

FINAL TRANSCRIPT

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WMT - Wal-Mart Stores, Inc. at Raymond James Institutional Investors Conference

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CORPORATE PARTICIPANTS

Brian Cornell

Sam's Club - President and CEO

CONFERENCE CALL PARTICIPANTS

Budd Bugatch

Raymond James - Analyst

PRESENTATION

Budd Bugatch - *Raymond James - Analyst*

(audio in progress). Also, I want to acknowledge the participation and presence of Jeff Davis, Treasurer of Wal-Mart Stores Inc.; Ann Bordelon, CFO of Sam's Club; and Carol Schumacher, Vice President of Investor Relations.

Without any further ado, Brian, the floor is yours.

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

Thank you and good afternoon. While you take a look at the Safe Harbor statement, I will set up my presentation for today. I'm going to spend the next 30 minutes really talking about three topics. We have spent some time talking about the current performance in Sam's Club, I thought I would spend some time talking about our perspective on small business and what we are seeing with today's consumer and then finish up by giving you a sense for our future direction.

If I start with who Sam's Club is and give you a sense for our key focus, I would start out by telling you we are a business today that has very strong momentum. And if you have followed our results over the last year, you have seen that over the last year, we saw sequential improvement in our comp store sales throughout the year finishing in the fourth quarter with our strongest overall performance of the year.

That performance as I discussed during our recent earnings call, was very broad-based. We saw great performance and growth in our fresh categories, very strong performance in our refrigerated and cooler business. But we also saw strong performance in categories like home, in apparel and in seasonal and despite some challenges with deflationary pressure and technology, we were very pleased with our overall market share gains in the technology space.

From a geographical standpoint, we saw broad-based increases across the country with our strongest growth coming out of our new Western division.

From a leverage standpoint, we are very pleased with the progress we are making applying some of the learning from Wal-Mart to the Sam's Club business and our innovation team has now been in place for over a year. We are making very strong progress in areas like scheduling, in stocking and in the overall management and organization of our club.

From a return standpoint, you have heard me talk now for the last couple of years that our focus has been based on reimagining and really reenergizing our existing asset base. Over the last year, we remodeled or reimaged over 25% of our clubs. Going forward, we will continue to focus on remodeling our asset base while we open, expand or relocate somewhere between seven and 12 clubs next year.

You have seen our savings made simple framework really now for three years. We have had a very consistent compass to drive and guide our growth. We continue to use consumer insights to make great choices for our member, improving the mix of merchandise we have in each and every category.



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We have continued to dial up our insights to understand more about our Sam's Club member and how we meet their needs throughout the course of the year. We have taken that insight to allow us to design a more efficient and more engaging shopping experience and we are investing time and resources to build tools that allow our team to focus on the member, which we think will continue to translate into stronger sales and better returns.

From a membership standpoint, it is probably important for me to clarify the fact that we are focused today on three very important membership groups. Our business member, which has really been the foundation for our business over the last few years. We continue to connect with our advantage or consumer member. But we also focus on serving a third membership group, that business member who comes back to us on Friday and Saturday and Sunday, not to shop for their workplace but for their home, for themselves and for their family.

So as we go forward, you will continue to hear us talk about three distinct membership groups we have to serve. I think it's also important to recognize we serve an above average income group. Our members on average earn over \$75,000 a year. Importantly, over 25% of our members earn over \$100,000 a year.

So we clearly understand who our member is and we've focused our time really in understanding how we service them category by category. And it's really embedded in those choices we make and an understanding what our members want.

We have spent a significant amount of time talking to our member both in focus groups, through online surveys to understand category by category what drives their demand, what they expect from Sam's Club. And I think some of the performance improvement you are seeing in our comps, that sequential improvement that we have delivered quarter after quarter over the last year, it is really driven by the fact that we understand more now about our member than we think ever before. And that is going to be an important part of our focus as we go forward.

We are also recognizing that within our business there are certain areas where service will play a very important role. Areas like pharmacy or optical and hearing and we are very pleased that J.D. Power has recognized the quality of service we deliver in our pharmacy area. They have singled us out as one of the top pharmacy providers in the retail industry.

We also recognize that in categories like electronics, service is very important for our member. They expect us to have knowledgeable well-trained associates that can help them when they are making a very important technology purchase. And in categories like jewelry, they expect us to elevate our level of service.

We also recognize that going forward, technology will play a very important role in our business, whether it is through the use of smartphones and the new Sam's Club app, our Click'n'Pull service or delivery we are now offering in categories like mattresses, or grills, or seasonal categories. So we certainly recognize that going forward, technology will continue to play an important role.

Hopefully, you now recognize that Sam's Club is both a scale and a growth player. We are the eighth largest retailer in the United States and we are a retailer that is not only large but we are continuing to deliver topline growth.

We are also one of the largest food retailers in the country and I think it is a fact that has gone largely unknown. We're number six today. And I think it is fair to say that we are quickly moving up that list based on the strong performance we are delivering in our food and consumable areas.

A couple of facts that might surprise you. We are a major player in fuel and we fill nearly one vehicle per minute. We have a very strong consumable business and we sell enough paper to wrap the equator 100 times a year. And we are a destination for jewelry with our members. We sell over 150,000 carats of diamonds each year.



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We also are a destination for our members when they are thinking about feeding their family and entertaining with friends. We are a destination for Super Bowl. We are the place they go for great grilling during the Fourth of July holiday. And we are seeing more and more growth out of our fresh and our floral areas. We were a destination this year during Valentine's Day.

Along the way, we are a Company that also takes pride in the fact that we give back. We spend a lot of time making sure we are connecting and giving back to those local communities. And we have taken our commitment to sustainability very seriously at Sam's Club making sure we have the right process and practice in place to recycle the waste in our system.

Now when I think about our competition, I certainly and our team wakes up every single day thinking about our primary club competitors. We certainly think about Costco and BJ's. We think about the food service distributors that we compete with but we also recognize that a significant amount of the growth we are fighting for comes from the food drug and mass arena. And we know we compete more and more with specialty retailers and the online segment.

So as we think about our future growth, as we think about our opportunity to continue to build on our momentum, it really comes from a number of different competitors as we look to gain more share of wallet from our existing members and from new (technical difficulty) in this competitive arena.

We have also been growing our business not only in the US but around the world and we now have a significant presence in three countries outside of the US, in China, in Mexico and Brazil.

And just this last year, we were able to leverage the work we had done in the US as we launched and developed our new SamsClub.com platform in China and we are off to a very strong start with our SamsClub.com platform in the China market.

I was recently in Beijing for the launch of a very exciting new club in that marketplace last November. We continue to grow our base in Mexico, operating over 100 clubs with the Sam's Club brand in Mexico. Last December, we opened up our first Sam's Club in Shanghai. And just in January, we had a spectacular new opening outside of Atlanta in Sharpsburg, Georgia.

When we finish up the conference this week, I am going to head down the road to Riverview, just outside of Tampa, for our latest club opening.

So we are a business that continues to grow internationally and in the US and we are very excited about the opportunities for new club expansion as the years go by.

So I have talked a little bit about our focus, I've talked about where we are today. I thought I would spend a few minutes talking about what we see in today's consumer environment, what we hear from our business member, what we are seeing from our Sam's Club consumer members, what we call our Advantage members.

And I think this quote from the Financial Times would really summarize how we view the state of our member, the state of the consumer. They are nervous but they are optimistic and I think they certainly think that the better days are now in front of them. And we are seeing that certainly in the way our Advantage member has been shopping the club recently. I have talked about during the last few earnings calls that we are very pleased with the growth in our discretionary businesses in home, in apparel and seasonal and we think that is going to continue going forward.

But unemployment continues to play a major role and as we look at consumers, we recognize that that bifurcation in the economy continues to exist. We certainly see with many of our members the changing pattern based on pay cycles. When they have dollars in the start of the month and as they manage their wallet very carefully towards the end of that monthly season. So unemployment continues to impact many of our consumers and our Sam's Club members.

When we think about small businesses, it is still a very challenging time. They are very apprehensive about making investments. They are very concerned about credit but what they tell us they are most concerned with is getting feet back into their



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establishments. They are waiting for their consumer to return. If they are a restaurant operator, they are waiting for greater traffic.

So the small business environment is one that continues to feel real pressure in today's economy. And we clearly are there to help our business members. They continue to depend on us to allow them to manage inventory very carefully during the course of the month as they manage their cash flow on a day-to-day basis.

We are all dealing with a very different inflationary environment that we are in just a couple years ago. You have seen some of the changes. Rapid escalation of beef prices, wheat up over 35%, which not only affects bakery items, but is affecting all the grains we feed. And it is going to continue to impact the prices we pay for beef and poultry and other items.

This morning, as we walked in here this afternoon, fuel is at \$106 a barrel. Over the last 30 days, we have seen our fuel prices grow by \$0.34. So the cost of fuel has clearly skyrocketed on a year-on-year basis. Cotton prices continue to rise and coupled with the increased cost of production and shipping in China, we are all feeling the increased pressure in China manufacturing and items we source there.

On the flipside, in consumer electronics, particularly in TVs, you are seeing rapid deflation and we don't expect to see that deflation curtailed over the next year. So a number of very unique dynamics from a pricing and inflationary standpoint and it is something that we are spending a lot of time managing on a day-by-day basis.

To make matters even more challenging, we have seen the impact that weather has had or on our produce crops. In Mexico, they have had the worst freeze in the last 50 years. So combined with flooding in California and freezes that we have seen in the Southeast United States, produce crops continue to be under stress. So it's a very challenging and dynamic merchandising environment.

From a competitive standpoint, I think we all know the impact that technology is having on the business. Most of you have smartphones in front of you. You probably have one of these apps you see on the screen that many of you use to check pricing. And there is greater pricing transparency today than probably ever before.

It's really the new norm for many of our shoppers. It is how our members shop our club, checking pricing, using their smartphone application to get a better sense for the prices that they are paying and how it compares channel by channel.

So that is our view of the state of our member, our customer and the consumer. And I think they are battling some very unique times. I think they are feeling better, I think there is optimism in the air, but they also recognize that in many cases they are spending more money today than what they were 30 days for the items that are in their pantry and they are much more focused on understanding value and how it compares across retailers.

As we go forward, we have spent a lot of time thinking about our strategy and how it plays into today's environment. I will tell you that as we think about the future, we think there is significant opportunities for us to continue to maintain and grow our momentum. And our strategy and focus is unchanged.

We will continue to drive our business through our savings made simple framework, focusing on making great choices for our member, category by category, focusing on ensuring we enhance and build the relationship we have with our members, ensuring our members have a great in club experience every single time they shop. And we will continue to invest in tools that allow us to efficiently grow and deliver returns in this business.

We really think the next generation Sam's Club, well, it is a company that continues to provide great solution for our business and our consumer members. We think there is a significant opportunity to build and strengthen Sam's as a truly global brand and we have got a wonderful organization and organizational culture that we are going to continue to feed and develop as we go forward.



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If we had one single priority for the organization, it would be right there and that is our focus on building our membership base. We have spent a lot of time just like we did when we redesigned our merchandise portfolio understanding what our member expects from us as we build and enhance our membership base.

You have already seen some of the changes we have made to our membership offering over the last year. For our plus members, we have now offered them expanded pharmacy benefits. They have extended shopping hours and we are very pleased with the penetration increases we have seen with our plus membership base.

Over the last 18 months, we have more than doubled our plus penetration and we think advances like e-values are helping us attract more and more members to our \$100 membership program.

We just finished our annual meeting last week in Dallas. We had all of our club general managers together to talk about our plans and our priorities and I can tell you we spent a lot of time talking about membership and talking about four very important elements to building increased momentum in our membership.

We have been focusing on our clubs to make sure that with new members we present them our plus membership first. We call it top-down selling and the results have been outstanding. We are continuing to focus on renewing our existing membership base and we have seen very strong progress in this area over the last year.

We clearly want to make sure we are there for small businesses. We maintain our existing base but for small businesses in the United States, we make sure they know that Sam's Club can provide great value as they get started. And we are dialing up our focus on bringing new members to the club, showing them what the new Sam's Club looks like, making sure they recognize the value we can offer, the great quality enhancements that have taken place in the club, the improvement in selection and branding that we really think will help us build and accelerate our membership-based development.

We really believe we are getting wonderful feedback and reaction from the members that shop our club. Their reaction to the changes we have made in merchandising by listening to our member and delivering them the products they want category by category is really fueling the growth we have seen over the last four quarters and we expect that momentum will continue as we start this new year.

We recognize that in certain categories what our member expects from Sam's Club is great everyday value on the brands they trust and know. Categories like cleaning and laundry where they want their favorite brand in a size that works for them available at a great price every time they shop. They certainly depend on us in categories that we refer to as wow to deliver them great quality and we are doing that.

They really appreciate the changes in our brand assortment and recognize some of the great new brands we have brought to the club and they also expect us to deliver simple solutions.

Many of you have asked me over the last couple of years what is next from a branding standpoint and just last week, we rolled out to our system some great new brands that you will see in Sam's Club over the next couple of years, brands like Artisan Fresh in our bakery and gourmet categories; brands like Daily Chef that you will see in our refrigerated and frozen categories; and [Simply Right], a brand that we think is absolutely perfect for the consumer and member that is interested in health and wellness.

We will continue to make sure we couple those insights with technology. Over the last year, we have WiFi enabled each and every one of our clubs. It has allowed us to build very important relationships with key technology providers like Apple that is now allowing us to extend our offering of iPads to more and more clubs. And in the next couple of weeks, we will be introducing the new iPad 2.

We are continuing to invest in mobile to build e-value and to leverage our .com platform for growth.



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We are also very pleased to be recognized for the work we have done in insights by the Wal-Mart Corporation. In fact, Cindy Davis, who was our EVP of Marketing and Membership, has now assumed a new role. She will be leading our global insight team, reporting to me. And we are very pleased, Cindy and I, to have an expanded role at Wal-Mart to really elevate the overall corporation's focus on building centers of excellence that allow us to understand consumer trends, to understand what our customers are looking for across channels and importantly, to enable our organization with leading edge analytical tools.

We will continue to focus on leveraging the Wal-Mart innovation and productivity initiatives. We're making great progress there. We think we are on our way to delivering our productivity saving objective.

I am very pleased with the performance inside of our clubs. And last October, I talked about a new organizational design putting our leaders into the market closer to our members and Todd Harbaugh, our EVP of Operations. Brett Biggs, Paul Stone, and Lance de la Rosa, are making a real impact on our in club conditions.

So we are very excited about Sam's Club today. We feel very good about the progress we are making in operations, in merchandising and membership. We think we have got very strong momentum that we are going to build on and I am pleased to be able to confirm our guidance of 1% to 3% for the first quarter this year.

We think our momentum is strong, we are feeling it carry over to the start of the year and we really feel like at Sam's Club, momentum is in our favor. We think our member recognizes the changes we are making and we think we are going to continue to grow and build our business going forward. But with that, my time is up.

QUESTIONS AND ANSWERS

Unidentified Audience Member

(inaudible question - microphone inaccessible)

Brian Cornell - Sam's Club - President and CEO

My focus today is on Sam's Club. I'm sure Carol off line or Jeff might be able to answer some of your questions on Wal-Mart. But I am probably much more suited to talk about what we are doing with our Sam's Club business.

Unidentified Audience Member

(inaudible question - microphone inaccessible)

Brian Cornell - Sam's Club - President and CEO

In some cases, you do see crossover. I think one of the factoids that we don't talk enough about is just how few members carry multiple cards. It is a very small portion of our membership base. So we have opportunities to build membership from a number of different areas, not just moving a member out of a Costco Club into a BJ's Club. And we are continuing to target that, making sure the broader consumer understands the value we offer, the quality of brands, the great pricing, the selection that we have in our clubs and we think there is a huge opportunity to build our membership base with consumers that don't shop clubs today.

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Budd Bugatch - *Raymond James - Analyst*

One of the things that you see at Sam's Club and particularly with the (inaudible) getting older and (inaudible) empty-nesters. So being empty-nesters, they don't need 10 pack sizes that they were when (inaudible). What is going on at Sam's (inaudible)?

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

Sure, Budd's question, is we have got an older consumer base, we have got an older membership base. Many of them are empty-nesters, they are not looking for large pack sizes, what are we doing? We are doing a lot of work in that area. And in fact, if you were in one of our clubs today, certainly in our fresh areas, you will notice changes in package and portion sizes. And our focus is really on changing that portion size, making sure we understand what our members are looking for, what they want to consume today, what they want to be able to store in their pantry or their freezer.

So we are making a number of changes to portion size and package configuration and we think that is absolutely spot on with this aging consumer we service.

Budd Bugatch - *Raymond James - Analyst*

Thank you. (inaudible)

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

Thank you.

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