

And what we've seen in Brazil in the last few months is that our ticket is going up, as we mentioned in our earnings call most recently, in a dramatic fashion, but traffic is down. So what we need to have happen is more customers to understand that we do have lower prices now, that Every Day Low Price is here to stay, and that's going to take some time in Brazil to deliver.

Frankly, it's taken longer than I thought it was going to take. I attribute that to the excessive high-low environment in Brazil, the amount of activity that goes on as it relates to credit in Brazil. It's just a noisy environment.

But I'm really confident that EDLP is working and will work because it does deliver the lowest basket price, and our big bet underlying all of this strategy is that the customers are smart and that they will figure this out. And our confidence level in the Brazilian customer is as high as it is at any other customers around the world. And so EDLP will help us lower cost, built trust, improve in-stock, and ultimately be a winning formula that delivers returns to the shareholders in Brazil, unlike we've seen thus far from that market.

E-commerce is also a focus in International, and the example we brought today is from Brazil, where we recently received an award. We have a fast-growing e-commerce business in Brazil. We've got a well-developed grocery e-commerce business in the UK. We've got other initiatives that are happening around the world to launch websites or to move on mobile.

As I mentioned before, technology is changing everything. It's changed how customers get information, it's changed how they purchase, it's changing how we fulfill product, and virtually everything that we do. And I'm excited about that dimension of growth in what we can do. And one of the reasons why I'm excited about it is because of the positive momentum we have in Brazil.

China is probably the most important market within the International Division. China and Brazil are there together. We've got a longstanding business through Wal-Mart Supercenters and Sam's Clubs. Both formats continue to perform well. China presents an enormous opportunity for us in the future.

China has not converted to EDLP yet and won't this year. We're working with that team to develop our timing and our approach to it, based on learning that we've gotten from Japan and Brazil and other markets.

The biggest news, probably in China for Wal-Mart, is the TrustMart acquisition, and we've received some pressure from that acquisition, primarily because we didn't get it closed when we thought we were going to due to some legal issues unrelated to government approvals, just a legal issue. It looks like we're going to get that resolved this year and be able to change most of the TrustMart location banners to Wal-Mart. We've made changes to assortment, we've made some changes to systems, and we want to get the Wal-Mart brand name up to help attract new customers. And that's started to happen and will continue to happen throughout this year.

Canada's headline is the Supercenter business. We are going to add around 40 Supercenters in Canada this year through in-box conversions, relocations, expansions. We're excited about that. We've entered Quebec. We're off to a good start there. You can see the before-and-after pictures. Supercenters in Canada are performing well and will for the future.

As it relates to growth through acquisitions, I'll spend a minute talking about what's going on in Africa. We like the Massmart investment for a lot of reasons, but the primary reasons would be, first, we really like the management talent. There's a very

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capable, experienced team in Massmart that's a good cultural fit with Wal-Mart. It's been a very smooth transition so far, and we enjoy each other and enjoy building the business together.

Another reason is because food is not a big part of their business today, but we believe it will be in the future, and specifically as it relates to serving middle-income people and down throughout South Africa and eventually throughout the region. And one format that we're focused on to be able to do that effectively is the Cambridge format, which is relatively new within the Massmart portfolio, but presents a tremendous opportunity.

Macro is a good business there, big cash-and-carries. They do sell some food, but they have a wide range of merchandise. And then the Game discount stores, which remind us at Wal-Mart of the discount stores that we had in the US when we started here. Some of those Game locations have started to add food, and so they're Game plus FoodCo.

So we've got an opportunity to leverage the GM expertise that they have, add some food knowledge from Wal-Mart to the mix, including the logistical components of serving customers with food, and really expand this business over time throughout the region of sub-Saharan Africa. And I don't think I could be any more excited about the potential that we have here to deliver shareholder returns and fulfill the purpose of the Company to help people save money and live better. There's a big opportunity here.

One of the unique things that we did that we hadn't done with other acquisitions, like Chile a couple a years ago, is we almost immediately hit price. And while the Wal-Mart brand does not exist on a store in Africa yet, we went out with an advertisement led by the Massmart team to demonstrate to the customer that Wal-Mart being in South Africa and being in the region was a good thing, and we started reducing prices -- rollbacks. And we had a very strong customer response to that. Sales were well ahead of plan. The items that we rolled back did well ahead of what we planned, and it just gave, I think, everybody kind of a jump-start into the benefits of this relationship that we'll have between Wal-Mart and Massmart. We think of it as Massmart being powered by Wal-Mart.

Another example of growth through acquisitions will be in the UK. We picked up a net of 147 small stores that we've converted to Asda supermarkets. I was in one not long ago, and it is a great customer experience, a good assortment, lovely, little small store that's driving returns ahead of what our expectations were. Financially, it's ahead of plan in every respect.

I mentioned earlier "Powered by Wal-Mart." The idea is global leverage. So let's say we make an acquisition like we did in Chile. How is it that that business will be better because they're part of Wal-Mart? How will customers benefit? How will shareholders benefit?

Well, some examples are over here on the right-hand side, but let me start by saying that there are some philosophical issues like EDLP that we know are superior strategies in the retail business, and we're going to help, and have been helping, with expertise. But we also have this opportunity to leverage our size and our experience through areas like procurement, process engineering, information technology, and the list that's here on the screen.

We haven't really gotten started to a great extent, other than in North America with shared services. Those efficiencies are in front of us. On the process side, we have some well-developed markets like the UK and Mexico and Canada that do have good processes, well-engineered checkout processes, inventory management processes. We can always get better.

But then we also have some other markets. China and Brazil would be examples where we have not leveraged best-in-class processes to reduce costs, and that's still in front of us. So a few months ago, we created a global process team that's taking our best-in-class engineered processes in the areas that will move the needle, and they're helping countries understand how to adopt those and drive them -- in some cases using technology, in some cases using a system, but in some cases, it's just simply a process change.

And so this idea of being Powered by Wal-Mart and being leveraged globally is still largely in front of us. We started in the International business in 1991. When we went to Germany, we overreacted and tried to drive too much activity from Bentonville in terms of the number of expats. The systems changes came too fast, cultural changes and other things -- we moved too quickly, and we learned some valuable lessons.

And then we invested in the UK, and we went the other direction and we gave them a whole lot of freedom, as it was a well-run business, and we largely left them alone. And then today, in 2011, with an International business that's well over $100 billion, we've got opportunities to leverage. And so I think it's another part of our maturation process, and the timing is now to start working these next few years and quarters around finding value through global leverage in these areas to get costs down, serve customers better, and drive returns up to a different level. We're seeing progress here, and I'm excited about this idea.

A few examples from global sourcing, whether it's private brand in the UK, where Asda helps influence the rest of International, or savings like I've listed here -- hangars where we save 24% by using our direct import program. Same thing in apparel. We had a major initiative a few months ago to buy refrigeration equipment together across countries, and we resolved the specs together and then go to market together to get a lower cost for scale. We're doing more of this. We need to do even more.

Process improvements. Cashier productivity is one example, and logistics network optimization. We're doing a better job of spreading best practices throughout the International Division.

As it relates to returns, we've listed a few of the key levers here that we have to drive returns. The first one is operating income improvement. So when we look at a market like China or Brazil, we want to see step-change improvement in the operating income percentage from year to year. We've grown profit faster than sales if you look back over a number of years. But that's not enough in the International Division, because we need to lift the return up. So setting an aggressive target for operating income percentage in some of the markets where we've been for a while and have now reached scale is a focus for us as leaders of International.

The second lever that we've listed here is that we have been for some time now, since Cathy joined International, using risk-adjusted hurdle rates and thinking through our investments by country to ensure we know where that's leading the portfolio. When you combine the sales forecast with the operating income forecast, what amount of capital you're investing and how the portfolio -- this last bullet -- correlates to each other, just as you would invest, we're thinking about how we invest in this portfolio so that this return gets lifted as we grow. I mentioned formats earlier, and then this tool that's being used to help us prioritize what new markets we might enter in the future.

So Wal-Mart International's focused on growth, leverage, and returns. We believe in having a local philosophy with some common principles, powering it by Wal-Mart with great talent. We work to lead on social issues, whether that's the empowerment of women or how we use water in our business, doing things that leverage our scale for good, help deliver efficiency, help deliver dollars to the bottom line, but also do good things for the planet and help create situations where customers can thrive in the future and hopefully be our customers.

And with that, Adrianne, I'll open it up for questions and let you fire away.

QUESTIONS AND ANSWERS

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

Thank you, Doug. We've got mikes in the back, so if you've got a question, please raise your hand. Let me start with the first two questions that we're asking everyone initially. The first one's two parts. The kind of environment you're envisioning over the back half through the holiday season, what does that look like? And then if it does entail any sort of slower demand environment, how are you adjusting your business as it relates to that?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Well, it doesn't take a genius, I think, to figure out that it's going to be volatile. We're seeing that virtually everywhere and are having to pay attention to what's happening in real time, so uncertainty, volatility, I think those things are going to exist. I have not seen anything, if I look at the whole globe for a moment, that causes me to feel like things are going to get a lot better. But I will draw a distinction, as I'm sure a lot of people have, between emerging markets and developed markets.

The energy and the attitude around business, and just in general in society, in markets like China and Brazil and India is very different than it is in the UK, for example. So the growth opportunities that exist for Wal-Mart, I think, are there. The emerging markets present the opportunity. We've got the formats to do it, so we're stepping on the gas in the emerging markets. And I'm excited about what that looks like.

Jobs are a big issue virtually everywhere. Jobs are a big issue in South Africa. Even though it's a young nation that's growing, unemployment rates are high. So everywhere that's an issue.

Gas prices are a second issue that I would mention. They're putting pressure on disposable income everywhere.

And then we've got some unique pressures, like in Brazil. This habit that exists in Brazil of buying goods on credit is eating up a big portion of their disposable income in interest and actually affects their consumption of general merchandise, and could be even greater if they change some of those habits.

So jobs and fuel are the two that I'd mention that we would like to see change. It's impossible to predict what that's going to look like. Regardless, what we have to do is we've got to get costs out of the business. Innovation is the word, and we need to innovate to drive growth, and we need to innovate to reduce costs. And reducing costs will help us fuel growth, because we can take some of that and give it to the customer, take some of it and pass it through to shareholders, which is what we're going to do.

So we have an intense focus, as we look at our five-year plan. Cathy and I just went through our strategic planning process with the markets, and we're in the midst of setting our financial objectives. And we're working hard to pull as much expense out of this business as possible and get our leaders to have a perspective where they understand that in a price-transparent future and present, where raw materials are under pressure, natural resources are under pressure, population is going up, efficiency is going to be required even more, and all of us are getting squeezed through this process to become more efficient. And we want to be on the front side of it. That's what we've been known for; that's what we want to be known for in the future. Technology will play a role in stores, outside of stores, through e-commerce, multichannel, and everything else that's going on. So innovation is going to be required of all of us. And if the environment gets better, great, but prepare for the worst, hope for the best.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

The second question is related to capital allocation. If you're going to speak overall in terms of priorities between buybacks, dividends, e-commerce, expansion, however you spend, acquisitions.

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Yes, I'll make a comment, and Cathy, you can chime in, too, if you'd like. We have a lot of opportunities to invest. We're sitting through a real estate meeting every month where we're looking at dozens of store opportunities that have returns that are attractive. We'll sit in an M&A meeting, we'll look at an e-commerce opportunity that adds capabilities to us to help us serve the customer, and it's attractive.

So we have a long-term view, and we want to grow, we want to deliver leverage, we want to deliver returns. We can do all those things. We review the dividend annually, and then we look at share repurchase. And as you probably know, the Board recently approved a $15 billion share repurchase. We've got $14.1 billion left that we can go and do. Share repurchase is important. It's a good way to return money to shareholders. But when we have investment opportunities that are more attractive, we need to prioritize those, because we have the opportunity to do so.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

And then the last. As it relates to input costs, we've obviously seen inflation across many different categories. Maybe give us your perspective in terms of how you're passing them on, and then the customers' response globally.

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

So within the International Division, inflation is most prominent in Argentina. We're seeing 15% inflation and more. They're a little bit conditioned to it, and they respond to it. And our business in Argentina has been really good, even netting out inflation to a real comp. The team there is doing a great job growing. But it's driving numbers up. It's amazing to me that they can live in the environment that they live in.

Other markets, it's less of an issue. We're seeing in Brazil some level of inflation. China, a meaningful level of inflation. And then India, where foreign direct investment in retail is not allowed yet in multi-brand retail, but we have a franchise relationship and we've now got well over 100 stores there, we're seeing some dramatic inflation, particularly in food. And so if you're the customer and you look at the whole basket around the world, there are items like meat and dairy, where the inflation just has to get passed through. It's the market price, et cetera, and it happens a lot faster.

And in other categories, like electronics, we're seeing double-digit deflation. So across the basket, it gets muted a little bit for Wal-Mart because of that. But for the customer, it puts real pressure on people that don't have a lot of money because those commodities are where the prices moved up. And it reduces the amount of spend that they have to make in more discretionary categories.

At Wal-Mart, we want to be the customer's advocate, which means we fight and delay price increases as much as possible, try to be creative with logistics and other mechanisms to avoid or reduce the amount of price increase, pass it on last if we ever have to. And then if we get a cost reduction, move on it first. And that creates an opportunity for us to further enhance Wal-Mart's brand and our relationship with the customer.

But I think inflation is a real issue, and it will probably be more of an issue in the future.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

Okay. Mike, we've got some questions out there.

Unidentified Audience Member

Regarding your operating profit margin, I was wondering how your more developed markets, like Mexico, Canada, and England, compare in operating profit margin to US stores and whether there's any structural limitation as to whether it can ever approach the US margin.

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Mexico and Canada both have great margins and great returns. We've been there longer, the business is more developed, scale is there, and they're great. The UK's a little less, primarily because we're food retailers, and the margins are just structurally lower. So a supermarket business in the UK is going to deliver lower than the general merchandise breadth that we have in a country like Mexico.

So the idea internally, what we talk about, is within the International portfolio, we've got the Big Three -- Mexico and Central America being one market today, Canada and the UK, and they drive the vast majority of our profitability and a big chunk of our sales. And what we've got to do is move from having the Big Three to having the Big Five as fast as we can by graduating China and Brazil to higher levels of operating income over the next few years.

Unidentified Audience Member

Is there something that restricts the operating profitability of Mexico and Canada from approaching the US level?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

No. And both in Canada and in Mexico, we have very high returns. Really, the growth for us in Canada and in Mexico is to drive growth while maintaining their level of return on investment, and that positively helps our portfolio.

Unidentified Audience Member

Wal-Mart in Mexico reported figures yesterday and indicates that the consumer in Mexico continues to be on a weakening trend. And I was wondering if you could comment in regards to whether that's something specific to Wal-Mart or there's something more broadly going on within the Mexican consumer.

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Sure, I'll do my best. I think it's a combination of both. I think there has been some weakness in the market, but I don't know that that's long term. And I'm more concerned about internal issues. And there have been a number of things happening within the Wal-Mart Mexico business that could have distracted us. And the first one would be the number of new stores that we worked to open in the first half of this year.

Last year, in the first half of the year, we opened less than 60. This year, just in the second quarter alone, we opened, I think it was 129 or something like that. So the team was very focused on getting those new stores in stock and getting them open. I think that actually helps us as we go through the year, because we'll pick up sales and profit on those stores that we wouldn't have otherwise.

And then the other thing that's been happening is the integration of Central America into our business in Mexico, which involves systems changes and other issues. And so I was there a few weeks ago with Scott Rank and the team. We went to Costa Rica together, and then were in Mexico together. And what he's got everyone focused on is driving comp store sales and getting back focused on merchandising and prices and really turning up our level of aggressiveness. And that's what needs to happen.

If the external environment weakens, we're just going to have to be stronger anyway to hit our financial objectives. So we didn't expect Mexico to be as soft as it's been year to date. I'm expecting a better half for the rest of the year, regardless of what happens with the external environment.

Unidentified Audience Member

Good afternoon. I had a question on your Supercenters in your newer markets. You have a lot of different formats going on in different markets, and it's not quite clear whether you're doing new formats or new stores in those markets because that's the nature or the character of that country or that consumer, or you're doing other formats because in some of your existing markets, that Supercenter doesn't have relevance or doesn't have pertinence as it did in the past because of consumer changes in their psychology and how they like to shop. Could you tease out that?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Yes. It's yes and yes, I think. The Supercenter is a great format, and to speak to International, within Wal-Mart International, there are places where a Supercenter is by far the best vehicle. It's great in Canada. In the urban centers in China, it's the right vehicle -- big box, broad assortment, infrastructure exists for people. And even in China, in an increasing fashion to drive, put stuff in the trunk and go home with it.

But there are many other places throughout the world where a smaller box is actually what the customer wants. And as I mentioned earlier, I'm really excited about this compact hyper. It sells food, including fresh. It sells GM, it sells apparel, but it does it in a smaller box and a less expensive box. Cement floors, sometimes no air conditioning, natural light, cement block walls that aren't painted. Sometimes the block wall doesn't even go all the way up to the ceiling. Metal kicks in and saves even more cost.

And as I mentioned before, I believe that we've all got to get more efficient. We've got to drive the productivity loop faster. We've got to get more cost out of our business so that we can thrive in an uncertain future. And I really like that discount compact hyper format in many markets.

And so today, in Latin America, it's well known, and we're accelerating it. Other parts of the world need to be introduced to that format within the Wal-Mart portfolio, because it's a great format. So I think we're reacting to customer demand and market at the time, but the example I just gave you is one that cuts across several different markets.

It is not our objective to see how many formats we can have. Complexity is not our friend; simplicity is. And so we have to make sure that when we launch a new one, even if it's a test, that we're thoughtful about the amount of organizational energy and focus that it's going to take.

We do a post-audit process every year, where we look at our IRRs relative to what we thought they were going to be by format, by country. And we accelerate where we should accelerate -- I just gave you one example -- and we decelerate in other instances until we get the operating model figured out to improve it or not. We may not invest in some formats in some countries if they're not hitting their targets.

Unidentified Audience Member

(Inaudible question - microphone inaccessible.)

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Yes. The question is, do they want a cheaper box where they can buy cheaper product, or is it location? Is it customer-driven? Is it behavior-changing? I think the answer is yes. I think the general trend around the world is towards smaller boxes. And if I could snap my fingers in some instances and make our boxes smaller and more efficient, I'd do it.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

And, Doug, maybe following onto that, small format has been an important contributor to International for some time. The US is obviously sort of testing, thinking about small boxes here. Anything that you could share in terms of learnings of what's worked internationally in terms of what can be imported here in the US?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Yes, sure. What happened is that we brought some of our International experts that know small stores better than any of the rest of us to help with the design of what we've been doing in the US. Bill Simon and I were together yesterday, and we were talking about one example of learning that got transferred.

You might think that if we're going to take a small box, a Wal-Mart Express, to a small town like Gravette, Arkansas, that private brand opening price points might be really important. Well, intuitively, I would think that was true. What we've learned is that customers, even low-income customers, want brands. And one of the reasons why they want brands is because they can trust the consistency of what they're buying and they can do comparisons to know if they're saving money.

So we were in Argentina last week, and we stopped a customer in one of our Changomas stores, which is a discount compact hyper like Bodega Aurrera in Mexico. And we were asking the customer about a particular dry grocery category -- I think we were in pasta -- and she was buying a brand rather than a private brand. And the reason that she explained to us is, "I know what I'm going to get, and I can't afford to make a mistake. I can't afford to buy an item that I don't know about from a quality point of view, even if it's cheaper, because if I get it home, I've wasted whatever it was I spent."

So in the small stores in the US, we have a brand presence, and brands enable us to show value to the customer. Private brands have a role, but it's not as expanded as we might think it would be for our business. So that's a little different approach.

Now, there are other things, Adrianne, like the fixtures and the size of the store and the SKU count and other things that we can share as well, but that's just one story.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

While we're on the US, maybe, as I mentioned in the introduction, you've obviously touched a lot of different divisions over your time at Wal-Mart. Maybe if you could give us a little bit of a progress report in terms of what you see in terms of how improvements are heading in the US, Sam's, as you all kind of discussed.

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Yes, and I'll give you just a little bit. As it relates to Wal-Mart US, we mentioned in the last release that we've seen improvement sequentially and excited to see that. It's not a surprise that customers want low prices and broad assortments in a Wal-Mart Supercenter. And as we give that back to them, they're responding, and I think they'll continue to do that.

So when I look at the Wal-Mart US business going forward, I'm very optimistic about what Bill and the team are doing.

Sam's has been on fire, and really proud to see that. Brian and the team are doing a great job delivering value. I think merchandising has continued to improve. They've done some things in membership that have been great. And then the fuel business has been a key driver. As fuel prices go up, Sam's Club has the lowest prices per gallon, customers become even more penny-conscious, so traffic goes to the gas stations, and much of that traffic, then, ends up in the box and buys a membership. So they've found a way to leverage fuel into driving the top line even more.

THOMSON REUTERS

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

Wal-Mart US has been pretty vocal about looking to widen the pricing gap going forward. Where are prices -- how comfortable do you feel about Wal-Mart International prices relative to their competition?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Obviously, it varies by market. We've got some situations where -- Mexico, Canada, the UK -- we've been aggressive and I feel good about it. Feeling better about Brazil. Have some room to improve in China. We don't want to give away prices, margin that we don't have to give away. But at the same time, we want to build that sales momentum that helps us leverage our expenses. And what we're trying to do is to find ways to pass on that SG&A savings to the operating income percentage and improve returns.

In general, the gross margins in International, Cathy and I are comfortable with where they are. They're in a good operating range. It's really the expense number we want to move to get the operating income percentage up.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

And following that, EDLP is, as we know, it's a cornerstone of Wal-Mart. It seems that they are, Wal-Mart US is looking to reinforce that image. It sounds like Wal-Mex, a similar effort going on there. Why do you think that? Why do you think the EDLP image needs that reinforcement? Is that competition? Is that a macro environment? What caused it to maybe lose some of its relevance?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Well, the forces work against you. EDLP's different, and the market doesn't naturally follow an EDLP environment. Suppliers would like to fund our investments to advertise an item or to place an item on an end cap -- performance. So if you're the supplier and you want to drive retailer activity, you hold some money back to try and drive that activity to make your quarter at the end of the quarter or reach your financial objectives to drive growth with your ideas.

So it's hard to say, "I'm going to take those allowance dollars, net them out, put them on the invoice, and you can decide what to do with it at Wal-Mart." And so some level of scale is necessary to do it. A level of collaboration is required to do it, because ultimately, the supplier wins because you can take costs out of the system on their side as well as your own through forecast accuracy and things that come along with EDLP.

But the answer is that everything from the competitors, human nature, suppliers, they all want to pull you towards high-low activity. It is intuitive to run a sale. If we owned stores and we just started this week or this month, we would say, "Hey, if I reduced that item -- spray paint -- from $1.00 to $0.50, I'm going to sell more." That's intuitive.

What's counterintuitive is to say, "Well, if I sell some at $1.00, some at $0.50 over the course of the year, that averages out to $0.78. I'm just going to sell it at $0.78 every day, and the customer can save money every day. And if a customer comes in with a $0.50 ad, I'll match it, take care of it. That will be the minority of the situations, and I will have protected all of my volume, because I had the lowest everyday price by a lot, and I covered them with an insurance policy called Ad Match on the times when a competitor does want to sell it below cost or run it on sale."

So what happens is over time, you drift, and we've leaned back towards EDLP. We get purer, and then the gravitational forces, human nature, pull us back the other way, and we have to true up. And we've done it in Wal-Mart US before. I was part of it in '95 and '96. We've done it in every other market that we've been in, and those are the reasons why.

So the idea is to stay disciplined. And the thing I love about this is that it's strategically different. Other people don't want to do it. It is counterintuitive, and it's hard. It requires discipline. So in Brazil, for example, we've been doing a lot of teaching lately on how to go about doing this. And at first, people were a little resistant, because it is counterintuitive.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

So when you think about truing up to the EDLP, and yet your comment earlier that you're comfortable with gross margins, help us think about what does that mean as you increasingly look to true up to EDLP, what the implications are for gross margin.

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

So let's take markdowns as an example. When you move to EDLP, you save money on the markdowns. Your net margin cannot -- it can be the same, but you can pass savings on to the customer in price and in everyday fashion. So, again, I think we can make that conversion. In fact, most countries have already done it, where we didn't move gross margins, but we were able to save customers money through this different approach. And again, get the sales, get the comp up. Because the customers now know who has the lowest prices, and that drives the operating income percentage up as you leverage expenses more effectively.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

Great. When we look at comps in Wal-Mart International, the last two quarters, we saw every country see traffic declines the last two quarters. I'm wondering, could you help us think about why is that and what effort -- and I'm sure there's a story in every country -- but when we look across broadly, traffic declined. And I'm just wondering, what are you doing to change that trend?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

I think that would be a great question for Cathy to answer. Yes, I was really disappointed this quarter to see that happen. And you're right -- there are different answers in different markets. The UK had some pressure that was unique to the UK, and it is a situation that needs to change. In Brazil, it makes sense to me because of what we're going through, and we've driven transaction size up about 7%, because when people get in the store, they see the savings. But the traffic's down 4% or 5%, so we eat up a lot of that comp advantage by doing that.

So I think in some cases our price gap isn't what it needs to be. In some cases, more developed markets, I've got my eye on e-commerce and multichannel that's driving some growth in other categories. So I don't have any excuse other than to say we've got to get that corrected, and it is a mixed bag by market. Hopefully, we won't see it last.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

Maybe we can speak to some of the specific countries. Canada, we know you're going to be getting a neighbor in 2013, as Target enters Canada. Have you heard?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Yes, I heard.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

What are your plans before they show up?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Well, the truth is that there are a lot of great retailers in Canada. So when I heard about it, the first thing that went through my mind was, "Well, it's a good thing that Canadian Tire and Shoppers and Loblaws and everybody else have had a lot of pressure on us, because it's made us pretty good." And we've got a strong team there. I think we've got a good offering in what we do. We're excited about converting to Supercenters. As competition enters and they want to take share, they're going to have to take it from somebody else, because we're going to continue to take share as we have been.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

Okay, and the pricing, the perception on price, you're comfortable with it?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

We were already under a lot of price pressure. I don't know that that's going to change a lot.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

Okay. Maybe moving on to Brazil, you touched on it. Appreciate that. It sounds like the turnaround is underway. But it's been sort of a soap opera there in terms of --

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Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

It's been exciting to watch over there.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

Yes, exactly. So maybe kind of weigh in, in terms of where things are now and where you're, as you've been acquisitive in other parts of the world, maybe you can shed some light there in Brazil.

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

I will. But Cathy and I were just there last week. Cathy, why don't you give your observations on Brazil, and then I'll add some color.

Cathy Smith - *Wal-Mart Stores, Inc. - Finance and Strategy, Wal-Mart International*

I've been to Brazil four times in the last 18 months, I guess, and every time, our business has gotten better. And the fresh assortment was as good as I've seen there for us, and your fresh has to be great. We have a great Dare-to-Compare campaign, so Brazil in general, we like the progress we're seeing in our business. Have tons of room to do, still, in the cost structure, and we're working. We've made great strides, but there's still a long way to go. Delivering everyday low cost will allow us to deliver Every Day Low Price, and that's essential. We're actually fairly relentless on that in every market right now. So our side of the business in Brazil, we feel better and better about it every time we walk stores there.

I got to walk a Sam's Club, and they had some great treasure hunts and piggyback buying with the US. They're bringing some great items and prices. It looks good. And we walked a Supercenter and saw some really good progress there as well.

And then I'll let Doug comment on the soap opera, as you called it, in Brazil.

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

The worst-performing format in Brazil for a while now has been the Maxi cash-and-carry format. It's also getting better. The team had a strategy, they implemented a strategy, improved assortment prices, and the customer responded appropriately.

I'll tell you just one other story that is indicative of our challenges in Brazil. We've made two acquisitions. Sometimes the country thinks of itself in three regions. Wal-Mart Brazil described themselves as being in the south and the southeast and the northeast because of these acquisitions and other reasons.

And we had this situation where the tax laws for municipalities, states, and the federal government didn't match. You could actually be in compliance on two, but not the third. You could be out of compliance by complying with the federal, maybe you wouldn't be in compliance with the state -- very complex.

So a while back, someone designed a computer program to help us get in compliance, and it does that. But it absolutely killed the buyers. So they want to build an item number so they can write an order for an item. Then they have to bill the item number six, sometimes more than six times, to go write the item number.

So if you think about the life as a buyer in Brazil, you are dealing with tax complexity because of a lack of systems expertise; you're dealing with a lack of integration, different regional buyers in different places; and your business model is to drive high-low and to drive some level of profitability through supplier allowances. So in some ways you end up being a banker and an administrative person.

And the way that I've described it to our team is we were focused back on internal issues, and what we want to do is turn around and focus on the customer. Simplify the business, get the systems integration done, avoid some of the problems like the ones that I just described, and just create a business that you can run.

So we've got progress being made. Everybody's standing at attention relative to systems and process improvements and other things. And as that business gets simpler and we do a better job thinking about what the customer wants next, managing our inventory, thinking about packaging changes, being customer-oriented, including the e-commerce business in Brazil, we're going to be just fine.

But change has been challenging, and it has taken longer than I thought it was going to take because it's like layers of an onion, and we keep learning more every time we go. But I think we're getting closer to the center, and I'm very optimistic about what Brazil is going to mean to the Company in the future. But we really needed to go through this change to make it simpler and clean it up.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

As far as M&A activity and what's going on in Brazil?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Is there anything going on in Brazil?

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

It's what I hear.

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

We wouldn't rule out acquisitions. Acquisitions have been part of our history, and we can stretch to do acquisitions if we want to from a capital perspective or from a talent perspective. But our focus, in Brazil in particular right now, is just making our business as good as it can be. And whether or not we made acquisitions in the future in the future in any country, it's going to have a lot to do with valuations.

We don't need to be anywhere else, and we need to be the best. Cathy and I have been talking a lot the last week or so about how retailers grow and die. And you could look at the US, for example, and go back and look at the top 10 retailers by decade. And in 1980 -- I think I've got this right -- Wal-Mart was the third-largest revenue retailer. In 1990, Wal-Mart had become number one.

But between 1980 and 1990, six of the 10 didn't make it. Hill's, Bradley's, Ames, Caldor, and others -- gone. And then you look at 2000. If you start to expand to a global look, 2000 and 2010, that list changes. Amazon didn't exist when I was a kid. These things are moving. And so what we have to do is stay on our toes, be ready to change and innovate to survive this thing and thrive in whatever environment that we're in and not stay the same.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

While we're on the acquisition topic, maybe give us, share with us how you shape your decisions there, both quantitatively, qualitatively, in terms of acquisitions. What matters, what are you looking for, what sort of near-term dilution you're willing to accept as you make these acquisitions?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Again, I think being the best is the most important thing. And the example about the decades is just to make the point that we've got to be the best retailer.

The way we think about acquisitions in some ways is to create more headroom. So going to Africa right now, based on just the size of South Africa alone, probably would not have been a good idea. Going to South Africa right now at this moment, with the current consumer demand for retail, might not be a great idea. But when you look forward at the region, the growth and what's going to happen there, we have created headroom. We can create short-term profits, we can add a good business to the Company with some strong and talented leaders, but we also create an opportunity 5, 10, 20, and 30 years out to continue to grow.

China presents that opportunity, Brazil presents that opportunity, sub-Saharan Africa presents that opportunity, broader Latin America presents that opportunity. And so we're thinking ahead, not only about the next year, but about the next five and the next 10. So as we think about acquisitions, we're interested in large, high-growth markets. They create opportunities to take share over the long haul, and the tide's lifting all the boats, so large, high-growth markets make sense for that reason.

But we're in the vast majority of the markets that we need to be in, and we need to be focused on being the best, which includes delivering returns.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

Is there an obvious large high-growth market you're not in that would be of interest?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Not one that I would mention right now, but you can just go do the tabletop math and figure out that there are five or so out there that we don't have any presence in yet.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

Okay. Continental Europe. You had mentioned Germany earlier. That was early on, and obviously, we know how that ended. How does that shape your thinking about continental Europe going forward?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

It doesn't hit the criteria of a large, high-growth environment, so we're not spending any time thinking about it.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

Okay. Japan. Some of us were there earlier this year on analyst day, and we talked about remodels, we talked about e-commerce, maybe bolt-on acquisitions even there, sort of capitalizing on the momentum that you were seeing. Maybe give us an update in Japan.

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

I'm excited about what our team has done in Japan. The environment's tough, and with what happened with the crisis, which was obviously unexpected, it set them back a bit, but they've come back. And the last couple of months have been driving stronger comps.

And when you walk our stores there, you can see why. The team has changed the value offering. Our items, our prices are better. Fresh is looking good in those stores. We're importing some items in fresh categories and in other categories that are differentiating our offering. EDLP has helped customers think about us as it relates to price leadership.

The bigger win is probably in change through the supply chain, and we believe we need more scale over time to do that. So acquisitions are part of our future, we believe, in Japan, and would like for them to be. Some of them may be small. We may start picking up locations here and there, just to try and drive some level of top-line growth in addition to the comp growth that we have, because to really change the business, I think size is going to be necessary.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

Same thing, China. You're in about 120 cities, and you outlined about a 700-city potential. Maybe give us a sense of the timeline. What is the appropriate way to achieve that potential?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

The sooner, the better. We've made some management changes in China recently, have sent some of the best talent around the world -- Sean Clark out of Canada, our CFO's gone to China to work with Ed Chan; Del Sloneker, a Wal-Mart Associate; Steve Smith from Delhaize has joined us in China; Mario Jose has moved from Chile to be the CFO. So we've assembled a team there that we believe can dramatically grow that business.

We've got opportunities with e-commerce and multichannel. We've got store opportunities. We've started to experiment with a couple of smaller store formats to drive growth there. So the sky is the limit in China.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

You talked about earlier taking cost out of the business and you're really looking to see that as an opportunity. Philosophically, how should we think about the puts and the takes on the margin opportunity? Obviously, it seems like labor costs will continue to be a headwind there, but you've got global procurement probably being an opportunity. Help us weigh those opportunities and tailwinds and headwinds as we think about profitability for International.

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

I apologize if I'm being repetitive, but if you look at the operating income percentage for International, looking back 5 or 10 years, it's been relatively flat. We've had an opportunity to grow profit faster than sales, but not by a lot. And so what we want to do is accelerate that gap by getting the costs out.

So with wage inflation in markets like China, we have to be more productive. Our process improvements, I think, would be the first place I would go. Whether it's the back room inventory management or it's the front end with checkouts, we're going to have to be more productive and use technology to do that to reduce the costs. But we can, and it's not as if we're trying to take us to a place where we've never been before.

Our units per labor hour in the UK and Japan, where we have some of the highest wage rates in the world, are much better than our units per labor hour performance in other markets. So we know how to do this, but because labor has been relatively inexpensive, we've overspent. So we've got opportunities to improve there as we go forward, and we'll do that.

Net-net, all in, wage inflation, everything else, we want to start seeing more significant improvement in net operating income percentage, and that's what we're building into next year's plan.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

Any targets that you're holding yourself to that we can track the progress?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

I haven't finished wrapping up my budget negotiation with Mike Duke, so I'm going to talk to him before I talk to you. We'll have a stretch plan above whatever it is he and I agree upon. Cathy, you can comment if you want to without giving a specific number.

I hope you sense from me, and those of you that know Cathy, we are very excited about not just -- we don't just understand our obligation, but excited about the opportunity to make this business a higher returning business. It is a great business -- lots of talent, lots of capabilities, in the right countries. I mean, it is a great business. But to truly be great, it's got to translate into higher returns. So you don't take an operating income number and just improve it by 5 or 10 basis points. You've got to do better than that.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

One of the levers on the slide when you talked about improving returns that wasn't on there was inventory management. And it's been challenging as of late. Maybe talk about what's the opportunity there?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

In International, we in many cases have a situation where our days of payables are greater than our days of inventory. And our sense of urgency around inventory management isn't as high as we'd like for it to be. And the discipline of managing open-to-buy is not as great as we would want it to be, and I think it's largely due to that reason. So we've had to change mindsets around it, and it's been a struggle. And I still find myself sometimes having debates with leaders in International about how important inventory management is.

To me, inventory management is probably one of, next to comp sales, the best indicator of a well-run retailer. If you manage inventory well, in-stocks get better, customers are happier, turns go up, ROI goes up, and it's just a positive loop all the way around.

So we're trying to teach people, also set high expectations around it. We were set back a little bit in the first half of the year because of the number of new stores that we opened. Mexico's one, but there are other countries as well. And so in some cases, we had inventory that we didn't get much sales credit for because of the timing of those new store openings. But we need to get better, and I'm not happy with it. We were better for a while last year, first half of last year, maybe for almost a 12-month period. And then we lost our discipline again, so I've got work to do there.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

We've heard, in the US, growing inventory at half the rate of sales. Is that a metric that makes sense?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Yes. Yes, it does. It does. I'll have some people argue with me on that point internally, because we're opening so many new stores. But I was in Wal-Mart US when we were rolling out Supercenters, and we did it anyway. So what you've got to do is improve your open-to-buy discipline and the other processes that you have to make it happen. And as I said, we've been trying to not only set the expectation, but help people with how to go about doing that.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

Great. So as you set up your plan and you're having this discussion with Mike for next year, maybe step back and help us think about Wal-Mart International over the next several years. If you were to say what it looks like over the next 3, 5, to 10 years in terms of percentage of sales, percentage of profits, how should we be thinking about the opportunity for International?

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Well, let's assume no acquisitions in the number. We would like to have a healthy double-digit growth number. It's probably not 15%, but it's more than 10%. And we'd like to have a healthy comp number. If the comp number were 4% to 5%, I'd feel great about it. And then that operating income percentage needs to move, because that's the number-one lever that will pull the returns up. And then, Cathy, I'd like for you to comment a bit on capital allocation to manage the denominator of ROI, how we think about formats in countries as we allocate capital for organic program and other investments.

Cathy Smith - *Wal-Mart Stores, Inc. - Finance and Strategy, Wal-Mart International*

As Doug said, we are very disciplined about thinking about who's returning by format, by country. And when we see a country that's got a format that's performing well today, we're willing to invest more every single month. When they come into our real estate committee meetings, we're willing to give them the green light to continue. If we have a country with a format that's not meeting our expectations, we ask them to fix that first, and then we'll talk about additional investment. And it's literally across all 12 formats, across every country we have, we're having that kind of discussion now so that we can be more thoughtful in increasing the returns.

Adrianne Shapira - *Goldman Sachs & Co. - Analyst*

Great. Are there any questions out in the audience? Okay, if there are none, please join me in thanking Wal-Mart International.

Doug McMillon - *Wal-Mart Stores, Inc. - President & CEO, Wal-Mart International*

Thanks for having us.
