FINAL TRANSCRIPT

Thomson StreetEvents℠

WMT - Wal-Mart Stores Inc. at Bank of America Securities Annual Investment Conference (Formal Presentation/Q&A)

Event Date/Time: Sep. 15. 2008 / 1:30PM ET

CORPORATE PARTICIPANTS

John Fleming
Wal-Mart Stores - EVP and CMO

Raul Vazquez
Wal-Mart Stores - President and CEO, walmart.com

Carol Schumacher
Wal-Mart Stores - VP of IR

CONFERENCE CALL PARTICIPANTS

David Strasser
Banc of America Securities - Analyst

PRESENTATION

David Strasser - *Banc of America Securities - Analyst*

Thanks. We are going to get started. We are really happy to have Wal-Mart here. It has been -- for Bank of America, it's been a top pick for at least a year now, maybe even a little bit more than that. The stock has been performing and a big part of that, a big part of our thesis and a big part of the reason for the performance has been the merchandising.

As a result, we have John Fleming here, who is Executive Vice President, but more importantly, the Chief Merchandising Officer of Wal-Mart. So a lot of what's going on in those stores is a result of the stuff that he has done and that is what he is going to talk about.

In addition to him, we also have Raul Vazquez, who is President and is President of their walmart.com; and Steve Nave, who is the CEO of walmart.com, who both happen to be headquartered out here where the dot-com business is. So let me turn it over to John Fleming.

John Fleming - *Wal-Mart Stores - EVP and CMO*

Thanks, David. I guess I didn't know how much competition I would not have today, but competition is always a good thing. So that's fine. I'm going to talk about the merchandising transformation that's going on with Wal-Mart. And as you can tell from this first slide, I don't really control this presentation because if I did, there would be a bunch of products on here. So instead this is -- who really drives a lot of what we do so this is the attorney slide, right, Carol? So everybody noted that forward-looking statements -- they may occur but all this other stuff. So have you had time to read it all?

Okay, I'll go onto the next one. All right, this what I really want to talk about is Eduardo Castro-Wright took over as CEO of the US operations in September of '05 and he laid out a three-year strategy. We are in the third year of that three-year strategy and it really focuses on growth, ROI, and then people development.

It's kind of hard to see this chart but on the left-hand side in that road map about two-thirds of the way up, there's this spot called merchandising transformation, which we began about 18 months ago. Prior to that, I was in the marketing role, and we built some capabilities in marketing specifically around who our customer was and what our value proposition is today. And I will talk about that but I really want to go deep on what the merchandising transformation is.

If Eduardo was talking today, he would talk about these are the things that we've really worked on over the last three years and so we're very well positioned. I think one of the single biggest things that is driving results today is that we have complete alignment at the most senior levels that we are the price leader and we save people money so they can live better. I think that

that statement has really aligned the whole organization on the things that are important for our customers and the important things for us to do.

From a merchandising standpoint, it really has to do with clarity of offering, and that really helps to drive conversion in the store. I think our single biggest opportunity is conversion. We have a lot of traffic. Any of you that are in our stores, try going on a Saturday afternoon. We have plenty of people in our stores. But we don't always convert every customer in all the categories that we have potential for and it really has to do with in the past the offerings were diluted because there were so many things going on. So you'll hear me talk about clarity of offerings.

The other thing is really focusing on growth categories. That if we can take market share and growth categories, it's a double positive as opposed to taking market share in declining categories, which had been what we were focused on in some areas in the past. We are focused on improving our customer experience and that is really in terms of fast, clean, friendly stores. This idea of alignment is really this integrated brand communication. I think it's clear that we save people money so they can live better and that comes across in all the communication that we've done.

We've made a lot of progress in ROI and really driving asset productivity. From my perspective, it's really about inventory management and I will talk about a team that we've put in place that when we started this merchandising transformation and since that point the first quarter, the inventories were a bit out of control, but since the second quarter of '07, we have had very good control over our inventories. And then lastly, developing and acquiring management talent.

So this is what it looks like when it comes together in the store. Clear price leadership, clarity of assortment. This is -- Hanna Montana is an example of an entertainment property that we really got behind early last spring and pulled it together, gave it a primary location and really distinguished ourself in the marketplace with the growth platform.

Lower left-hand corner is -- there's not a lot of customers there, but that shows you these fast, easy checkout lanes. We have made tremendous progress in terms of our customer experience stores in terms of fast checkouts. Lastly HDTVs, these digital TVs, it a huge growth platform for us and we are taking market share.

The strategic framework really drives everything that we do and it starts with our mission. We save people money so they can live better. From a merchandising standpoint, it's a portfolio of strategy and so what's the role of each category? And then what does that role imply? That is what I am going to go deep on today. And then from a store operation standpoint is everything that we do is set up to give the customer a fast, friendly, clean shopping experience.

So let me start with the merchandising transformation. It starts with our customer who we are targeting, then developing category strategies against those targets, clearly presenting those categories in store, and then ultimately building capabilities so that we can repeat this over and over again and get better.

The customer segments and we started this work about three years ago, it's clear to us we are focused on value seekers. These are three of the seven segments that make up the US consumer shopping population. It's the price value shopper who's looking for opening price points in our store. It's the brand aspirational that participates with us. As long as we have the brands they want; when we don't, they go elsewhere. And it's the price-sensitive affluent that is really a quality seeker but at great prices. They really understand quality and that gives us a platform to improve the quality of the products throughout our store.

We are focused on growth categories and I think that this is something that's new to our merchandising strategy because in a lot of cases, we operated on the back half of the curve that we would take costs out as supply was growing to be able to deliver great value to customers. And yet McKinsey did some work and was correlating success of very successful companies and they found that 43% of companies are successful because they play where the growth is. 35% are successful because they are superior at mergers and acquisitions. Only 22% are successful because they out-execute their competitors.

So we want to continue with the operational excellence that has been the hallmark of Wal-Mart, but then by being very deliberate about growing market share and growth categories; we think that gives us the ability to grow much faster.

In order to develop this framework, we really look at three different dimensions, the growth potential, the scale advantage that we could have and lastly, the credibility that we have with our customers. So to do that we have come up with this little framework called win, play, and show. It sounds like a betting thing, but that's really what merchandising is except the play is play, not place, because as working this with our organization, that resonated a lot more in terms of this category is a play category versus a place category. But that is sort of how we got there.

There's three things we consider. So growth potential, scale, and credibility. A win category is a category that will grow twice the rate of whatever the business unit is. We have a scale advantage and we have credibility. We can offer the full range to our customers. An example here would be pets. It's a growing category. We have scale advantage with our suppliers with the logistics network that we have, and we have access to the full range of products that customers are looking for in the mass channel.

A play category would be one where there may be growth, not as much as a win category, or it may be a stable business, but we have a scale advantage. And so we can offer great prices to our customers. An example here would be denim. From a customer perspective, we are not seen as the destination for denim even though we sell the most denim in the US because we don't have access to the full range, which is fine. It makes for a great value offering that we have for customers, but we don't necessarily have the full range so we are not going to invest in denim the same way we would invest in pets.

Lastly, the show category is typically declining, typically we don't have a lot of credibility with customers, may not have a scale advantage, but it fulfills that one-stop shopping proposition that we have with our customers. It is important that we have hammers and it's important that we have tape measures, but we don't need to have 28 tape measures, which before we started this process we actually carried at one time. It gives us the opportunity to really rationalize the assortment and rationalize the supplier base to be able to drive more productivity, to be able to invest in the win categories.

This is a simple construct that we use with merchants. We've got about 96 categories in the whole store as we define categories and every category fits into one of these four boxes. If it is on the right-hand side, if it is either a win or a play/grow, we invest in the range of assortment. We invest in visual presentation and we go deep in terms of who our competitive set is and benchmarking the quality levels and the price level that we have for the category, subcategories, and prices.

On the left-hand side, where there is very little growth but it's important to our customer, we rationalize the assortment. We reduce suppliers and we reduce SKUs. The productivity gains that we get out of that side of the assortment allow us to invest in the categories where we can grow and take market share.

This just gives you an example then. Once we come to that, we have identified the areas that we want to invest in, what does this look like in store? So flat-panel TVs, we are investing in visual and presentation. We've acquired brands. We are investing in customer experience in stores.

Hannah Montana is an example of something that we took in the apparel department and we actually moved it to the primary location all genders, moved it to the primary location to be able to capture customers' attention with this hugely successful growth platform.

The last one is something that's coming up this year is putting this brand blocking, or color blocking in place to be able to communicate to customers' authority in the holiday ornament space. But visual presentation is something that we are investing in now to be able to show customers where the growth is and make it easy for them to consider the products in our store.

So in order to do all this, we had to develop capabilities as an organization. A couple of years ago everything went through the buyer. As I tell the story, our company was run four feet at the time. The only issue was every four feet had its own CEO. CEOs

don't necessarily agree on things. So one buyer would be presenting their products horizontally. The one next to him would be doing it by vertically. One is price, one is brand.

So that as we can kick that up and develop really what is the strategy for customers, we have created a new organization which is called customer experience. That organization really does space allocations, adjacencies, and visual presentation in all stores. New stores going forward and remodels that we are embarking on next year, and so that we've got a consistent shopping experience and a consistent way to really present products to customers. In addition, taking advantage of the fact that in Houston, Texas with the high Hispanic population, we need a bigger baby department where in Naples, Florida with the snowbirds, we need a bigger pet department. So that they are able to really manage the space allocation based on customer who shops the store.

On the other side, merchandising operations, this is a new group we put in place. It's about planning. It's about replenishment. It's about pricing and it's about category management. This group has been able to really manage our inventories very well, develop a cohesive pricing strategy across the box that allows us to be able to invest in the places that matter to customers.

In addition to that in the middle, we have divided the business into six strategic business units, each business unit focused on a customer, an industry and a competitive set. So that we can really go to market understanding what the opportunities are based on the customer and the marketplace. Then also with the foundation of marketing, so that as we do that we have a cohesive communication plan for our customers.

The last thing I want to talk about and then I'm going to transition to Raul Vazquez, is we think one of the next big growth platforms for us will be multichannel integration. We know that our customers are shopping multiple channels before they make product selections and especially as it pertains to some of these discretionary categories like furniture or flat-panel TVs, that they are both using the online channel, then going into the store, then going back onto the online channel. And a place that we have gotten tremendous traction in the last year and a half is our Site to Store program.

Canopy as a brand is the first brand that we launched with a multichannel point of view.

With that, I would like to bring Raul up here who is someone that I've worked with for the last six years and he will tell you about our cross channel integration efforts that we have at the store.

Raul Vazquez - *Wal-Mart Stores - President and CEO, walmart.com*

So Canopy, as John just mentioned, was really the whole line came together from a multichannel approach. We had dot-com merchants that were working on it. We had store merchants that were working on it and the intent was to develop a product line where we would take into consideration the strengths of the store channel and the strengths of the online channel.

So there were products that were developed specifically knowing that they would be high-volume products that would turn quickly in the stores and then there were other products that we wanted to make available only online and leverage Site to Store.

For those of you that don't know how Site to Store works, what we do is we take product that is only available online and we ship it into the store for free. So it has worked very well with Site to Store because a particular store, say, in Iowa doesn't have to carry the full assortment, but they are able to drive sales and awareness of that product line or any of the product lines available in stores through things like those online reviews.

We have over 400,000 reviews right now online and in one of the meetings, one of the store managers from Iowa mentioned that they were seeing very good sales and that people were mentioning the content that had been made available online that complements the self-service atmosphere that we have in the stores.

What Site to Store is really meant to do is develop that easy shopping experience again complementing what happens in the stores. Here's a great example. On the right side in the Site to Store option, what we're able to do since we are really only merchandising one store is we are able to pull together imagery that can present the full solution and gives the customer a sense of what the product is going to look like once it is in her home.

What you see on the left side then is a customer that comes in and has a good sense of exactly what it is that she wants. In that case what we can do is we can present the product the way that we do in the stores where you look at by color, you look at it by thread count and she knows what purchase she wants to make.

As John mentioned earlier, one of the categories that we are doing very well in as a company is flat-panel. Flat-panel we do the same thing. The research indicates that customers do a lot of shopping both in stores and online before they decide what product they want to buy, so what we do online is we present a lot of content. We present a lot of information regarding how customers perceive that product because a great transaction for us as Wal-Mart would be to have the customer come in, walk up to the TV wall, and just say I want that one. They don't necessarily need to ask any questions at all because we have satisfied all of their needs before they even come into a store.

And that is really the ratings and reviews. Here you can just see a screen shot of what it would look like on a TV page. It was the number one customer requested feature at walmart.com. It has been live a little over a year. 62% of customers read the reviews before they make a purchase. A lot of surveys are indicating that they are more trustworthy than even professional reviews. They are more trustworthy than a salesperson on the floor. So it is one of the ways that we are trying to make it easier to shop from Wal-Mart. As I mentioned, we want to try to complement that self-service atmosphere in the stores.

We have, as I mentioned, over 400,000 reviews. 80% of them are four or five stars so it also helps us address some of the misperception or misconceptions about quality in our stores. And it's a program that has helped our sales both online and in stores.

And with that, I think we are ready for questions.

QUESTIONS AND ANSWERS

David Strasser - *Banc of America Securities - Analyst*

Thanks. I will start it off. You had talked earlier but one of the things you talked about here is win/play/show. You have kind of talked about that a lot recently. How important is that to the entire organization? And how does that permeate itself throughout the entire flow throughout the whole organization in different areas?

John Fleming - *Wal-Mart Stores - EVP and CMO*

Yes, it is a concept that we came up with about six or seven months ago and we began to implement it with product categories that we could impact quickly in terms of inventory investment, range of assortment, visual presentation. I think we will really see it ramp up this next spring as it gets deeply embedded in the planning process. And then we had even talked about how does it impact store operations? How does it impact our people development plan? Because you may want different types of people managing different types of businesses based on is it about productivity versus is it about gaining market share?

So within the next 12 to 18 months, it will take hold into the entire organization in terms of marketing, where we make our investments, merchandising, how we build the assortments, and operations, how we support it in store. But again, it is a path that we began about six months ago.

David Strasser - *Banc of America Securities - Analyst*

Questions?

Unidentified Audience Member

Could you talk about your international business and sort of where you see the most opportunity and sort of where you may have issues or problems?

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

That's a pretty big question to just do really quickly. Internationally we expect Wal-Mart international as an operating segment to end the year about $100 billion. If you look at where we are, it's roughly one-quarter of the overall business in the US. And if you look at our strategy, we are focused both on emerging markets like Brazil, like China. We have announced that we are looking at Russia, but we are also focused on some of the long-term markets where we have been for quite a number of years like the UK, Canada, Mexico, places like that.

The majority of our operations still come through the places where we have been a long time with the UK and ASDA being the largest segment of our international business.

Unidentified Audience Member

I just wanted to ask a question on margins and how you look at your merchandising with the overall target for margins?

John Fleming - *Wal-Mart Stores - EVP and CMO*

Target for margins. We don't talk a lot about expanding margins because what we want to do is every time we do make improvements, we are able to capture additional margin but then we reinvest the margin in pricing. We are completely aligned as an organization around the price leadership positioning that we have. And so we do not -- when we can manage inventories better, when we can rationalize the SKU count, when we come up with a more comprehensive way to do pricing that allows us to capture some margin, we now with this infrastructure that we have in place, we are able to invest then in the places that matter most to our customers in terms of driving our price image for customers.

So it's really about price image, price separation, and everything that we can do to be able to fuel that is just going to help to further our position of Save Money. Live Better.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

John Fleming - *Wal-Mart Stores - EVP and CMO*

It's funny how the stuff that grows the fastest usually has lower margin, isn't it? So it depends. In apparel when you get into these entertainment properties, one of the platforms that we have used in apparel, Hanna Montana was the first, but with some of these brands that we launched like Taylor Swift for L.e.i., those have very good margins that are actually added to the total. Yes, when you get into flat-panel TVs and with the electronics lifecycles, typically the newer stuff has less margin, but that is where I think our advantage is, the mix of products that we have in the overall store.

As we get stronger in some of the soft line categories, we have made great progress in home and apparel over the next six to eight months and we continue to see that progress evolve ahead of us. That gives us the opportunity to be able to invest in pricing and some of the other areas where customers know the price of milk and eggs. And that's a trip driver for us. So we are going to continue to focus on being the price leader.

David Strasser - *Banc of America Securities - Analyst*

If I can just follow up on that question a little bit as it relates to apparel you were just talking about, you've add some brands in the last year [Starter], Danskin, OP. As you look out over the next three years, five years, what do you think the apparel/home department looks like from a brand perspective?

John Fleming - *Wal-Mart Stores - EVP and CMO*

A little different. I think home will have a well-defined brand portfolio, which is pretty consistent across all stores. We have stated that we have three big brands that we are really going to develop in-home. Mainstays for good essentials, Canopy for better essentials, and Home and Garden, which is a decorative brand that meets the needs of the traditional style that is mass in the US. And I think that over time you will see that to evolve to where those brands are clearly presented in home consistently across the chain.

Apparel is a little different because there are different style preferences. I think the home example is we can basically cover the range of towels that people want to consider under $10 with those three brands in terms of quality, style, and color. When you get into apparel, there are many different style preferences, whether the customer lives in an urban environment, whether they are in a rural environment. And so the different brands or categories that we carry will be determined based on what the store group is and who the target customer is that shops those stores.

So we will have multiple brands and probably we are evolving now to where we use the online channel to be the place where all brands exist in apparel and yet we boil it down to six or eight key brands that are in each store but that brand portfolio would look different in rural Georgia than what it would look like in Chicago based on the customer that shops and what their needs are.

I think the bigger issue is because there's a lot to be talked about in terms of brands and brands are important with that brand aspirational, but it is very different in packaged goods and even in CE what brands mean to the customer versus apparel. The consumer research on apparel, brands always end up number four. The number one thing customers are looking for in apparel is the style that I want. Number two is the color that I want. Number third is my size. Then it is a brand.

Whereas when you get into soap, toothpaste, or TVs, it really starts brand first, so it is a balance. And actually in some ways, the brand structure that we've developed in home and apparel is an organizing principle to have a clearer offering to customers to make it easier for them to shop.

Unidentified Audience Member

You have talked about several things today and they are all kind of symptoms or residuals of a big major change at Wal-Mart say a year and a half, two years ago. What happened and can you summarize the big major change? What happened? Why did it happen? Why are you suddenly able to execute now where you haven't in the last many, many years? Why is it sustainable going forward?

John Fleming - *Wal-Mart Stores - EVP and CMO*

Here's the way I would tell the story. If you go back two to three years ago, and we talked about crossing the aisle and we talked about improving our product offerings. When it didn't work, then it was seen as we were somehow trying to address a customer that we didn't have. Back then as is now, 90% of all households shop Wal-Mart. That didn't change. It is not like we were trying to get a new customer.

Today we are doing those same things. We are trying to get people to convert in categories that they didn't consider us for in the past. We are trying to improve the product quality, improve the brand presentations. It's all the same things. The single biggest difference is alignment. Three years ago, we didn't have complete alignment from the top. Now we do. Between Eduardo, Bill Simon, run stores; Stephen Quinn runs marketing. I've got merchandising. We are completely aligned in terms of we stand for price but we've got to improve the product offerings to get people to consider different categories. It is no different than crossing the aisle.

The things that we are doing with the OP and L.e.i. and Canopy are no different than what we talked about with other brands three years ago. We are just executing it better because we have alignment at the top.

Unidentified Participant

To follow up, it was -- it had been a long time since Sam Walton died and shortly after that you guys embarked on a multitier expense at the time that you didn't execute. So I'm trying to understand the big picture. What happened and why did you change? For the positive?

John Fleming - *Wal-Mart Stores - EVP and CMO*

Why do we change?

Unidentified Participant

I know why you change, because you had to, but what was going on in the culture that changed?

John Fleming - *Wal-Mart Stores - EVP and CMO*

I think the alignment. I think it goes back to even three years ago we debated Always Low Prices Always versus Save Money. Live Better. and now we have complete alignment. The Always Low Prices Always was terrific, but it ended up only emotionally connecting with one segment that the customer who shopped OPP and anybody who shopped beyond that, it was a transactional relationship. Whereas the Save Money. Live Better. really is saving money translates everywhere. Living better is defined by what's important to different customers.

So I really think the alignment and execution. It's also building capabilities in areas that we didn't have before. But I think Lee said it right the other day. He was talking about as we made these changes and as there was a fair amount of discussion about what changes we were going to make and was this really what Sam Walton would do? And Lee said, and by the way, Lee was the only one in the room that had known Sam Walton, and he said you know, Sam Walton passed away a long time ago and he left us a great company. And throughout the time between when he passed away to what we have today, there have been a lot of different things we have tried. Some have worked, some haven't. He goes, I don't know exactly what Sam would do but I do know one thing, he would be successful.

And so I think that that is what we have been finding our way in terms of what is the path for today? In 1990, 70% of Wal-Mart's business was done in the rural America and today it's less than 35%. So right there, there is a very different customer that we

serve with a very different competitive dynamic, which requires us to be much better in terms of how we go to market, how we meet the needs of customers, and how we serve them in our stores.

And I think it's the alignment. The alignment is the single biggest difference today versus three years ago in that the mission is clear and everybody has a much better understanding of what their role is and delivering that mission to our customers.

David Strasser - *Banc of America Securities - Analyst*

Thank you very much. We really appreciate it.
