

FINAL TRANSCRIPT

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WMT - Wal-Mart Stores Inc. at Bank of America Securities Annual Investment Conference (Breakout Session)

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CORPORATE PARTICIPANTS

Raul Vazquez

Wal-Mart Stores - President and CEO

John Fleming

Wal-Mart Stores - EVP and CMO

CONFERENCE CALL PARTICIPANTS

David Strasser

Bank of America - Analyst

PRESENTATION

TRANSCRIPT

Editor

(Audio in Progress)

David Strasser - Bank of America - Analyst

-- going forward some of the changes they have made over the last year or two and sort of how that has impacted the business and it's showing up, obviously, a lot in the numbers and in the environment. In a tough environment the numbers still -- and the strength of sales and so on, so I mean I guess I will open it up to questions.

I will start it out. One of the things you mentioned in there you just talked about the brands within TV -- the brands of -- you mentioned TVs versus apparel how the strength of brands or the relevance of brands in one versus the other. I mean you talked about that. As you kind of look at the electronics business, is it -- is the brand relevant throughout the entire electronics business as important as it is in TVs? Like you kept using TVs, but does it go beyond that?

Raul Vazquez - Wal-Mart Stores - President and CEO

I think so. In the consumer electronics space, we have always done a lot of business but I think we were missing an opportunity a few years ago because we didn't have all the brands that customers were looking for. In fact, using TV as an example, with the win, play, and show, if we went back three years ago I would say that TVs were positioned as a play/grow because we didn't have access to the full range.

And so in the last year and a half, as we acquired brands like Sharp and Sony and Samsung or -- we were able to build out and offer their full offering or be able to have their full offering. It has really taken it from a play/grow to a win, but that is true with computers.

We launched Dell 18 months ago. That really ended up taking the whole category up, because now we have a broader range. We have HP. We have got Dell. We have got Toshiba and then we also have some opening price point players so that we are able to give customers the entire range for them to consider, whether they are an OPP customer or a brand customer. But the brands actually make the Pops sell better also.

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Unidentified Audience Member

How important is the VIZIO brand? Is that a brand --?

Raul Vazquez - Wal-Mart Stores - President and CEO

This is a great brand, absolutely. VIZIO for -- I think it's five or six years old has really come into the market place. They are the unit share leader in the US. It's great quality at a -- really it's a step up beyond opening price point, but clearly below the major national brands. But it's something where it's perceived as having great value and quality for our customers.

Unidentified Audience Member

Another TV question. Most of the retailers that sell big-screen TVs with a fully fleshed out set of services. Help people get these giant things home, then get them on the wall and get them working. Is something like that necessary for retail stores to be able to sell these things? I would get crazy getting one of these boxes to the register let alone --

John Fleming - Wal-Mart Stores - EVP and CMO

It's something we talk a lot about, but when you go back to the framework that we operate in, it's about fast, friendly, clean. It's about -- we are targeting these value seekers that our customers clearly see it as a value that we have the assortment that we have with the price points that we carry, knowing that they are going to have to figure out exactly how do you install the thing because we are taking market share.

And so it is something that we continue to pilot different programs to help customers, but what we found recently because we have had the debate forever as we started to become more credible in the CE space, do we need better trained sales associates to help customers? Sure, we would always like them to be even better but at a cost it doesn't really work into our model.

What we found from customer research is there something that is more important than trained sales associates in a store and it's a good website. Because customers understand that they can go online and you can compare through product specs. And I think with the program that we have recently rolled out with ratings and reviews, that becomes something that is even more objective.

Because they all know these are commission-trained sales associates that are in the competitive channel, and I think that the Internet has changed all of that where people trust ratings and reviews from people they don't even know to a greater extent than they do some guy that is in the store that they know is going to get a commission off that television that they would sell.

John Fleming - Wal-Mart Stores - EVP and CMO

I think even your question on VIZIO, as soon as we introduced the VIZIO online it sold very, very well. A big part of it was it got very positive reviews very quickly. We are excited about that not just for our sales, but as John mentioned because it influences the sales online and allows us to compliment the self-service model without introducing a lot of cost. Because that is what we are not going to, we are not going to just go out and copy the strategies of some of our competitors.

Unidentified Audience Member

Can you talk about the progress of home and in apparel? I know you are rolling out Starter and some brands, but with why not more higher quality or even more unique exclusive brands that --. Obviously, Target has had a lot of success with that over a number of years. So where are we at in that and why not more brands?

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John Fleming - Wal-Mart Stores - EVP and CMO

We are very pleased with the progress that we are making. We had leadership changes in both home and apparel over a year ago. I think Linda Hefner joined us in June. Dottie Mattson came from Raul's team to us and then subsequently we moved her to New York to build the product merchandising team there for apparel. So we feel like we have got a good strategy. We have got a good leadership team and we are building capabilities.

We are continuing to look at brands that we can develop and launch that our customers want. We are not that interested in getting into significantly higher price points than where we are today. We know that the towel business at mass is done under \$10. We are not really interested in going out and acquiring or developing brands beyond that.

Same with apparel. The lion's share of apparel business at mass is done below \$20. But I think that -- and especially when it comes to apparel, brand is the fourth thing that they want. You know it's style, color, size, and then brand. I think the brand concepts that we do are giving us an organizing principle to more clearly present products in the store.

So with the example of Starter, we know if you go back to the thinking about where the growth is -- baby boomers, growing segment, increasingly more active or at least trying to live a active lifestyle. So activewear and the active lifestyle all becomes more important. So we want to look for ways that we can stretch that offering and be able to offer brands be it a Danskin on the female side, a Starter on the male side.

More than the brand, because these are good, solid brands, but more than the brand it's the clarity that it gives us in store. That as we present it we have one thing going on, it's about the Starter brand as opposed to trying to assort multiple brands mixed in with private label. That we can be clear on what we stand for, what does it look like in the store, and give the customer an easy shopping experience. But we will continue to build brands.

Unidentified Audience Member

Can you talk about those numbers yet? Those areas yet?

John Fleming - Wal-Mart Stores - EVP and CMO

We don't break it out by -- what I will tell you is we are taking market share. And so our relative performance to the market is positive over the last six months.

Unidentified Audience Member

Could you walk through which categories you have determined, or subcategories, need to be the win categories for you where you have a --?

John Fleming - Wal-Mart Stores - EVP and CMO

Yes, some of the examples would be as you break out -- the three things that we are going to stand for at a higher level is we are going to stand for seasonal. We are going to stand for technology, electronics, and we are going to stand for fresh. Those are the three things that as we build out this next generation of remodels, new stores, and adjacencies, visual presentation, a customer will see those three things.

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Including what you will see in our next generation of stores is when you enter a store you are going to have clean sightlines all the way to the back wall to be able to see the flat-panel TVs so that we signal to customers that we are in that business. At the same time, on either side you are going to see a fresh presentation be it produce or fashion that changes all the time.

One of the things that happens in apparel is that our traffic actually works against us in apparel. Now listen to the rest of this. The reason why that is, we have our customers in the store 46 times a year. Our inventory turns are on par with the industry. If you took between Target, which would be higher, Penny's and Kohl's, which are lower, you put them all together, that is about our inventory is turned in apparel. But our customer is in the store 46 times a year so they are seeing the same stuff like nine times.

In our competitors, because they don't have the frequency that we do, they are seeing new activity every time they are in the store. So as part of this fresh we are going to drive hard and over time really improve the supply chain. But initially just set the expectation that entry point that customers see when they come into the store, we are going to change it out every 30 days because we want customers to see newness and freshness. So that is kind of at a high level. It's fresh, it's seasonal, and it's electronics. It's technology.

Once you drill down and get into specific departments, baby is a win category. Pets is a win category. Flat-panel TVs is a win category. So then you will even have departments where you might have within apparel, which is probably a place-sustained category, we are going to win in basics. So there is a whole framework that we use from the overall to the department level into the category and subcategory looking at every individual business and then determining what the role is in the portfolio.

Unidentified Audience Member

Talking about an earlier question you said that price -- that brand was the last thing they care about, but --

John Fleming - Wal-Mart Stores - EVP and CMO

For apparel. Not the last; it's number four out of like 20 things.

Unidentified Audience Member

So as you put in OP, L.e.i., Starter, what is the average price point of that brand versus (inaudible) in place?

John Fleming - Wal-Mart Stores - EVP and CMO

Those examples are ones that, actually, if you look at the way we think of good, better, best within the context of the mass channel, they would be better price points. But now with something like Starter, we are going to take the opening price points in some of the basic categories in shorts and T-shirts and make sure that we incorporate that into the overall offering if that is the only statement that we are going to put in the store.

So making sure that we don't walk away. It's not a trade up strategy. It's really a value strategy and L.e.i. and OP are examples of products that are higher priced than what the opening price point assortment has been. But because of the product itself, the way we put it in store, the assortment range, we have been able to get actually incredible response from customers.

Unidentified Audience Member

Could you just --? You said that you wanted to (inaudible) the inventory would change every 30 days. How often does it change now?

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John Fleming - Wal-Mart Stores - EVP and CMO

Our inventory turns in apparel are similar to the marketplace. I don't think we break that out, no. So again, take Target, Kohl's, and Penny's put them all together and that is about what we turn.

Unidentified Audience Member

A question on a slightly different angle, but I was wondering if you could talk about how you view the competitive threat from Tesco's Fresh and Easy stores that they have been opening over here. What your ambitions are in this space?

Raul Vazquez - Wal-Mart Stores - President and CEO

How we view the threat? We were there when they launched. We have people in those stores every day, every week who are watching what they are doing. They are a very good competitor. There is somethings that I think they do very well in their stores and we continue to monitor the progress that they make.

Unidentified Audience Member

And your ambitions in this space?

Raul Vazquez - Wal-Mart Stores - President and CEO

Pardon me?

Unidentified Audience Member

And your ambitions in this space?

Raul Vazquez - Wal-Mart Stores - President and CEO

Any ambitions? We have a small format group that we are going to develop some new concepts to pilot some new ideas, both in terms of learning for things that we could do in the broader supercenter box, but also to understand because convenience is clearly a trend in the future. With the population aging, stores probably getting smaller, we are looking at how we build more efficient stores and how we develop a broader portfolio of formats beyond the 195,000 foot supercenters? So it's things we continue to look at.

David Strasser - Bank of America - Analyst

Can I just follow up on that? With two trends, the store you did in I guess it was Waco, the high-end store --

John Fleming - Wal-Mart Stores - EVP and CMO

Plano.

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David Strasser - Bank of America - Analyst

Plano. And then the other one was the organic trend, which seemed to get a lot of press maybe a year ago and just isn't seen or heard as much.

John Fleming - Wal-Mart Stores - EVP and CMO

Yes, I think two off shoots to that is the Plano store, what we did there is we changed the adjacencies and the sightlines and the navigation and made some fine-tuning adjustments primarily around food, where we distorted the wine assortment. Prior to that time, in Dallas if you went into any one of our stores to assess the range of wines that we carried you would be hard-pressed to find a bottle over \$12. So when we went in and knowing the competitive set that is in that market and the customer that lives there, we offered the full range. We expanded the wine assortment dramatically and actually got great results.

But I think the three takeaways that we got from that store, because at the same time on the other side of the box where it was general merchandise we didn't do a lot differently with the product assortment, what we learned was customers like the open space. They like us taking features out of action alley because it's easier to navigate the store. They like the sightlines and they liked the navigation elements that we put in there so that they could find their way around the store.

We have incorporated those learnings into our future remodels and new stores. Actually, in October we are going to be able to talk about the next three years, because as I said earlier, this is like the third year of the three-year strategy. And there is not a lot new in there. It's more how we take what we have learned and really roll it out much further.

On the organic side, what we learned from that is where the real trend is is locally grown. So we have evolved from just organics to know we have got a program where we are sourcing locally and then being able to communicate that to customers. You will see a big program into the spring of next year when we are able to really impact -- spring/summer is when you can really impact the locally grown strategy.

Unidentified Audience Member

I think you are supposed to say world domination when someone asks you what your ambitions are.

John Fleming - Wal-Mart Stores - EVP and CMO

I am not allowed to say any of that.

Unidentified Audience Member

A quick -- this is been asked before, forgive me, but on this whole SKU rationalization program which has been so effective, are there categories or areas where you think you might be missing sales? Talk more about in stock in the wake of this whole program.

John Fleming - Wal-Mart Stores - EVP and CMO

Not yet that we have seen categories that we feel like we missed sales because we took things out. It has ranged from departments that took SKUs down 10% to departments that took SKUs down 40% and 50%. It's interesting, the more SKUs we took out, the more business went up. There was a study by I think William Blair two years ago. They track Wal-Mart and Target and our assortments and the quality of our assortments and so forth.

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About two years ago they came out and said customers saw Target as having better variety, more variety than Wal-Mart. We know that they don't have more SKUs and so I think that was a good call to action for us. Why did they get credit for more variety? It's because they more clearly present the range that they carry, and so we have really gone back -- and that goes back into these win categories.

One of the things that we do in a win category or a play/grow category is really go deep on benchmarking our competition to understand where do they start and where do they stop in terms of range of assortment? So in the rapidly growing categories we may add SKUs, but we are going to take them away from the categories that are climbing where it's important for us to have, but -- or as an example, we should never feature products from a show category. We used to all the time and yet those are categories that are declining. That is not what we should be using our feature space for.

So it just gives us a framework to be more efficient, but I think even beyond that to be more relevant to customers because -- and I would tell you that that to me is when I am asked just characterize what is merchandising transformation. It's really from moving from an organization that was very focused on optimizing what we know, because we always go back to we need to work on our in stocks.

In stocks are important at retail. I mean, it's the foundation by which you build off of. But where we are going is we want to get better at anticipating where customers are going and taking market share in growth categories, because I think that will unleash a whole level of growth that we haven't seen in the past.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

John Fleming - Wal-Mart Stores - EVP and CMO

I think what we learned is as we developed this new positioning about Save Money. Live Better. and built this, the brand identification that is part of all that and started to set it up in a few stores, it -- we got incredible feedback from customers because the color palette, the navigation, the presentation it's cheerful. It's easy. There was an emotional connection that customers gave us credit for that they weren't seeing before in the previous stores that we had built and developed.

So we felt that it was very important that from a brand perspective that we actually get the entire fleet up to that standard quickly, which required us to invest less in new stores, which you are seeing right now, and invest more in remodels. So we have a very aggressive three to four year remodel program, which is to get our existing fleet up to the standard of how we need to present the brand and how do we create this better customer experience that we know our customers are responding to.

Unidentified Audience Member

(inaudible) throughout the store being more department focuses (inaudible)

John Fleming - Wal-Mart Stores - EVP and CMO

I don't understand the question.

Unidentified Audience Member

In terms of the consumer electronics area, the apparel area --

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John Fleming - Wal-Mart Stores - EVP and CMO

Yes, I think that electronics is a good blueprint for us and that is what we talked about last October at the meeting was that this is one where we have been working on it for about three years. I think when flat panels first started to come in and with video games growing as rapidly as they were and these were product categories that required different presentation and different strategies to be able to play than just a box on an end cap at a price point.

So it forced us to think differently about customer experience, about assortment range, about visual presentation. I think we have had the best results of any general merchandise category in Wal-Mart. I think we talked about that last October. That becomes the blueprint that we are following for home and apparel and some of the other general merchandise categories to where it starts with product, defining the range, and then building a better experience in stores and then investing in visual presentation where it matters to customers.

Raul Vazquez - Wal-Mart Stores - President and CEO

There is not an easy answer. I think even last week we looked at several proposals and there was some things that we decided we would wait and we would make them part of the remodels because, as John mentioned, we want to get all of the stores up to a certain standard. Then there are other areas where the pace of innovation may be such in department that you do have to do things as you were alluding to in a department-specific fashion. But there is a big desire to get the entire store up to a level, given the way customers have reacted, to the investments we have made in the customer experience.

David Strasser - Bank of America - Analyst

Do one more and then I think --

Unidentified Audience Member

What percentage of the stores would you say reflect how you want the stores to be seen by your consumers? How far are you through the three to four year process of remodeling your stores?

John Fleming - Wal-Mart Stores - EVP and CMO

You know, at this point we have got multiple pilots that have validated some of the ideas that we have around customer experience. Everything started back with Plano where we radically changed the way we handled features and sightlines and inventory up to the store in North Little Rock that we opened this spring. We have got a store in -- we have got a couple of stores locally that we are remodeling in Fayetteville and the original store one in Rogers that opened next month. Couple that -- one in Dallas, one in Houston.

And I think in the next two months we are going to have -- we actually already feel like we have a good sense of what the next three years look like, but we just want to validate that over the next 90 days. In October we are actually going to be communicating what that next three to four years looks like.

I can't really give you an answer in terms of what percentage today. I think we have got a good road map, but what I can tell you is that three years from now it will be significantly different. We will significantly impact what our stores look and feel like to better engage customers and to get us to this idea of better customer experience, visually more exciting with great products positioned against growth categories.

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Unidentified Audience Member

(Inaudible question - microphone inaccessible)

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

Will we have to take 100% of the store base? No, again we will have different levels because we have a number of stores that we have built just in the last couple of years that aren't that far off. They just might need different colors and navigation. So, no, I don't think it's 100%.

But really the new approach will start next year, where that becomes what was the new store rollout that started seven, eight, nine years ago, we will have a path where everything, whether it's a new store or remodel, has the same principles in terms of how we lay out the store and what the customer experiences.

David Strasser - *Bank of America - Analyst*

All right, thanks. Thank you.

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