FINAL TRANSCRIPT

Thomson StreetEvents℠

WMT - Wal-Mart Stores, Inc. Analyst & Investor Webcast

Event Date/Time: Jun. 04. 2010 / 6:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Carol Schumacher
Wal-Mart Stores - VP - IR

Charles Holley
Wal-Mart Stores, Inc. - EVP - Finance, Treasurer

Mike Duke
Wal-Mart Stores, Inc. - President, CEO

Eduardo Castro-Wright
Wal-Mart Stores, Inc. - Vice Chairman

Bill Simon
Walmart US - EVP, COO

Stephen Quinn
Walmart US - EVP, Chief Marketing Officer

Wan Ling Martello
Wal-Mart Stores, Inc. - Head - Global.com

Brian Cornell
Sam's Club - President, CEO

Cindy Davis
Sam's Club - EVP - Membership, Marketing & E-Commerce

Linda Hefner
Sam's Club - EVP, Chief Merchandising Officer

Doug McMillon
Walmart International - President, CEO

Tom Schoewe
Wal-Mart Stores, Inc. - EVP, CFO

CONFERENCE CALL PARTICIPANTS

Robby Ohmes
Bank of America Merrill Lynch - Analyst

Adrianne Shapira
Goldman Sachs - Analyst

Neil Currie
UBS - Analyst

Paul Trussell
JP Morgan - Analyst

Greg Melich
ISI - Analyst

Jaison Blair
Rochdale Research - Analyst

Peter Benedict
Robert W. Baird & Company - Analyst

Nathan Rich
Citigroup - Analyst

Dan Binder
Jefferies & Co. - Analyst

Maggie Gilliam
Gilliam & Co. - Analyst

Joe Feldman
Telsey Advisory Group - Analyst

David Strasser
Janney Montgomery Scott - Analyst

Faye Landes
Consumer Edge Research - Analyst

PRESENTATION

Carol Schumacher - *Wal-Mart Stores - VP - IR*

We are webcasting today. And I would like to on behalf of Wal-Mart Stores, Inc. introduce our Executive Vice President of Finance and Treasurer, Charles Holley.

Charles Holley - *Wal-Mart Stores, Inc. - EVP - Finance, Treasurer*

Thank you, Carol. Good afternoon. We really do appreciate your interest in our Company. And if you're joining on the webcast, thank you for listening in. And if you're here in Bentonville, Arkansas with us, I hope you enjoyed our shareholders meeting this morning and heard a little bit about our priorities. Just as a reminder, we have a forward-looking statement. I'm not going to read it if you'll put it up on the screen. Just remind you that's it's important to read that if you're performing analysis on our Company.

Today what we'll do is similar to last year. We're going to open up with a few brief comments from our CEO, Mike Duke. Then we will immediately go to Eduardo Castro-Wright in the Wal-Mart segment. And Eduardo will make a few opening comments. And then we'll open it up immediately for Q&A. That will last about 35 minutes. Then we'll go to Sam's Club. And that will last about 20 minutes. And then Doug McMillon for our International segment will be about 25 minutes.

Again, each of the segment CEOs will open with a few comments. And then we'll open it up for Q&A. We'll go to Tom Schoewe after that. Tom will make a few comments for five to ten minutes, immediately go to Mike Duke to close, and then we'll open it up for general Q&A to Mike and all of his directs. So, with that, I'd like to introduce our CEO, Mike Duke. Mike?

Mike Duke - *Wal-Mart Stores, Inc. - President, CEO*

Thank you, Charles. Well, good afternoon. And welcome back to Bentonville, Arkansas. I know I've seen many of you quite a few times. I won't try to count with all of you. But it's great to have you back again. I hope you enjoyed the meeting this morning. You and I have something in common, though, I've noticed. You like the details of business of retailing, and so do I. So, this afternoon we're not going to be singing and dancing and taking up a lot of time with a lot of other fluff. We're going to really get right into the business.

With that, what should you think about when you think about coming to Bentonville, Arkansas or visiting any Wal-Mart store in the United States or anywhere in the world? You more and more should think about this corporation as a global corporation that operates a portfolio of businesses. Think of countries, formats, brands, and the way that we operate in multiple ways in serving customers here in the United States, but also around the world, and how we're starting to really build more and more leverage from that so that our priorities that you now know so well -- growth, leverage, returns -- really work together to produce shareholder value. Hopefully, the time together with your questions and our answers, we can help you even see that in a more clearer way of the focus on growth, leverage, and returns.

You'll hear lots of opportunity for growth this afternoon, even as we discussed this morning, here in the US and around the world. We have more and more focus on leverage. I'm really pleased. And when I stood in front of you, many of you that were here in October, we talked about the productivity loop. We talked about leveraging expenses. I really went out on a limb and made some commitments that we were going to start leveraging expenses. And I'm really pleased and proud of the Leadership Team for the way, really, the fourth quarter began. But the first quarter just carried on even more so in this area of productivity and really getting the productivity loop going again. And think of that productivity loop. It really is about every day low cost, every day low price, and then increasing customers. And I really believe that's a formula that's worked for Wal-Mart for many, many years.

All we're really doing is just going really after the real base business model of Wal-Mart with the productivity loop and everyday low price. That then delivers growth, leverage, and returns. Now, you today get to see some of the Management Team. You saw some this morning, the Leadership Team on the stage or information. I really wish there was a way to give even more exposure. I'll tell you the Leadership Team we have today is the strongest ever in all of our businesses and through multiple layers of our business organization. And so, with that said, I want to get it started by giving it over to the team. And I will turn it over to Eduardo first, I believe.

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

Thank you, Mike. Good afternoon, everyone. Much like Charles just said, I'll make just some brief remarks to leave plenty of time to the few questions I know you have about our business. So, before I do that I would like to ask the Leadership Team in the US and Global Sourcing and global.com, although Wan Ling is not here to stand up, just so they can be recognized. And ask as many questions as you want from them. So, please sit down. Thank you.

I'll start by saying that our first quarter results, which are public information and I can refer to them openly, showed what I would qualify as mixed performance with sales falling short of our expectations, and I will go into a little detail without much of it until I get the questions about that, and outstanding profit performance. So, we're ahead of expectations, actually, in profit. We beat our plan quite handsomely in the first quarter in operating income. And so our inventories stayed flat. And, as you saw today, last year we reported an increased return on investment for the first time in a few years. And that continued into this first quarter. So, soft sales, great leverage, leading to good returns.

So, that's how I would qualify the performance of the business. If I go back and just briefly give you a little bit more color on sales, I would say that the shortfall, I would place it in three buckets, if you want. The first one, and this is not different than what probably anyone would tell you in any business, the first one is the environment, so macroeconomic environment, what's happening with consumers, what impact has had unemployment and gas prices on our customer. I discussed this morning briefly that with Adrienne. So I'll make sure I give you exactly the same information to avoid any disclosure issues.

The second bucket really is competitive. So, as you know, competitors, particularly in certain segments of the trade, have become very price-oriented. And they have disclosed that. In some of the channels particularly based on their earnings reports, it would appear as if they did invest in pricing. And, as you know, we have responded. And we have a very robust rollback program that we have in our stores today precisely to address price gaps and ensure that we remain the undisputable price leader in the marketplace.

And the third bucket is what I would call the self-inflicted pain. So, that is things that don't have to do with the macroeconomic environment, don't have to do with competitive pressures. Actually are things that we did as we executed our assortment strategy where we missed some opportunities. And certainly that has had an impact. You know, some of you in other sessions have asked to quantify what each one of those would be. And if anyone here wants to venture a number, please see me later on. And maybe we have a job for you. Because the truth is I can't separate that. I can't. I don't know which one of those three is impacting everything.

I can tell you from analysis that without any doubt we can correlate unemployment to store performance, for example, by taking the Census Bureau information on unemployment in the United States and comparing that to our store base, and then dividing our store base in quartiles from stores in areas with the lowest unemployment with stores in areas with the highest unemployment. And if take the 25% of the base of our chain, that would be in stores with the lowest unemployment. They are outperforming the ones with the highest unemployment by a factor of over 250 basis points. So, very significant math, facts that would indicate that unemployment is a major -- as you would intuitively expect, a major part of the shortfall in sales.

As it relates to the other two, gas prices probably is the closest correlation we've seen to the significant reduction in trip frequency. Trip frequency started growing. And, as a result, we had very robust traffic growth when gas prices came down two years ago. As gas prices increased dramatically during the third quarter, actually October and November, so the end of the third quarter and the beginning of the fourth quarter, we have seen then a significant reduction in trip frequency. And that's related to the filling trip and customers not having the money to actually go and do that trip and choosing to do that filling trip in places closer to home. That's the best explanation I can give to that one. And, with that, I'll do as promised. I won't take more of your time. And we'll open up for questions.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Before we start with the questions, we do have people with microphones in the aisle. And we'd ask you to wait until you have a microphone before you start your question. Also, please give your name and your firm for the benefit of everyone so that they can hear not only who you are but your question. Robby, we'll start with you.

QUESTIONS AND ANSWERS

Robby Ohmes - *Bank of America Merrill Lynch - Analyst*

Thanks. Robby Ohmes, Bank of America Merrill Lynch. Eduardo, I was hoping that we could get you to talk more about the self-inflicted part of those three buckets, and maybe give us a little more detail on what the largest self-inflicted pieces were and how you're going to correct the self-inflicted things that maybe happened in '09 and the last couple of quarters. And if you care to walk us through that, that'd be terrific.

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

I'll have to do that with as much detail as possible because a lot of it, as you would understand, has competitive implications. And I'm not willing to share. But I'll cover as much as I can, following Mike's full transparency guidance. So, think of it, the first one, and then I'll ask John to chime in. But the one that comes to mind to me first is the fact that if you think about our assortment strategy, the way that we are going to market, basically what we said is, we're going to redefine assortments for each one of the categories based on which categories are growing and which categories Wal-Mart has credibility in. And we said those would be win categories. And then we did the same thing for play categories and show categories, right?

The opportunity was and continues to be, although it is now a work in progress fixing it, is that that implies that all consumers are the same. And so if you do that on average for all stores, you end up really with average assortments across the chain. Breaking down the chain in clusters and defining win categories, play categories, and show categories by each cluster is the opportunity, the one that we're working on today. Do you want to add something to that, John?

Unidentified Company Representative

Yes. I would add to it also, because as Eduardo described, it's about prioritizing growth. And so what we wanted to do is really be able to distort the growth categories, which means they require more space. So, the space has to come from something. And so as we went through the exercise, some of the categories that we reduced in space we took SKUs out and they didn't transfer. Some did. Some didn't. And so it's us being able to make the assumption as to what it's going to transfer to. And I will tell you, too, that when we gave the customer a compelling reason to transfer, price, it worked. If we just took something out and didn't do anything differently, it didn't transfer as well. And so there were a series of items that we thought could transfer some place. They didn't. And we've put those back in. And so we have every month is we go through this and we review the categories and what changes we've made.

But the intention of the whole thing was, how do we expand the growth categories? And how do we make room to actually put more SKUs against the high-growth categories? And I think in some cases, if I had to just say what didn't work as well, I don't think we were as aggressive as we needed to be in the high-growth categories. And, in some cases, we went too far in some of the categories that actually were declining. And yet we didn't make the proper choice in terms of what was required to keep the customers' attention in that category. But that's been an ongoing process that over the last six months that we've replaced everything that we can identify that didn't transfer. And we're actually in a much better position today than we were five months ago on that. So, that's what I would add to that.

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

Just to finish the answer you want, you have to be -- when you're trying to determine, so how much each one of those could impact? I just will give you one piece of information and then let you make your own decision. How about that? The grocery channel last time I checked as a channel has seen pretty average comps. As a matter of fact, our grocery business, which is some 60% of the total, has outpaced the grocery channel.

So, we're trying to correlate and [grebe] the assortment issues, which are mostly in the -- as you would expect, customers stop going in a place and go to a different one when they can find the food or the items specific in general terms to grocery. That's where it happens the most. As a matter of fact, that's where we have most of the customer complaints. And what John's team are putting back in stores have to do with grocery. But it is not to the grocery channel where we have seen leakage, not based on our comps in grocery relative to the competition's comps in grocery. So, how much of the issue is assortment? I'll let you make your own decision or own opinion there.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

We'll take the next question from Adrianne.

Adrianne Shapira - *Goldman Sachs - Analyst*

Thanks. Adrianne Shapira, Goldman Sachs. Eduardo, the second bucket you talked about is price. Help us think about how you're balancing the sourcing opportunities that you have on margins and also investing in price. We're hearing that the productivity loop is back. So, the bottom line is we just want to get a sense of how committed you are and how willing you are to see margin pressure to drive sales.

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

I think that what we have said is that over the medium and long-term, you're going to see our margins pretty much flat. So, we are investing in price. And there might be -- and this depends on months and quarters. When you make investment, you have to remember that in general terms when you invest in a promotional marketing activity, the payback comes with a lag, right?

So, I can't predict if it's going to fit nicely in each one of the quarters. I can tell you that over the longer period, so over a year's time, you can expect our margins to be essentially flat. Most of the investment that we will make will come from our productivity initiatives. The fact that we generally -- in the first quarter SG&A for the business was below in absolute terms the prior year. So, in dollar terms we saved a lot of money in the first quarter. We will save a lot of money in the second quarter. But we're taking that and putting that back in investment in price, driving precisely what Mike said, the productivity loop.

In addition to that, we've got our global sourcing initiative, which I'm pleased to report is starting to work extremely well. It will have some impact this year, some low-hanging fruit that we will be able to capture this year, particularly in things like perishables, for example. Pam Kohn is around there, and she runs the Global Merchandising Center for perishables. And we're already getting a lot of benefit there that has allowed us to actually roll back prices on things from apples during our apple festival to citrus. And then berries was the last one. So, that is being driven by a better supply chain that has eliminated middle man and therefore dropped dramatically our costs. And that's funding that effort. As you know, the cycle for other products, particularly products that are manufactured, it's a longer cycle. And therefore the benefit of the initiatives in cost, product costs and sourcing costs, will play out in the quarters, future quarters and future years.

Adrianne Shapira - *Goldman Sachs - Analyst*

And just as a follow-up, your point was on pricing you saw others get more aggressive. Now, as you've stepped up and been louder on the rollback, what have you heard on the competitive side?

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

I don't know. You are the best source of information for us because you seem to be checking our stores every week. And everything I read from you, including yourself, is that you've seen an expansion of our gap in the last 30 days or so. That's the information I get. Our internal data would indicate much consistency with your own view.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Neil, next question.

Neil Currie - *UBS - Analyst*

Thank you. Neil Currie from UBS. Eduardo, I wonder if could update us on clear Action Alley, that you decided to rush clear Action Alley ahead of Easter. Are you still happy with that decision ahead of some of the stores having a project impact remodel? And how have you found customers have responded to it, both from a visual perspective, i.e. how the store looks and feels, but also in respect to people finding the rollbacks? Whereas you used to fall over them or they used to appear in front of you, now they've got to look sideways, basically, to find them. What's the -- how has your experience been with that?

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

I'll give you a short answer. And then I'll let John answer his point of view. We're pleased with results. When you say that the customer doesn't find the rollbacks, the reality is that what we've seen is actually in most of the basic product categories where we have rollbacks right now the growth in units in sales is quite dramatic. So, customers are finding the product. How happy are we with clear Action Alley? Like everything else, we're learning and applying good judgment to make changes wherever changes are needed. And, John, I don't know if you want to add something to that.

Unidentified Company Representative

Yes. To the last part of your question, how do customers feel about it? Customers love it. I mean, it's just across the board. They love it. They feel like we've given them space back in the store for them to navigate on their terms. I think we're still at a point where we need to make it stronger. One of the unintended consequences is that we can lose some promotional intensity where we have big bulked-out products, especially on the grocery side. It actually works very well. We call them the Bodega endcaps.

When you have smaller products, some smaller consumable products, we're still looking for ways to, how do we get that authoritative promotional impact? And we've got some things we're working on. The one thing that we have found and we're responding to it is that when you get into the seasonal events where it's like a two or three-day holiday, which a lot of them have turned into like Mother's Day, that we need more holding capacity. And so that's another thing that we're addressing is during these key seasonal events, how do we match the holding capacity required to take care of the customer but at the same time really protect the space so that they shop the store on their terms?

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

To give you a complete answer, I'm going to ask Bill Simon to provide the point of view of the stores.

Bill Simon - *Walmart US - EVP, COO*

Much like Eduardo said on the assortment, on average we're pleased. But, in particular, there's opportunities for us to be better. I think a great example would be a store that has a lot of senior citizen customers love it and respond to it. Stores where certain customer groups, potentially some rural markets, and ethnic SKUs miss it. And we've given some flexibility back to store managers to go after sales. And, interestingly enough, with cleared Action Alley, of all the features that were there and you put a few back, the response from the customer is actually terrific. So, we're learning. And we grow, really, every week with the data that we gain.

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

Thank you, Bill.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

We'll go to Paul for the next question.

Paul Trussell - *JP Morgan - Analyst*

Paul Trussell, JP Morgan. If you can just expand a little bit more on what you're seeing from a rollback standpoint in regards to the customer reaction, particularly in regards to traffic. You know, you put in the rollbacks on April 1. What have you see in terms of traffic? You spoke about the unit sales of the products from the rollback. But what about getting the customer to shop the other 90% of the store?

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

Well, two things. I'm not going to give you information on traffic until the end of the quarter. So, I can't provide you that information. I can tell you that we are pleased with the initial result of our initiative. We're building customer credibility. And if you look at what we did, it was very difficult for anyone, in the grocery trade, at least, to find their key products for Memorial Day at a better price anywhere in the market. And basically when we rolled it back, we rolled back products that we felt were meaningful for this time of the year. And we did that, as with every rollback, with the intention to keeping rollbacks for 90 days. And then if the volume justifies the investment, then we'll keep them for everyday low price.

That's been the model with rollbacks always. And it's not different today than it was before. We had cut back on rollbacks a little bit as we changed the assortments, as you can imagine. And we redefined assortments on a modular by modular basis. We had scaled down rollbacks. And what we have done is we actually gone back and put them to the level that we had back two or three years ago.

Paul Trussell - *JP Morgan - Analyst*

And just as a follow-up, could you give us an idea of how this measures -- this rollback campaign measures in terms of number of SKUs, a percent of the stores? Is it just historical norm or a little bit more? And then just as we look out 90 days from now, will the rollback campaigning just continue to evolve?

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

Yes. That's exactly the way that we feel. We'll continue to evolve. Evolve to what will depend on the results and how things play out. Right now in terms of numbers, I can tell you that the current level of rollbacks measured as a percent of total would be about double what it was before when we started. That's where we are, which is, by the way, about the level that we had prior to two years ago, prior the beginning of the application of win/play/show.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

We'll go to Greg next, and then Jason.

Greg Melich - *ISI - Analyst*

Hi. Thanks. Greg Melich with ISI. I just want to make sure I got this straight. So, Action Alley, customers love it to be clean. But in some markets where there's a lot of seniors or some rural markets, customers want Action Alley to have product in it.

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

No. The seniors don't want it.

Greg Melich - *ISI - Analyst*

The seniors don't want it. They want it clear. But there's some ethnic markets or rural markets where people want the product. So, the question is is going forward, how does that change project impact? Are there remodels that you might do or do faster because they love it and you know that demographic really wants the change? And are there other stores where maybe, you know what? We shouldn't do Project Impact here because the return just isn't worth it. It's better to keep it the way it was? Help us through. And then I had a follow-up on marketing as to how, Stephen, we're going to drive home the rollback message, especially given Target's REDcard and other promotional activates that we're hearing.

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

Well, the first part of the question, will we change our Project Impact? Project impact is not about Action Alley. Project impact is a holistic approach to how we go to market. And that is not going to change. When we say that we are putting back some features in some stores where the demographics indicate that we can benefit from that, what we're seeing is within the layout of what the remodels call for today, then John's team and Bill's team actually is a joint effort.

We created a new organization that reports to both of them that are merchants that are attached to the operators market by market. And what we're doing with that is using that new organization to help us define places where we would put back features not where you traditionally had them. We have assigned specific areas within the store where we place back those features in the way that we did in Action Alley. So, they have that promotional intensity that, in some cases, might be missing.

And, Greg, quite honestly, it's a work in progress. We're testing and trying to define what is the best way to go. I can't tell you exactly how it's going to play out completely. We're pleased with where we are. And I think that as the year plays out, we'll learn a lot more.

In terms of whether that changes investment, I think we've got a confusion here. We're not spending more in remodels than what was the average before. We were spending maybe 10% more. We've cut that back because we had a -- one of the remodels we were doing required for us to move the pharmacy. And, as you can imagine, that is a high-cost activity. Based on results -- again, what we learned last year we had three different types of remodels. And based on the results of the first year, we've decided that remodels numbers two and three, which don't require to move the pharmacy, provide us with much higher returns.

So, yes, you won't see us move the pharmacy. You know, we were moving the pharmacy to the middle of the store if you know what I'm referring to. If you visited some of the stores around here, you will have noticed that. That is the answer. If you -- for the remodels number two and three, Project Impact remodels, the investment in the remodel is not higher than what it was in 2006 or 2005. That is pretty much at the same level. So, there's no return decision in terms of, do I do it or not? Remodels are required because you want to refresh you stores. We're incredibly pleased with the results on customer experience scores based on what the customer sees today.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Eduardo, the second part of that question was for Stephen about the marketing.

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

Oh. I'm sorry.

Stephen Quinn - *Walmart US - EVP, Chief Marketing Officer*

We're communicating a couple of things. First of all, we're making sure that customers know about the most dramatic rollbacks that we've had. In addition to that, we're talking about our productivity cycle. And we found a really customer-friendly way to do that. You may have seen ads where we've talked about things that we've done in transportation and sourcing and how we actually lower costs and then pass those cost savings on to our customers. And our customers have responded really well to that. And we're seeing that in our data, not just on the testing of the ads, but also in terms of the impression that they have about Walmart, price impression, that type of thing.

The other thing that's really important to keep in mind in terms of how we communicate is we have to communicate across a whole number of mediums. You know, we do search where the in-store is critically important. Clearly, if you've walked in our stores lately you've seen a big visual impact from rollbacks in the stores. That's been really important to us. We're communicating that seasonally as the various items that are important to customers roll through the stores. And we're even doing things like mobile.

For example, you can type in right now pound wmt into your phone, answer a couple of questions, and you'll start to be informed on your mobile device around the rollbacks that are available. You'll get three of those a day. And they're pretty sweet text messages to get, actually. So, we're on television. We're on radio. Obviously, digital is really important right now. And I think we're really seeing that customers are very aware that it's rollback time at Walmart right now.

Jaison Blair - *Rochdale Research - Analyst*

Thank you. Jaison Blair, Rochdale Research. So, 30 or 40 years ago we shopped on Main Street. And then we moved to malls and big box stores. And Walmart was really a first mover in going from the five and dime to the big box. Over the last decade, Amazon has grabbed a commanding lead in product search. And you are chasing that lead, chasing that primary player. Mike mentioned in his shareholder presentation remarks about price transparency. It seems as though the next wave of retailing or merchandising innovation will be mobile devices. Do you need to be the first mover in mobile devices? And how do you maintain your relevance in this brave new world where we're all walking around and we know prices of everything?

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

Wan Ling is with me. So, I will also ask her to pitch in. But let me just state what might be obvious to you, but maybe not to everyone else. And that is because of who we are, we enjoy a special opportunity to partner and do things with key players in that space. All the big companies that are not retailers, as you can imagine, have a vested interested in participating, right? So, that opportunity exists to us probably more than anyone else because it provides access to other brands into that space. That's a reality, and something we are currently exploiting as we develop our platforms to be able to compete there. And the first decision we made was to create a global initiative, Global.com, where Wan Ling Martello, previously Senior Vice President for the International Business, was promoted to EVP. And then she took responsibility for that initiative. And she has been running quickly to get us there. So, Wan Ling?

Wan Ling Martello - *Wal-Mart Stores, Inc. - Head - Global.com*

Thank you, Eduardo. You're exactly right. Mobile would be the biggest disruptor, not just in general but for retail. And if you think about what's going on and changes in customer behavior, there are three elements that's going on. There is the query, the search -- you know, what are customers looking for? There's the element of some kind of a social graph that's now available online. And so I saw statistics not too long ago. 40% of people 12 years and older have some kind of personal information online. And then there's the element of location, which the mobile device will come into play. And so whoever can bring the three elements together would be very powerful.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

We have time for one more question.

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

I think Michael had a question.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

We'll go with Michael.

Unidentified Participant

As you continue to roll back on consumables and food, the question is what are your customers doing with the money that they're saving? Are they spending incrementally in your store? Are they spending it elsewhere? Or are they not spending it? And is it possible your customers simply can't spend any more money, regardless of price?

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

That's a great question, Michael. I think that it's almost a multiple choice, right? Because the answer is yes with some segments and no with others. So, you have right now rollbacks that work extremely well. Where there's elasticity in demand and consumption is expandable, as you can expect what we have seen is dramatic increases in consumption. The best example I gave is perishables. And that is being consumed and is being bought back at Walmart. So, the benefit that we acquired from the initiative stays in house fully 100%. The customer comes back next week, buys more berries, consumes more berries because otherwise they get rotten, and then comes back next week. So, the formula works beautifully.

In consumables, in some consumable categories people are not going to wash more clothes. They're not going to spend more detergent. So, in those we're not seeing the lifts that you could expect. So, as it relates to, are they spending more money in the box? That's where our Project Impact initiative becomes so relevant because by presenting merchandising a credible way with much more authority in areas where we can mix the margin and get a better overall result, obviously that's where we are experiencing the best results. And I'm sorry. But I think I'm out of time.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

We are out of time for Walmart US.

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

I'd be happy to talk to you later. I'm out of time, right? Okay. Thank you, everyone.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

And, with that, we'll turn over the program to Brian Cornell for Sam's Club.

Brian Cornell - *Sam's Club - President, CEO*

Carol, thank you. I'm going to keep my opening comments relatively brief and make sure that we have adequate time to answer your questions. Linda Hefner, Cindy Davis, and now Ignacio Perez are up front with me. And we've had a number of Sam's Club members who are in the audience today. But I might start out by just talking about, what's different at Sam's Club since our October Analyst Meeting? And the answer would be absolutely nothing has changed. We remain very focused on the agenda we laid out in October. We continue to focus on leveraging the insights we've gained from our member to drive the right innovation for our business that's going to continue to fuel growth, leverage, and return at Sam's Club.

In October, we talked about three key areas of focus for our business. One, making great choices for our members. And I will tell you that over the last few quarters, Linda Hefner and her Merchandising Team continue to refine and clarify our portfolio strategy. They brought very clear category roles to our Merchandising Team. And we feel very good about the way our members are responding to how we're running our portfolio, how we're managing our categories. And we clearly recognize that the insights that we've gained have allowed to take the right approach to providing our team with clear attributes that our members are looking for category by category.

And hopefully you've seen some of the changes as you've shopped our Club over the last few months; our elevated focus on categories like Fresh and Health and Wellness, the exciting new brands and products we brought into many of our Home and Electronic categories. So, we feel very good about the progress we're making from a merchandising standpoint. We continue to stay very focused on elevating the relationship we have with our member. And you've heard us talk about and we've reported on the progress we've made with our focus on elevating our members to Plus, the intro eValues and how that's allowing us to connect in a much more targeted way with our members. Cindy and her team continue to focus on adding new members to our clubs in a much more surgical and targeted way, making sure that we are targeting the right members in the right markets with the right offer.

We believe the enhancement that we've just rolled out with samclub.com allows us to continue to foster and build upon that relationship in a multi-channel way, making sure that we can provide the services and products our members are looking for, both in the Club and through the dot com platform. And we are continuing to focus on improving the in-Club experience while driving efficiency in our operations. And you've seen over the last two quarters our ability to leverage expenses based on the way we're operating our clubs, the changes that Ignacio Perez and his Operating Team have brought to how we're operating the Clubs, the greater efficiency that we're driving, and at the same time enhancing the in-Club experience.

Now, a very big part of that in-Club experience is the rollout and the test of our project portfolio concept. And, while still in the early days, we are very pleased with the results and the feedback from members. I've been in a number of Project Portfolio Clubs recently. Linda Hefner and I were out in the Florida market talking to members who had experienced the new layout. And the feedback is absolutely outstanding. They love the changes. They describe the Club as being much more open, much easier to shop, improved site lines. They tell us again and again that we've added new categories in places where we know those products have existed for years. But in this new layout with a center aisle with better signage with better site lines, they're' shopping more categories. They're giving us credit for the assortment and great brands and quality we have. And we're very encouraged by the early response to that concept.

So, we continue to be very focused on our three core initiatives; making sure that we are making the best choices from a product, brand, and merchandising standpoint for our members, understanding category by category the expectation that member has. We continue to focus on enhancing and building our membership relationship through eValues, through targeted offers, and many new initiatives that we're considering over the course of the next year. And we are absolutely focused on driving efficiency while improving the in-Club experience. And I think you've seen those translate into our results over the last couple of quarters. We feel very good about the performance of the business today. We think we've got significant opportunity for future growth. We think we continue to leverage the internal learning at Walmart. But we think we can continue to drive growth and improve returns as we go forward. So, with that, why don't I open it up, Carol, for questions that that group may have?

Carol Schumacher - *Wal-Mart Stores - VP - IR*

We'll start with Peter for the first question. Again, please just wait for a microphone. And give us your name and your firm.

Peter Benedict - *Robert W. Baird & Company - Analyst*

Thanks. Peter Benedict at Robert Baird. I guess, first, could you talk about the new member sign-up trends, what you've been seeing, and the renewal rates? It sounds like they may be even getting better. And then, secondly, on the Project Portfolio stores or concept stores, which categories are you getting the biggest lift where customers are saying, hey, we didn't think you had this?

Brian Cornell - *Sam's Club - President, CEO*

Cindy, why I don't let you talk about what we're seeing in membership today, some of the trends, key areas of focus?

Cindy Davis - *Sam's Club - EVP - Membership, Marketing & E-Commerce*

So, I think we've shared with you at the end of the first quarter we're continuing to see the renewal rates hold solid. And we're pleased about that in this economy. We're also continuing to see new members come to Sam's Club. One of the things that we're particularly interested in is the number of those new members that are coming to Sam's Club and quickly seeing the value of the $100 membership. That upgrade to the Plus Membership for the real value that we're delivering, not only with the eValues but with some of the pharmacy discounts that we offer, et cetera, is a real opportunity. So, real good solid trends in renewal rates, good trends with sign-ups, particularly in markets where we have the greatest opportunity because we're being much more focused on that, and then actually a little bit faster than we would have thought seeing people move up to that $100 membership.

Brian Cornell - *Sam's Club - President, CEO*

From a projects portfolio standpoint, we're very pleased with the results we're seeing in our Fresh categories, in meat and produce in particular, a very strong reaction to the changes we've made in Health and Wellness and the expansion of our Baby category. But we're also seeing very positive response in some of our categories that are in the center of the Club. We've seen very positive results with apparel. We've talked about the performance in Apparel throughout our business over the last couple of quarters. And as Linda and her team bring great new brands that are seasonally relevant, that are on trend to our member, they're responding really, really well. And that's happening in Project Portfolio Clubs, as well.

Peter Benedict - *Robert W. Baird & Company - Analyst*

Just one quick follow-up. What percentage of the members are at the Plus level?

Cindy Davis - *Sam's Club - EVP - Membership, Marketing & E-Commerce*

I think we get that question asked every time. That's not a number we disclose. You have heard Brian say at the end of first quarter that in first quarter and since the launch of eValues we've been able to grow our Plus membership base by 40% to 50%. And that trend is continuing.

Peter Benedict - *Robert W. Baird & Company - Analyst*

Thank you.

Carol Schumacher; Nate -- we'll go to Nate in the middle there, please.

Thank you. Nathan Rich from Citigroup. So, as we're starting to see food inflation start to come into the basket, I was just wondering if you could comment on the competitive landscape and your ability to pass price increases through to the consumer/

Brian Cornell - *Sam's Club - President, CEO*

We are just starting to see inflation move into some of our key categories. Certainly, we're starting to see some of it in Dairy. We're starting to see it in e-categories. We're also recognizing we are in a very challenging and competitive pricing environment. So, we're taking a very keen approach to pricing. We want to make sure that we offer the member the product that they're looking for at a great value. We're never looking to compromise quality. So, it's a category by category and item by item decision from a pricing standpoint. We are committed to making sure we provide our members the assurance of great value every time they shop. And we'll continue to manage that very surgically item by item throughout our Club.

Nathan Rich - *Citigroup - Analyst*

Thank you.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Wayne?

Unidentified Participant

Brian, when you have a Club that's next to supercenter and they take a rollback in the Cola behind you below a buck and the member sees that, what do you say to them about matching that price? And are you feeling an impact where there's a direct overlay with the Club versus a supercenter, given what their rollback strategy is?

Brian Cornell - *Sam's Club - President, CEO*

Obviously, there's some overlap. I think the important thing to recognize when you think about the profile of the Sam's Club member, we do have a very different member composition. A big part of our membership base is obviously our business members. But we also have consumer or what we call our advantage members. They're a very different income level. So, while pricing is important, we try to make sure that they know that we've been very true to our everyday low pricing approach. We don't move pricing around very often. When we do, we make a long-term commitment.

So, from time to time there may be prices in the market that we just can't match. But they know that throughout the Club, we're offering them very significant value every day. And as we look at our basket versus traditional grocery, we know we continue to maintain a 20% or 30% advantage. So, we bring our members great value. If they're shopping categories like Apparel, they may be finding items, great brands, at 40%, 50%, or 60% below what they'll see in department stores.

So, there's going to be the occasional SKU where we may not be perfectly priced. But overall they know we're delivering very compelling value. And you do the pricing surveys as often as we do. You publish them on a regular basis. You know we've continued to win versus BJs and versus Costco month after month after month. So, we're certainly focused on pricing. We've recognized it's a very competitive pricing environment. But we're going to stay true to our pricing framework and our pricing values, and make sure that we're giving our member the right value across the Club each and every day.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

I know I missed a hand. Michael?

Unidentified Participant

Over the last six or nine months, you've eliminated a large number of large-ticket categories of merchandise and substituted smaller-ticket. Can you give us an idea of what your transaction is going and what you expect your transaction and frequency to do going forward?

Brian Cornell - *Sam's Club - President, CEO*

It might be helpful for us to step back and have Linda talk about some of the changes we have made in our portfolio and some of the adjustments because you hear the term elimination, and I think we should probably clarify some of the changes we've made, how we've repurposed and reallocated space, and really where we've emphasized categories versus categories we've dialed down versus simply eliminated.

Linda Hefner - *Sam's Club - EVP, Chief Merchandising Officer*

Building on what Brian talked about earlier, we used a portfolio framework to prioritize where we expanded and where we contracted. And we made pretty good sized expansions in Fresh and in Health and Wellness and Baby. The only category that we exited were large appliances. That's all. That's the only category. We did give a little bit of a haircut to some other kinds of categories. But those -- we feel really good about that balance. We're tracking portfolio Club performance. We're very, very pleased, as Brian said earlier. So, the investments are paying off. And we're -- our overarching goal is sales productivity. And we're seeing that as a prize that we're earning.

Unidentified Participant

So, what is happening in your transaction size?

Linda Hefner - *Sam's Club - EVP, Chief Merchandising Officer*

Well, we don't reveal specific numbers on that. But what we're doing, we're early in this rollout of Project Portfolio, and we don't have a lot of Clubs that have completely converted yet. But as we roll it out, we're measuring and watching and learning. And then we're making some fine-tuned adjustments about what that balance is, but overall very, very pleased.

Brian Cornell - *Sam's Club - President, CEO*

And to further clarify the direction we've taken, and Linda touched upon some of this, we're very focused as we think about our Project Portfolio layout, the way we've repurposed space across categories. One, we want to make sure we're assorting the Club based on the categories and products our members have told us they're most interested in. We're also spending a lot of time looking at sales per square foot productivity. And as we've remixed our categories, it's based on our members telling us, these are categories I'm most interested in finding at Sam's Club. We've also looked at the productivity of those categories. And one of the things we did talk about in the first quarter and despite the changes we've made in our portfolio mix, we did see some of our strongest comps in categories with an average ticket of $150.00 or more.

So, when we have the right item and the right brand at a compelling value we have started to see many of our members start to shop these discretionary categories more than they did a year ago. So, I just wanted to make sure it's clear when we think about Project Portfolio, we selectively moved out of categories like appliances where our member basically said, we don't see you as a destination. We've repurposed space around categories like Fresh, around Health and Wellness. But we've tried to manage our assortment in the most productive way to drive sales per square foot improvement and also income per square foot.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Adrianne?

THOMSON REUTERS

Adrianne Shapira - *Goldman Sachs - Analyst*

Thanks. Adrianne Shapira, Goldman Sachs. As you described, the pricing environment is challenging. And Walmart is rolling back aggressively on national brands. Talk to us about the role of private brands, what percentage it is today, and what is the right level?

Brian Cornell - *Sam's Club - President, CEO*

Again, I think the answer is we know and you know at Sam's Club our private brand portfolio is underdeveloped today. We think it's an important opportunity for us in the future. Linda and her team are actively looking at the role of private brands as part of our overall portfolio strategy. What's the role of private brands category by category? We're going to be rapidly accelerating in categories where the members told us they're looking for a national brand equivalent. They're looking for our own brand to meet their needs. So, we think we've got a significant opportunity for growth there.

Adrianne Shapira - *Goldman Sachs - Analyst*

Is there a percentage you could share with us?

Brian Cornell - *Sam's Club - President, CEO*

No. We have been breaking out those percentages. But I'll tell you it's underdeveloped today; lots of headspace for growth.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Dan?

Dan Binder - *Jefferies & Co. - Analyst*

Dan Binder, Jefferies. My question really stretches beyond Sam's and Walmart to Walmart US and International. There's been a lot of focus obviously at this meeting and at the shareholder meeting earlier about price and how you're going to fund price cuts. And we've got some idea how that happens through global sourcing and distribution and so forth. But I think I'm curious to hear more about how much of that global sourcing savings gets used to plow back into quality so that the value proposition isn't all about price, but it's price quality? And I think there's probably a lot of opportunities throughout all those divisions to improve that value proposition.

Brian Cornell - *Sam's Club - President, CEO*

I can only speak to that from a Sam's Club standpoint. We think our new global sourcing partnership will play a very important role for us going forward. We operate, as you know, a limited assortment environment. And we're very selective about the items we're looking to provide our member. We want to lead with quality. So, as we look at global sourcing there's going to certainly be benefits from a cost standpoint. But we're also focused on making sure we're getting the right item with the right quality spec to our member in a seasonally-relevant way. And we think the new relationship will benefit us there. So, I'll let Eduardo and others come back to the implication to International or for the US.

But when we think about global sourcing, yes, there's going to be some advantages from a cost standpoint. But we also want to make sure we are delivering for our member the absolute finest quality product we can find because in those categories that we're sourcing globally, in many cases they're looking for high-quality brands and products at Sam's Club. And we want to make sure we continue to deliver that high spec.

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

I think from the Walmart US point of view that the answer would apply exactly the same. I mean, it's not everything is not going into price. A lot of it is also going into quality. If you look at the assortment of products that Linda developed with her team for the Home [happ], for example, and you compare the products that we sell today to what we used to sell three or four years ago, I think you will see a significant difference in quality that is being funded with the cost reductions that we have achieved through that global sourcing initiative. So, I think that applies the same as in Sam's.

Dan Binder - *Jefferies & Co. - Analyst*

Maybe just as a follow-up to that, you shared numbers with us on global sourcing of $5 billion to $15 billion over five years or something like that. Could you very round numbers say how much of that goes to price versus reinvesting in quality?

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

No, because I don't think that it is a single category, an average. It depends. There are categories where most of it is going into quality. Categories like I said before, some of the Home categories, a lot of the savings are going into quality because we already enjoy a very significant price advantage. And price is not going to drive growth in those categories. Quality is. So, we're investing in quality in those qualities.

There are categories where the opposite is exactly the case where there are categories where the benefit from cost savings, particularly those that are manufactured goods, there are lots of packaged manufactured goods where we see opportunities to capture value upstream that we haven't in the past that are quite significant where we already have the quality of the product and we sell it in one of our private brands portfolio. But in those cases, going upstream will allow us to capture value and plunge that back into price.

Brian Cornell - *Sam's Club - President, CEO*

I'll give you one very specific product example from this year. Last year we had a very successful $199 grill that we sold in our Clubs. This year we came back with a very similar grill at $199. But we actually put the benefits in the quality. Last year it was one burner. This year it's two. We added a grill cover. Same price point, much better quality, much better value for our member. The reaction has been sensational. So, it's not always about reducing price. In many cases for us, we want to make sure we're elevating the quality spec and we're delivering even higher quality to our member at that same price point. Carol, I think we're probably just about out of time.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

We're out of time for Sam's. Thank you, Brian. And we will move on to Walmart International. Doug?

Doug McMillon - *Walmart International - President, CEO*

Good afternoon. I'd like to start by asking our leaders in International to stand up if they would, please. We've got many of our country presidents here today and our two regionals. Eduardo Solorzano and Scott Price are here. I appreciate the job that they do every day. I've been asked to summarize my comments and go around the world in, like, five or ten minutes. So, I'm going to be pretty brief. And I won't cover every market. So, if there's one you want to ask about, please do so. And I'll frame it under growth, leverage, and returns, and start with growth.

THOMSON REUTERS

In the UK, we had a lot of momentum through last year and were performing better than the market until we got to December. And then that changed. And we've been fighting through the first quarter to get that turned around. And it starts with food. Food is obviously a big part of our business in the UK. And I'm really excited about what the team has come up with as it relates to the ASDA price guarantee because it's so important that you win on the basket with food. It's been nice to see the George product hold up all the way through all of those months, even through the first quarter. George has continued to perform very well on top of strong numbers.

You're aware of the acquisition that we are underway with with Netto in the UK. You know that that fits the strategy that we have. I, in particular, am excited about it because it's 80% free hold. And food licenses are hard to get. And from the beginning, we've been looking at this as a real estate transaction. And I think that's the right way to look at it. The transition from Andy Bond to Andy Clarke is going really well. Andy is well-prepared to run the business. And I think it's going to be really fun to see what he does as the leader of our business in the UK.

Moving on to Canada, we got a chance to walk stores with Dave last week. And I'm really encouraged by the supercenters that I'm seeing, the new stores, the relocations, and what we're doing with in-box. We've been outperforming the market in terms of growth. And I expect that that will continue to be the case; a really solid Management Team in Canada building momentum there.

Mexico and Central America also outperforming the market. And we've got the integration work going on between Central America and Mexico. And that's going very well, also. Common customers, common formats -- that's why it made sense to put them together. And we're finding in the first few months that it does, in fact, make a lot of sense. So, I expect the momentum there to continue.

Let's move on to Brazil. Brazil is an incredible market. Hector is sitting back here. Tremendous growth. I think one of Hector's major challenges is to make sure that he's not happy with just slightly beating the market. He's got to grow faster than the market by quite a bit to hit our expectations. And he's also got to finish off the integration of acquisitions in Brazil so that we're running one Company and we can move with even more speed. That's a key area of focus. By the way, if I think about integration across all the markets, I think under John Aden's leadership, Kevin Harper's leadership, we're making more progress in terms of how we integrate businesses and becoming more effective at it. So, I think that's a trend you can expect to continue.

Moving on to China, incredible opportunity there. Ed and his team are on top of it. In terms of absolute performance, we have strong performance in comp store sales. Relative performance is good. The trend numbers are good. If there was one thing we could change about China, we would have even more new stores in the pipeline. We would like to be growing even faster in China.

Let's go to Japan. Japan's not making progress fast enough. We have increased our leverage. SG&A has continued to go down. And that has been the trend and continues to be the trend. We're outperforming the competition in terms of comp sales. But in absolute terms, we're not growing comps by enough. And we're not delivering bottom-line profitability to meet expectations. We do make money in Japan. But the returns need to come up. And so profitability has got to come along. And the number one issue that Scott and Toru Noda, who is here with us today, are focused on is speed. How do you make it happen faster? Because I know how you feel about it. I know how we feel about it. We like the market size. We want to demonstrate that we can win there. But we need to do it faster. And we can talk more about that if you want to.

Moving on to leverage, not only is each country focused on the productivity loop, managing their home office expenses and delivering leverage as an individual country, but we are seeing some encouraging things as it relates to working across countries. I've told you before that we're focused on process consistency and purchase leverage. And we are seeing some examples arise there over the last few months that I think demonstrate that Walmart can provide leverage in a way that will increase profitability in some of these markets, even at a faster rate.

And then, finally, on returns we continue to look at this thing as a portfolio, this balance of emerging markets and developed markets and allocating capital from an organic perspective appropriately to manage the portfolio up and to the [right] if you had a two-dimensional chart of growth and returns. That's what we're delivering. Coordinating earnings targets; Cathy Smith is leading our finance area now with Wan Ling's promotion. And she's working together with me to coordinate those earnings targets to allocate the portfolio organically, and then to work together with Mitch Slape and his Leadership Team to make acquisition decisions that fit into that portfolio.

So, I would tell you I'm in this role now for a year and a half. And I more excited about our opportunity than I have ever been, to grow businesses and to grow businesses profitability around the world. We truly have an incredible opportunity if we make the right decisions. I'll stop there and field any questions.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Doug, before we get under way with the Q&A, you and your team yesterday held a conference for the media and talked about each of the countries and went into quite a bit of detail about the strategies and what's going on in those countries. Before you leave today, and this is for the investment community, we have transferred those presentations onto a disc. And if you see my team headed by Marsha Cook in the back, before you leave you can take one of these discs with you. And because the media were there, I think many of you did see some of the articles that were out on things like Reuters and Bloomberg yesterday. So, that came out of this CD. So, feel free to take that with you if you'd like.

Doug McMillon - *Walmart International - President, CEO*

How much does it cost?

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Oh. We --

Doug McMillon - *Walmart International - President, CEO*

No margin on that?

Carol Schumacher - *Wal-Mart Stores - VP - IR*

No margin. Okay. We'll get the Q&A under way. We'll start first with Neil.

Neil Currie - *UBS - Analyst*

Thanks. Neil Currie, UBS. Doug, I wondered if I could ask you about a couple of markets you're not in yet, Russia and an update on what you're doing there. And secondly, I know you're doing some global sourcing in South Africa. But we keep hearing a lot of -- seeing a lot of stories in newspapers about potential for Walmart to move there. Are they misreading your intentions there?

Doug McMillon - *Walmart International - President, CEO*

Let me start with that one. We're looking all around the world for acquisition opportunities that make sense and fit in the portfolio. And you're always going to hear things. Some of them are true. Some of them aren't. Just because we've been in a market doesn't mean there's going to be a deal. And we'll continue to say that we're not going to comment on rumors and speculation because until a deal is done, it's not done. So, that'll always be the case. It will probably be another market you ask me about next time.

Relative to Russia, I don't have a lot of new news. But I might elaborate a little bit on how I feel about it. The market is a market that is really large. The customers want us to be there. We continue to work on it with the team that we have there to understand all of the risks that are associated with Russia. And, by the way, many of our markets have risks associated with them. So, one of the questions that we have to ask ourselves is, what are the unique risks as it relates to this market? And so we still have a desire to be there. We will go there under the right terms if we find them, which means there's got to be, in the case of an acquisition, a willing seller with the right price so that we can work those things out.

We continue to have those kinds of conversations. And you'll continue to hear rumors about things, just as you will in other markets. If we come forward with an acquisition, it will be one that we can have some confidence in in terms of our ability to manage it and our ability to deliver returns to the shareholders. And if we don't get all of those things lined up in a way that we're pleased with it, we won't go. We're patient. We don't have to be in Russia this year. We don't have to be in Russia next year. We need to leave something for you to ask us about next year. And it may be Russia again then, too. And I'm okay with that.

Neil Currie - *UBS - Analyst*

Can I just ask a question about China, as well? You clearly want to grow faster in China. And real estate is an issue. We've noticed TASCO has been actually taking the bull by the horns and developing shopping centers themselves. Is this a route that you feel that you need to go down?

Doug McMillon - *Walmart International - President, CEO*

Maybe. We've been paying attention to not only what our retail competitors are doing, but what's happening in the developer community within China. And we are making some additional resources available to Ed and his team, both internally and externally, to help us become even more adept at growing in China from a real estate perspective. So, I wouldn't rule it out. And my guess is that you'll see grow in a number of different ways in that market and not just one way. It's a good observation and a good question.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Okay. We'll go with Wayne first.

Unidentified Participant

You had mentioned the struggles you are having in Japan. I mean, how do you sit in front of, say, portfolio managers who have been around for a while and say that, you're not digging your heels in there the way you did in Germany? What's the hard cut-off point for you where you say, we need to make a quicker decision about that than we did in some of the other markets we should have pulled out earlier. And how should we be thinking about time-wise? I know there's people issues and things like that. So, I understand that you want to be careful with that.

Doug McMillon - *Walmart International - President, CEO*

Yes. Japan is not Germany. Number one, we're making money. We're just not making as much as we'd like to make. And I think the answer might be if we ever stop sensing that we're making progress. We don't feel that way at all. If you looked at our expense line and the way that it's coming down and the opportunities that we have to further reduce expenses as we do things like consolidate DCs, there's an opportunity there on the expense side. The sales performance is, from a relative perspective, encouraging. And the customer response to EDOP is encouraging. What we're really focused on right now is cost of goods. How do you do something different in that market? And we all know that there are many levels in the supply chain there and that we've been trying to crack that for a while.

What we're finding now is that in some cases, the best way to do it is to just not use it and just import merchandise. We've been importing merchandise from other countries at a much larger rate over the last six months. And we're finding situations where on branded goods we're saving customers 25% and more and making more margin just by going through that route. Now, that's not necessarily our preference to ship a product from North America to Japan because of sustainability reasons. But the customer proposition is so strong that we just need to do that.

So, one question that might ask is, well, why don't you just ramp that up and do more of it and, if that's the way to do it, deliver big numbers there? We're going to try to escalate that over the next few months and make even more progress in that area. But when I tear apart the P&L, it's the cost of goods line right now that's standing there looking at us. And I'm thinking through together with Scott and Noda on, how do you crack that code?

And then one unique characteristic you may know in Japan is that in some cases we are not doing business with the same multi-national suppliers that we do in other countries around the world. There are Japanese- specific suppliers. Therefore, we don't have as much leverage with them. And that's one of the unique challenges. But I don't have -- I don't believe that it will be, Wayne, that we will exit Japan. I think it's just a matter of, how fast can we make progress? And we can afford to take the time to crack it. It's a big market.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

We'll go to Greg and then Adrianne.

Unidentified Participant

Hi. Doug, could you just take us through the logic as to why the most recent acquisition was in the UK and spending over $1 billion on a more developed market as opposed to deploying that capital in Brazil or trying to find Chinese real estate? So, sort-of the process you go through, the hurdle rates, and why there and not somewhere else where there might be more opportunity?

Doug McMillon - *Walmart International - President, CEO*

If we had walked through the strategy or the framework around the world, it wouldn't have been the first thing that we would do. But we can't time all the acquisitions. So, I think what you'll have to see, Greg, is -- and I think you have seen that and will continue to see it is that over months, quarters, and years the portfolio comes together in a way that makes sense. But the timing of each individual acquisition may not on the surface make sense to you.

Unidentified Participant

Thanks. Doug, you mentioned on the leverage point that we're in the early stages of seeing some process consistency and purchase leverage. Maybe some quantification of the opportunity, what you see ahead, and what you plan to do with the benefits, whether it's investment in price or margin opportunity?

Doug McMillon - *Walmart International - President, CEO*

Let me elaborate a little bit further. You may remember what we did is we changed the structure of our International division from being more traditional and having merchandising and operations and marketing to focusing on those areas, process consistency and purchase leverage and integration. And what we're seeing is in the hundreds of millions of dollars in terms of upside. And what John and I want to see is the billions of dollars. And some of those would go to price. There are markets where we want to increase our level of profitability so the portfolio composition of profit looks different over time.

But those individual merchants in the countries will be making those decisions. They'll be deciding how much of this do we keep in margin and how much of it goes to customers. We'll lean towards customers, just as Walmart always does, and try to deliver on the bottom line by leveraging expenses. That'll be the first place we'll look. But there are some markets, Japan would be one of them, where I would like to see the gross margin itself be higher without losing any sales momentum and, in fact, picking up sales momentum. Does that help?

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Maggie?

Maggie Gilliam - *Gilliam & Co. - Analyst*

Thank you. Maggie Gilliam, Gilliam & Company. Doug, can you give us an update as to how you're taking some of your newer formats from country to country? And, second of all, I'm curious about Sam's Club. I know Sam's Club is in a few countries. And how are they responding to the changes taking place in the US?

Doug McMillon - *Walmart International - President, CEO*

Great question. The first new format rollout that I might speak to is the Compact Hyper. You're familiar Bodega [atara]. I really like going into the Changomas in Argentina and seeing a very consistent presentation. I think that's a great example of what we can do to leverage expertise across markets. The second one would be the Cash and Carries. And the team from Brazil has helped us in India. And we're having success with the first two Cash and Carries that we opened in India.

Relative to Sam's Club, it's been a topic actually between Tom Schoewe and Brian Cornell and I for a few months now. And we have increased the level of collaboration with Sam's. They've been attending the International Associates, attending some of the Sam's Club meetings. Cindy has been sharing a lot of information as it relates to membership. And we are identifying specific contact points to try and leverage information from the US into Brazil and Mexico, but also back. And China is included, as well. I think we can all learn from each other. The business in Mexico is doing really well. Our Sam's Clubs in Brazil are doing well, but could be doing even better. And the Club performance in China is good, as well. And you'll see us opening more Sam's Clubs in China over the next few years.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Joe, you haven't had one yet. So, we'll go to Joe first.

Joe Feldman - *Telsey Advisory Group - Analyst*

Thank you. Joe Feldman, Telsey Advisory Group. There was a lot of talk today from Mike about becoming a truly global Company. I would imagine that's your biggest directive, obviously, to leverage best practices across the globe. Maybe you could talk a little bit about that and how you're trying to do that, and how you see becoming that global Company that Mike wants to become.

Doug McMillon - *Walmart International - President, CEO*

As a team, we've identified four areas that we want to focus on to accelerate our global evolution. The first would be in terms of talent. We do have [exbats] that are around the world. We tend to focus on developing local talent. We feel like that it's best when local talent can run the business. But you also want to develop people who have global perspective. And so this orchestration of talent movement around the country is one area of focus.

Another one would be just an information exchange. And we've been using the phrases formal networks and informal networks. And we have some cases under John Aden's leadership where we have conversations by subject matter experts that are orchestrated in a way that creates some consistency in the exchange of best practices. But we also have some informal networks where the merchants are just talking to each other. One of the things we've learned over the last few years is that having somebody sit in the International division in Bentonville that is a center of a hub and spoke doesn't work. If I tell Adrienne something about merchandising and then she's supposed to come tell you, things get lost in translation. But if we sit the chief merchants together on a video conference or together in person and they talk about their business real-time with P&L accountability, all those kinds of things, we make more progress. So, those informal networks are, I think, valuable to us over time, also, to exchange information.

And then the two other areas that are obvious would be the e-commerce work that's going on under Eduardo and Wan Ling's leadership, and then the sourcing activity that we want to capitalize on. One thing I might explain as it relates to that is that the global sourcing initiative is helping with private brands and unbranded product, things like towels. And what I was referring to earlier as it relates to Japan is primarily branded merchandise. We've found situations where there are factories that are under capacity in part of the world. And we can buy up that capacity and ship it to other markets and save money. But that's on branded merchandise.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Okay. Jaison?

Jaison Blair - *Rochdale Research - Analyst*

Thank you. Jaison Blair, Rochdale Research. I was thinking about the acquisition of Netto. And it seems like you've got a decent business in Asda, a high-return business, and that the acquisition of these stores in theory should generate a decent return on capital. The Company has definitely got plenty of capital to invest. I think the challenge is not finding capital to invest, it's finding places to invest at high rates of return. And I think about Japan. And, as you said, it's profitable. Maybe it's not reaching your return hurdles you would want.

So, I guess trying to come at these questions about the Netto acquisition and whether you would pull out of Japan, which I don't think you would, but trying to come at that from a different direction, how would think about allocating capital to a country like Japan where you're maybe not generating the returns, rather than just leaving the country versus allocating capital to a more mature market where you do generate good returns? Is that the right way to come about the questions?

Doug McMillon - *Walmart International - President, CEO*

We think of it as a portfolio. And don't forget that we've got an organic development program that's between $4.5 billion and $5 billion this year. We're going to add 25 million square feet. And it's just not done through acquisitions. And you don't read about it the newspaper. But there's a lot of growth happening around the world through that organic program. And then the acquisitions come along for strategic reasons to help us accomplish something that the organic program would not accomplish.

For example, in the UK we would not have been able to get this number of small stores organically in any reasonable amount of time. So, when I think about Japan, the only circumstances that I can think of where we would want to make an acquisition in Japan would be if we found a healthy business where we might find, one, some talent, and two, we might pick up additional leverage with suppliers because right now our business in Walmart Japan is only about a 1% market share. So, if you want to change the game in a market and you only have a 1% share, it's a challenge. But any deal that we would bring in a market like the UK or Japan goes through a lot of scrutiny because the market isn't as attractive, necessarily, as an emerging market might be on the surface.

Jaison Blair - *Rochdale Research - Analyst*

So, just to follow-up, so since Japan is a relatively small investment for you relative to the size of the overall portfolio, we don't have to worry about you investing endlessly to try to become number one in the market?

Doug McMillon - *Walmart International - President, CEO*

No. No. We have to generate returns, and we understand that. Japan is a sizeable investment, though. We've put a lot of money down in that market. And, again, I think if we weren't finding room to improve in our operations, we would feel differently about Japan. But we believe the customers want us. We still have momentum on a number of these fronts. And we want to keep going. And I think this story is going to end well. It's just going to take more chapters to play out than some of the other markets.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Any other -- oh, Michael?

Unidentified Participant

Can you give us an update on what's going on with Trust-Mart in China and how -- where you are in the integration, both formal and informal? And I know you've had some government issues there. And why, knowing what you've gone through with that acquisition, are you still so focused on growth there? Are there limits to what the government will allow you to do in that market?

Doug McMillon - *Walmart International - President, CEO*

I may, Michael, give you more information than what our team would like for me to give you here because we haven't really talked through this one. But I'll just tell you what's going on. We've got a situation where we bought a business which I'm really happy that we bought that helped leapfrog our business in China to some extent. But as we went through that process, we found out that some of the legal entity statuses of those individual stores weren't what they needed to be. And so it's not really a government issue. It's the status of the legal entity that we inherited. And that's taken a while to work through. And it's complicated because there are individual owners in some of those individual store circumstances.

So, it's not really a government issue. It's a legal issue that's taken us a little while to work through, which has slowed down the integration process, even the merchandising process. The investment of capital to remodel the stores has been slowed down. So, we wish we had been able to move faster, but we just haven't. But this, again, is an acquisition that I'm really glad that we did. It's going to help us a lot in China and already is in some ways.

THOMSON REUTERS

We've learned a lot from Trust-Mart. Their fresh produce presentation and approach is awesome. And we can take some of the things we do in Walmart stores and put them together with what we've learned from Trust-Mart and have something that really makes a lot of sense. But, yes, the first year plus has been slower than we wanted it to be. But it was a good acquisition. And I'm really bullish on the market. The Wal-Mart stores have performed better than the Trust-Marts. But that's okay.

Unidentified Participant

How do you avoid those pitfalls in future acquisitions?

Doug McMillon - *Walmart International - President, CEO*

As you might expect, we went through that with our Board on a number of occasions. And it's under the category of 'lessons learned'. And we've learned a lot from all of our acquisitions. And Trust-Mart is no exception. We're just trying to make sure we don't make the same mistakes twice. I hope that I don't get coached on that later in terms of how I answered that question. We'll see

---

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Any other questions for Walmart International? No, Doug. They're letting you off easy today.

Doug McMillon - *Walmart International - President, CEO*

Okay. Thank you.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

So, with that, we're going to turn the program over to Tom Schoewe.

Tom Schoewe - *Wal-Mart Stores, Inc. - EVP, CFO*

Before I get started, I'd like to introduce the Senior Finance Team here, both that supports the corporate operations and the operations themselves. Maybe we could just get the folks that I get to work with every day to stand up. I'm very blessed with a great team here. I'm proud of what they do. I just want to cover three quick things before we turn things over to Mike and his comments, and then to some general Q&A after that.

The first has to do with the financial systems work that's going on. You've heard us refer to it as transformation. At this point, we've gone live with our financial systems, the SAP platform, in the UK. And here in the first quarter, we've actually gone live in the United States. And, in fact, in conjunction with what's going in the United States, we've gone live in the United States, Puerto Rico, and Canada. So, before we go any farther, think about what I've just said.

We know -- just look at the Annual Report. We had just south of $260 billion worth of sales in Walmart US last year, Eduardo; $46 billion, $47 billion, Brian, for Sam's. Public information that our sales in the UK are a little bit north of $30 billion. As you start adding things up, we're well north of $330 billion worth of sales that have gone through the transition to SAP. And Robin Forbis, if you could just stand up just real quick here. Robin leads the whole effort. So, if this doesn't go well -- no. I'll be the first to fall. I promise you. She's just done a great job.

THOMSON REUTERS

The point is we're well along the way in the systems transformation. We still have many countries to go. But the bulk, you can see, we've got a good portion that's behind us. You can talk to Andy Bond and his team or Andy Clarke. And I think what they would tell you is at (inaudible) they're happy. We're going through the transition right now in North America. We've hit some speed bumps. But it's really working really, really well. And I'm proud of the progress that we've made. So, the SAP front, it's reasonably good news. And, again, I'm proud.

The second topic has to do with capital spending. We've talked a little bit today about the transaction that took place in the UK, the Netto acquisition. Many of you have asked, well, Tom, does that mean we need to update our capital spending in our model? You provided guidance earlier of $13 billion to $15 billion in the current fiscal year. What I would tell you is more often than not, we underspend the guidance that we give you. So, at this point there isn't a need, in my opinion, to update the guidance. If there is, we'll refresh that thinking when we're together again in the fall in October. But today I think what I would do, Carol, is just confirm the $13 billion to $15 billion.

The last thing has to do with share repurchase. Today at the -- well, actually, yesterday at our Board meeting and then announced publicly today, we retired last year's $15 billion program, adopted a new $15 billion program today. A question that's on all of your minds that came up last year when we announced the first $15 billion is, well, how long is that going to last? And last year I told you, we're not going to give you a time frame. But, unlike many others around corporate America where share repurchase programs get started and never stop, that's not the case here at all.

You can just see by our actions that when we see a good value, we get very, very aggressive. In the first quarter of this year, there was a record dollar amount of share repurchase that took place, something like $3 billion of the share repurchased. That's a big deal and a very good thing for shareholders. You saw today the difference between the increase in net income dollars and the percentage increase in earnings per share in that first quarter. And obviously that's all attributed to share repurchase. So, with that, I'll turn it over to my supervisor, Mr. Duke.

Mike Duke - *Wal-Mart Stores, Inc. - President, CEO*

Good job, Tom. Thanks. And thanks to the team. Just a few closing points I would make that I think if I were to give you the headlines -- if I were in your shoes and keying in or writing today, what would be key points? I would tell you one is the quality of leadership at Wal-Mart is the strongest not just of any retailer, but of any significant business in the world. Here in the room you would see many. I didn't get a chance -- and you may have some questions later.

But Rollin Ford. Rollin could stand. Rollin is, as most of you know, Chief Information Officer. Susan Chambers you saw this morning. Of course, Susan is Executive Vice President of People. Susan can stand. Leslie Dach here. You all know that come in October that the highlight of that is always Leslie's dinner speech. And most of you've requested to always make sure even if I don't even speak or answer any questions, at least have Leslie speak. So, I'm sure we'll do that again in October. Then Tom Hyde. I don't know if Tom is here now. Tom you saw this morning on the stage handling in a very professional way the business of the meeting this morning. And then our business leaders and Tom Schoewe you saw. But I wish, I said earlier, that you had the opportunity to meet and visit with the leadership around the world and here in the United States, and really see the strength and quality of the Leadership Team at Wal-Mart.

The second thing I would tell you the business model at Wal-Mart is alive and well and stronger than ever. And even as the world changes and the new days of disruptive technology and customers with changing ways to shop, the Wal-Mart business model, we find, is going to work even better. It's interesting. Price leadership, everyday low price. And an online world is even more effective.

You know, I welcome price transparency. I think it's great for us. When a company operates with a great efficiency, the great model that we're used to operating with since that day that store number one in Rogers, Arkansas, then I think we just win even more so as a future world of an integrated, now we say sometimes multi-channel -- I think we were talking yesterday. It's going to be just no channel. It's just the customer blending how they buy product. I really believe we win in that future environment that just gives us even greater opportunity. And I believe the everyday low price, the productivity loop, the things that you're hearing so much about, about efficiency and leverage, finding ways to source product and give customers savings, it'll work even more and even better as time goes on.

And then the third thing I think, also, is that I probably would just start off by telling you what I told two or three of our Board members this week is what I love the most about my job. And that is that there is so much upside. You know, you can evaluate upside by saying, well, what does that mean? Well, it's how we can improve and how we can be even better. It's the markets that we don't serve here in this country and around the world. It's how to reach more customers, how to be more efficient, more productive. I love the fact that we have so much upside.

You know, if I thought that we were maxed out, that this was as about as good as we could ever be and that we would come to a meeting and say, you know what? We're doing so good. We've got everything honed down to the fine science. And we source everything just right, and we're so efficient in our stores that there's -- we've just got it all just exactly perfect, then my job wouldn't be as much fun because I'd look out to the future. I'd say, where are we going? I see it just the opposite. We have so much upside. We have so much to do inside the Company to be better and so much more to be able to serve more customers around the world.

As far as the -- I enjoyed listening to the business reports today of Eduardo, Brian and Doug. And sometimes I go back in the back of the room and look at it through your eyes, and look at the questions you're asking. I am really very, very optimistic about the future for each of these three businesses as we even become more integrated and more global. The US Wal-Mart business, I love the fact that Eduardo is talking about the productivity loop and the price leadership. When I joined the Company 15 years ago, and if you were sitting in this auditorium, you'd hear David Glass and others in the Wal-Mart business talking about productivity loop and everyday low price and price leadership and widening the gap. And I really think it's really interesting that just that real focus on the productivity.

I am so pleased with how the stores are operating in the US. The quality, the cleanliness, the feedback from customers, just the conditions of store operations in Walmart US is the best -- I can't say beyond 15 years, but I can tell you with conviction, the 15 years that I've been with the Company we've not operated as clean and efficient stores' operations as we are this very day. And it makes me very proud, Bill, on just how the stores are operating.

You know, the Sam's Clubs, Brian, I really think you are on the breakthrough kind of ideas. The eValues is a tremendous opportunity that paid off, Cindy, quicker than I thought it would. I was optimistic. But I think, frankly, last year when you kicked it off -- I think, was it in August or so? And you started to get some benefit right then. I thought it would be one of those that would take a long time, and it would be long. But you started to get some benefit even in the second half last year. And I think that's something that you can really build on. That's the big opportunity in Sam's is we know so much information about members. And then how do we help the member to be able to get the value on the product that they want? And that's where the eValues and the focus there can be really, really effective.

I'm really pleased with the focus on quality at Sam's, the grill story. And if any of you happened to be in Sam's the weekend before Memorial Day and the story of the berry patch, just how you went after something so simple like in the produce area, the berry business, was really terrific. And tremendous growth in that business over that period of time by just taking something that's important and going after it. And that kind of thing at Sam's is, again, giving me a lot of room to be optimistic.

And then, of course, I have a lot of personal feelings and emotions about the International business, about the International associates, the leadership in International, and the tremendous opportunity there, but the tremendous progress that's being made. I'm almost embarrassed. Sometimes I want to go to Doug and say, Doug, who was running that area before you had it? You know, that I'm amazed at the improvements and the focus on leverage and productivity and sharing information and doing things that, frankly, I just didn't see as well as the team is now going after and delivering bottom line, which is leading to higher returns and greater growth.

THOMSON REUTERS

So, with all of this the upside is even greater growth. Here in the United States, many of you say that you're not being served yourself by a Walmart store. You're not the only ones. We have millions of customers in the United States. They really don't have easy access to a Walmart store. We really want to try to help that situation. And then with the opportunity, the Club channel, as you can tell, has been doing reasonably well. Sam's, I think, is capitalizing on that. But there is a lot more opportunity there. And then around the world, the growth around the world opportunity is just phenomenal, just tremendous.

So, growth, and then as we leverage even more focus on the productivity loop, and then the returns, getting the returns for shareholders is a key part of that. So, these three priorities, three areas of focus, are very, very important. And I'm optimistic that we're on the right path. Like I said, though, we've got lots of opportunity for upside. And that's why we come to work early every day. And that's why we enjoy our jobs. I would open it up now for any questions. Carol, I'll let you decide since you've been --

---

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Okay. Please wait for the microphone. And raise your hand for questions. We'll go with Robby first, and then David next.

Robby Ohmes - *Bank of America Merrill Lynch - Analyst*

Thanks. Robby Ohmes, Bank of America Merrill Lynch. Kind-of a three-part question that ties together a couple of things. You know, it ties together the chart, Tom, you put up showing the free cash flow generation. And I wanted to ask about the potential for inventory reinvestment to maybe mute the improvement in free cash flow this year and next year, if that could happen. And then could you link that into more broadly how, Mike, you're thinking about same-store sales?

And the reason I'm asking this question is it's come up in some of the discussions I've had with some of the people during today that a few different people said, well, you know how hard it is for Walmart US to drive same-store sales because we're so big. And so I know you're doing the rollbacks. But I was hoping to get more of a broader commentary on is Walmart US at point in the cycle where you're going to put inventory back in, we should look for positive same-store sales? And is that even a goal for the Company? And what does that mean for the free cash flow growth outlook from here?

Mike Duke - *Wal-Mart Stores, Inc. - President, CEO*

Well, first, let me start with what I think is the starting point, which is same-store sales. I think free cash flow becomes the result of performance, as opposed to starting at the end and working our way backwards. I do think there is opportunity for growth in same-store sales at Walmart. There is no way that we would accept the fact that we were saturated. And I know your questions are more directed at the United States business, and particularly Walmart. Frankly, I think Eduardo talked about it very clearly about the traffic issues that we've seen, how bad both external and internal issues that would've contributed to that.

We can fix the internal issues. I think the aggressiveness of the way the team has gone after the issues that Eduardo called self-inflicted -- I can't tell you how quickly that the customer responds. I can tell you there is a great deal of urgency, whether it's getting product back in the store that we took out that, as John described, we need to get back in, or whether it's really focusing and going after price leadership and widening that gap. I think it becomes known fairly quickly. I can't tell you if it's a second quarter or third quarter -- I wouldn't be smart enough to predict. It's not something that just happens overnight, though. You don't -- and, you know, these kind of things take time for customers to recognize.

The other factor, though, that Eduardo talked about in the US business is not just a Walmart issue. It is the US economy. And the jobs report today I'm sure you've seen. And I have to tell you, I'm still concerned. Our customers are concerned. So, in the short-term, this year I think with the jobs reports and the pressure on consumers I guess -- I don't use the word recovery very often. I know that there are segments of the US population that feel more encouraged. But as far as the mass growth of our customers in the US, I think there is still a great deal of concern about jobs and income and stability. And I think that puts pressure.

I think, again, Eduardo described that well as we can look at the data by unemployment. And we can see that that clearly has an effect on same-store sales. But all of this is short-term. It depends on when you're looking at, how do you view Wal-Mart? Do you look at Wal-Mart this month or this quarter or this year? Or do you look out longer term? We have cycles, economic cycles, that we all go through. We also have just regular cycles in business that we'll do things, we'll make mistakes, we'll fix them, and I think that's just part of the cycle.

What I love about Wal-Mart is the fact that when we see something we need to fix, we go after it quickly. There's not a lot of -- being an engineer, people would say, do you sometimes overanalyze? Not around here. You really don't have time to overanalyze. You do analysis. You're very thoughtful of the thing you do go after. And that's what the US team is doing in going after comp sales. There is no view at all that there is anything near saturation. You know, some people say, well, you do so much business in your stores that you just can't grow the volume anymore. I just don't buy that. I haven't found a store yet. I've visited hundreds or thousands probably. But I haven't seen the store yet that I felt was ever saturated that just couldn't do anymore business. There's always upside in every store. So, that's not the problem.

Robby Ohmes - *Bank of America Merrill Lynch - Analyst*

And then just, Tom, on the free cash flow outlook for this year and next, do you think it could continue to improve at the rate it did the last couple of years?

Tom Schoewe - *Wal-Mart Stores, Inc. - EVP, CFO*

The short answer is probably not. And the reason for that is if you think about free cash flow and the free cash flow year-to-date this year versus the free cash flow year-to-date last year, obviously to calculate those two numbers you had to have a beginning of the year and the end of the first quarter, the beginning of the year and the end of the first quarter. The way we ended last fiscal year or the beginning of this fiscal year, our inventories were unusually low.

In fact, you could look for the last several years and there would be a fair amount of consistency. When you got to the end of fiscal '10, inventories were unusually low, Mike. And I think what happened, you saw the impact of that as we reported less free cash flow here in the first quarter. I think that will influence the overall results for the year. Having said that, what you're going to see will still be a phenomenal balance sheet and a very, very healthy free cash flow situation that allows us to continue to invest like we discussed before. We have the capital that we need to grow, unlike just about anybody else in the world, if not anybody else.

Robby Ohmes - *Bank of America Merrill Lynch - Analyst*

Great. Thank you.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

David?

David Strasser - *Janney Montgomery Scott - Analyst*

Thank you. David Strasser, Janney Montgomery Scott. Two questions. The first one, and it's kind-of related to Robby's question and your answer about the economy, as you've gone through Project Impact and you've made the stores a lot cleaner, a lot neater, a lot better lit, in some ways do you feel that the perception of the consumer is that you're not as -- that there's not as much value in the store? And related to that, as you clean up the hot spots and make them more organized, do you ever see there's a lack of urgency, potentially, on some of the big hot spot products?

Mike Duke - *Wal-Mart Stores, Inc. - President, CEO*

Since you're talking about the Walmart US business, I'll let Eduardo answer first. If I agree with him, I won't need to add to it.

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

If he doesn't like the answer, then he'll step in. I don't think that's the premise that in order to have a strong price impression you need to have stores that somehow look bad. It's a valid premise. I think that promotional intensity is an issue. And we have said that one of the unintended consequences of cleaning up the stores is that we feel that in some cases we've lost promotional intensity. We're putting that back in through rollbacks. We're putting that back in through the special features that I talked about today. We are confident that we can bring back the promotional intensity that will ensure that our price perception continues to be a market-leading price impression without having to create a customer experience that is less than ideal for our customers. We don't believe you have to sacrifice one in order to get the other. That's not at least the way that we're approaching the problem.

David Strasser - *Janney Montgomery Scott - Analyst*

Thank you. And just another similar type question, but a different topic. And maybe, Eduardo, you might -- because it's global sourcing units. As a lot of companies who five and six, seven years ago were very intent on increasing global sourcing very dramatically in the last year or so seemed to have pulled back on increasing that percentage inside their companies. They all cite geopolitical risk, currency risk, just owning the inventory for that longer period of time. And they seemed to have lost some enthusiasm.

You guys now seem to be gaining more enthusiasm about it. What do you think about some of these companies who were there a couple of years ago pulling back? Number one, do you agree with some of those risks? And number two, from that perspective does it open up opportunities? As those guys slow down, there's capacity, I guess, in a lot of other parts of the country. And it does it make it the ideal time to do that just thinking about it a little bit strategically?

Mike Duke - *Wal-Mart Stores, Inc. - President, CEO*

I don't think when we're thinking about it, we don't really step back and we haven't really backed off and [said] for some reason. So, we're not like those companies that said, let's don't focus on it. I think we were more structured well. So, we see the opportunity now because of the way the global merchandising centers have been set up, the way global sourcing now that are organized, I think the opportunity has been there all along. I can't speak for other companies.

So, I think the opportunity has been there. I think it will continue to be there. Our real focus is the customer. I mean, we start with the customer and say, where can we get the best quality at the best price for the customer? Sometimes it's buying a product locally that we can source product right here in the United States or local in whatever country that we're operating retail stores in if that's what's best for the customer.

I think we still just have that same attitude that if it's best for the customer, then we're going to take the risk. We're going to source the produce wherever is the right place to source it because to the retailer there is not a great deal of risk. We're not building factories. We're not investing the capital at that end of the supply chain to any significant degree. So, we think that we focus on the customer. And we just are really pleased, though, with now the structure that we're setting up with more integration with merchandising. We think it will help to get that best quality at best price.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Theresa?

Unidentified Participant

This morning, Mike, you talked about the Company in 20 years. But at one point, someone observed that the Company was founded in 1962, which means the Company will be 50 in two years. Is there any particular significance around that number internally? And where do you see the priorities and the message you'd want to send at that point?

Mike Duke - *Wal-Mart Stores, Inc. - President, CEO*

We internally, we will. It'll clearly be important. A 50-year milestone for our Company would be important. We have started to talk about it. Some of our Senior Leadership meetings, it's come up and talked about we would be approaching in 2012 the 50-year anniversary. So, we'll find the appropriate way to celebrate internally. I will tell you, though, to our customers that are shopping in the new North Bergen store or that are shopping at our stores in China or Mexico, I don't think it will mean a lot to them. I think what will mean more to them is job stability. And we hope that in 2012 that unemployment is a lot lower and that people are not as afraid of losing their job. And they'll be celebrating more. And they won't worry about whether Wal-Mart is 50 years old or one year old.

So, it'll be an internal celebration. There might be some communication. Then I guess I look at and think about 50 years in the scheme of corporate life is a really short period of time. If you look out in 20 more years when we will be 70 years old or so, we might someday be a reasonable-sized Company. And we're still kind-of new. We're still learning. If you look even at over the 50 years, it really is interesting to see we often talk about hockey stick growth, you know.

If you really look back at the growth chart, Tom, since 1962 of Wal-Mart, it really is interesting. I think when Mr. Sam died in April of 1992, I believe the previous year's sales that the Annual Report came out and some of you were at the meeting soon after he had passed away in 1992, if I'm not mistaken I think that report showed annual sales of around $43 billion. So, if you think about from '62 to '92, the first 30 years, we got the first $40 billion. And then some report said the day after he passed away that Mr. Sam, our founder, had passed away, that'd probably be maxing out, that at that $42 billion or $44 billion that was probably the most that Wal-Mart would ever be. The greatest legacy of Sam Walton is really what has happened after he has gone, isn't it? That now it was $405 billion this past year and something larger this year.

So, the 50 years you've got to break probably into segments. And there is that period of time of Sam building the foundation, building the culture, creating the business model that I just said a minute ago was so important. And then there was that period after that of the growth and the conversion and tremendous work with supercenters in the United States and bringing more customers to buy food and buying other products in the US, the takeoff of Sam's and how that business model grew into a $40 billion plus business, and then International. It's really interesting.

I mentioned when I came in1995, the total Company sales at that time -- that Annual Report at the middle of '95 then at this meeting, I think annual sales would have been around $83 billion. And our International sales this past year were $100 billion. So, it's interesting. I will tell you one other tidbit. When I came in '95, I'd sit in the Officer meeting chair in this auditorium. I was kind-of the new kid learning Wal-Mart. I'd been with other retailers, of course, the rest of my career. But I didn't speak up a lot because I really wanted to listen and learn. And what I listened a lot at, that '95, '96 period of time, would be a lot of questions about why we were investing in a couple of international markets that looked like they had a lot of problems, Mexico and Canada?

You know, we were going after -- and there were some problems with currency. There were issues, challenges in the business. And people would sit in the meeting. And some of you might have asked. I don't know if you want to volunteer if anybody asked the question, shouldn't you exit Mexico? Shouldn't you get out of Mexico with the devaluation and the problems there? Why did you go into Canada? You know, it's such a -- it's a mature market. And it's very difficult for the food retailers. And others are so good. Our return was so low. And it just looked like a bad story that Wal-Mart would go to Mexico and Canada. And I remember those meetings so vividly in those first couple of years I was with the Company. You know, just thank Heaven that there it was such great wisdom and building on that to what we have today with those great countries forming a lot of the foundation, Doug, of where we are.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

We'll take a question from Faye, who hasn't had one.

Faye Landes - *Consumer Edge Research - Analyst*

Okay. Hi. Faye Landes, Consumer Edge Research. I was hoping you could talk a little bit about the ROI, how we should think about that -- how you think about it and how we should think about the ROI on widening the price gap. And there's really two kinds of ROI, sort-of the real, the numbers. How do you think about hurdles for that, what the benefits are? But also there's softer, less quantifiable issues around it and a lot of grumbling in the vendor community about some of the things that are going on. And I was hoping for you to talk about how you think about that, and how we should think about that, as well.

Mike Duke - *Wal-Mart Stores, Inc. - President, CEO*

Sure. First, on the pricing related to ROI, the productivity loop when we show it on the screen we don't put ROI on the screen with it. But if you really do just visualize a store and a store that operates more efficiently and then can lower prices and generate more sales, then that sales generates even more productivity, more efficiency. You can lower prices and generate even more sales. So, the real ROI story, the phenomenal ROI for Walmart US, is really because of the years of the productivity loop. It's really sales per square foot, Eduardo, and Walmart US is really the story.

Or if you look at -- we've talked about Asda, sales per square foot. So, the lowering prices, generating more sales per store, and then the sales out of that fixed asset. So, you've got capital invested in a building. What you really want to do and the secret to ROI is just maximizing the sales productivity of your capital investment. And I see no better formula than the productivity loop to driving ROI. And I think that's why the ROI, Tom, for Wal-Mart as a corporation is a very, very strong ROI and, frankly, one that we want to -- you know, you can say, we could stop growth and then really grow ROI. Well, when you've got such an ROI as we've got, we certainly want to focus on it. And there are markets that we should grow ROI. But in other areas, there are places we want to invest, and we want to really grow the top line.

So, the growth, leverage, and returns priorities is really a total integrated view of priorities. And that's where a portfolio of businesses, of countries, of formats, it works well because some countries will focus on growth even more even though the ROI may be low. Clearly, when you're an emerging market and you're investing a lot in building new stores, if we're adding a lot of square footage in Brazil and China, then the short-term ROI will be lower. But as you then get more productivity, then you end up somewhere down the road where it looks like the Mexico ROI. I know that all of you've done this. But if you really want to look at a good story, look at Mexico from 1995 now to 2010, and look at ROI in that market. And I think it's what would help answer the question more than anything I could say.

Faye Landes - *Consumer Edge Research - Analyst*

So, just in terms of the second part I asked you about -- I guess, first of all, to follow up on the first part, so you're -- should we assume that the very sharp rollbacks, which are leading to the widening of the price gap that you've talked about, they will justify themselves?

Mike Duke - *Wal-Mart Stores, Inc. - President, CEO*

Right. Lower prices will lead to more customers.

Faye Landes - *Consumer Edge Research - Analyst*

So -- okay. And --

Mike Duke - *Wal-Mart Stores, Inc. - President, CEO*

Now, what I didn't say, by the way, and I said just the opposite earlier and even Eduardo was clear, there's no defined time. Don't -- and that's where sometimes, depending on how you do modeling, don't think about this month or this quarter because we really look at our business longer than a month at a time.

Faye Landes - *Consumer Edge Research - Analyst*

And the second question was just about some of the grumbling that we've been -- people -- the vendors have been engaging in about some of your rollback activities?

Mike Duke - *Wal-Mart Stores, Inc. - President, CEO*

I would -- sometimes there could be some, I guess. It could be individual suppliers. I saw some today at the meeting. And they really weren't grumbling to me. They were really thankful for the growth of their business in Wal-Mart. So, I guess it just depends. I think what happens, a difficult time like the economy is in puts pressure on everyone. So, there's pressure on suppliers. And I don't think we've ever apologized for trying to negotiate the very, very best cost for our customers. We are the agents of our customers.

We are pretty upfront that we really want to sit down with suppliers. We want to lay out the costs in a transparent way. We want to be more efficient. We want them to be more efficient. We want an everyday low cost model that supports an everyday low price model. And we're not really supportive of high-low and a lot of the gimmicks and things. And it probably sometimes could be where the business model of the supplier may not fit as well with the business model of everyday low cost and everyday low price. What we really say is we're just going to side with the customer.

Now, I will tell you that I've welcomed and told suppliers if they're ever not treated with respect or -- that's why we have the Open Door, and we tell that to suppliers, too. And I have periodically had a supplier that called me and had a valid reason why they had a reason to grumble. So, I think it could be. And probably difficult times, the difficult recession can put even pressure on suppliers, too.

Faye Landes - *Consumer Edge Research - Analyst*

Terrific. Thanks.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

We have time for one more question. We'll go with Neil.

Neil Currie - *UBS - Analyst*

Thank you. Mike, over the past year or so, for a Company of your size the speed of execution on some of the initiatives that you've had has been awesome. And I'd use that word carefully. It's been sort-of impressive and scary at the same time the way that you've lowered SKUs, added more space to Great Value, cleared out Action Alley, and focused on returns and inventories. We could accuse you of acting first and thinking later because on many of those things you've had to moderate. Do you have some regrets about the speed at which you've done some of these things? Or do you think this is the way this Company has to move?

Mike Duke - *Wal-Mart Stores, Inc. - President, CEO*

I love, Neil, being accused of moving too fast. Out of all the things that you all could blame us for, that's a good one. And I will tell you that there are things where in moving fast that we would have erred. I think Eduardo and John described a couple. But it wasn't the fact of moving so fast and then having to go all the way back. It really is about adjusting. And sometimes here at Wal-Mart, we talk about ditch to ditch. We're in one ditch, and we jump over into the other ditch. It's part of our language that we talk about. And that's not our intent. And sometimes we move. And then we adjust back to the middle of the road. If you don't know where the two ditches are, then you can't measure where the middle of the road is. And so we sometimes do move with speed.

I think in our business, though, sometimes we think that the speed is so important for us and that if we're going to err, we'd rather err on changing, meeting the needs of the customer, listening to the customer, and then if it's not right, fixing it, going back and adjusting and fixing it. I will tell you that I believe that in the future speed of execution is going to be one of the great characteristics of success. And it'll -- so I'm glad. We need to learn not to make the mistakes. We need to be more thoughtful. We need to know more about where the pitfalls are.

But I love the fact that the way the groups move with speed of execution. We did implement probably more changes -- you know, I think about the restructuring in Wal-Mart operations and, Bill, the dramatic changes there. And then in Sam's Clubs and the same thing there with the dramatic changes, Brian, and all of that and things that -- everything, Eduardo, that's going on in the business, I couldn't have been more proud of the way the operations and store management and associates have gone through the changes. You know, when we are here at an internal meeting, we are so often talking about change and sense of urgency. We'll go back to Sam Walton's quotes and really talk about how speed and being nimble is so critically important. So, I do appreciate the comments. Carol? Thank you.

Carol Schumacher - *Wal-Mart Stores - VP - IR*

And, with that, at Wal-Mart we like to keep our meetings on time, as well. We committed we would end at 3:30. This concludes our webcast. And if you just wait a minute, we have a couple of housekeeping announcements.

THOMSON REUTERS