

Company: Wal-Mart Stores, Inc.
Event: Raymond James Institutional Investors Conference
Presenter: Bill Simon - President and Chief Executive Officer
Brett Biggs - Executive Vice President and Chief Financial Officer
Carol Schumacher - Vice President of Investor Relations
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Good morning, again. My name is Budd Bugatch. I'm with Raymond James and it's my pleasure to welcome you to the Wal-Mart presentation at our 34th Annual Institutional Investor's Conference. With us today from Wal-Mart we have Bill Simon, President and CEO of Wal-Mart U.S., Brett Biggs, he's EVP and CFO of Wal-Mart U.S. and Carol Schumacher, Vice President of Investor Relations for Wal-Mart Stores, Inc.

We're happy to invite Bill back to the State of Florida where he served as the Secretary of Florida's Department of Management Services during Jeb Bush's tenure as governor. He joined Wal-Mart in 2006 from Brinker International. Bill was named President and CEO of Wal-Mart U.S. in 2010.

Bill, without any further adieu the floor is yours.

Bill Simon

Thank you, Budd, appreciate it. Glad to be with you today. It's an opportunity for us to talk about our business, which we like to do, particularly given we just released our earnings on the 21st, not too long ago. I'm gonna take a moment, if I can, to recap some of that for you, then spend some time talking about some of the initiatives that we have, give you a little more insight into some of the things that we're thinking.

But, first, of course, the forward-looking statement. We will be making forward-looking statements. I think that's why, hopefully, some of you are here, so you can hear what we think about what the business and how it's going. If you'd like more details, it's on our website. You can take a look at it.

Just to recap, our business at Wal-Mart Stores, Inc., the corporation, is strong and growing. We added \$22 billion for the fiscal year that we just completed. Added a Fortune, what, 50 company in a year. Leveraged the business, in fact, all three of the operating segments delivered operating leverage this year. This is the third consecutive year. Free cash flow of about \$13 billion. Returned about \$13 billion to shareholders in part with a fairly substantial dividend increase.

A great result for the year, and a part of it for me representing the Wal-Mart U.S. team, is a bit of pride because the Wal-Mart U.S. team was a contributor to that great result. If I can, I'll just really, just bring you up-to-date on the strategy in the U.S. You've seen this, it's our productivity loop. That's the business model that we operate. That's the business

model that's been successful for us. That's the business model that delivered a great result in the U.S. this last year.

For us it starts with leverage. If we can leverage our expenses and this year we did, drove down our expense by 27 bases points, it frees up cash for us to invest in price and we did very broadly invest in price primarily in food and consumables because we know that's a traffic driver in our business and the result was a growth in our sales. We're back around to the beginning with initiatives and prepared to drive leverage for the year.

Just a little bit more detail. The U.S. segment finished the fiscal year at \$275 billion in sales. Very, very strong. 1.8 comp. We added about \$10 billion in top line for the business. You all may know that we recently began to resubscribe after about a ten-year hiatus to Neilson in IRI point of sale data. That data is indicating that we grew 50 basis points in food consumables in the health and wellness over-the-counter areas that we measure. Fifty basis points on a strong share, so a great performance driven primarily by traffic.

Facilitated all that, as I said, was operating expenses and our operating expenses increased by 2.5% just under 4% sales growth. The net of which is \$22 billion in operating income. A billion dollars increase in the U.S. in operating income for the year. Profit growing faster than sales in each and every quarter. A very good result for us. We, in the company, have a history of established by our founder of sharing that success with our associates. In addition to the normal wages that we pay our field and management teams, we paid this year nearly a billion and a half in field level incentives. Every hourly associate in our store is eligible for a quarterly bonus and we paid out a billion and a half dollars in bonuses this year just to the field based folks.

Additionally, they have access to discount cards, about \$550 million they took advantage of discounts at our stores and over \$800 million in contributions to 401k and stock purchase plans. So combined in addition to regular base pay, nearly \$3 billion dollars given back the people who made this happen for us and we're proud to be able to do that. Particularly at a time where the economy remains challenging.

One of the questions we get asked and so I thought I'd address this up front, is what's on the top mind of our customers? Our proximity to the customer base we serve with about 140 million customers are coming into our stores every week. The polling and Wal-Mart mom groups that we manage give us a pretty good window into what folks are thinking.

Now more than ever they're telling us that they rely on us for that everyday low price promise. Particularly, as things get a little bit uncertain. The customer continues to be pressured by jobs, jobs, jobs, jobs, unemployment and security they tell us is at the top of their mind. They started to mention the payroll tax increase, they notice that 2% in their paycheck. Most of them say they're adapting to it and are figuring out how to work their way through that. Maybe a lesson for those in certain parts of the government. If our customers can figure it out well maybe there's hope.

Gas prices are also, they're very sensitive to that rapid run up in gas prices that we've all seen is something that's on their mind. What we know though and what they tell us is they continue to rely on us in difficult times. We're well positioned really in any marketplace to serve the customer. The strategy of everyday low prices fueled by that productivity loop is what runs our business. It's really pretty simple. It's the program that Sam Walton developed and was expounded on over the years and now has evolved into grocery for us.

If we can invest in price on food and consumables we'll drive traffic to our stores which will give us leverage which allows us to continue to invest in price. Those price investments, lots of folks are out there do price surveys and we do well in most of them. Some of them better than others. Our prices estimates are very, very broad-based. They're not KVI or known value item driven, not milk, bread, and eggs, particularly, but more broadly against items that drive a basket savings. They can be sometimes difficult to read if you're out there doing a survey on 50 items or so.

The unique position that we have in the marketplace has shown up in the market share increases that we have. We're also talking to the customer about that. Many of you would have seen the ad campaign that we're running now. There's a national campaign that's more broad in its claim. Then we'll be expanding into 50 markets in the first quarter with direct market-specific basket claims. I've brought one of those.

[video]

Those ads, as I said we're running in 50 markets. You'll notice that was the neighborhood market. I'll talk a little bit more about that later. We're increasingly rolling out that format and it's been very successful for us. Those challenge campaigns are real baskets, real customers, (inaudible) shopping in the same lists. We don't pick the items, and there could be anything from milk, bread, eggs in there to black shoe polish. Whatever they've bought, we run the comparison against, and we do very, very well.

We also have made a lot of progress this year in anytime, anywhere shopping driven by our online business. We occupy a unique position in e-commerce. Based on the 4,000 plus store infrastructure that we have in place and our logistics infrastructure, we have the ability to do things that the customer finds a lot of value in.

A couple of examples of that, I'll give you because they're very top of mind given the recent holiday season. We're able to stay in stock and in business through Wal-Mart.com, really all the way up until Christmas Eve when most traditional e-commerce players are out of business because of the shipping deadlines. Because of the 4,000 stores, we can fulfill the orders from our business on the ground, either through a ship fulfillment from store or a pickup in-store opportunity that others might not be able to do.

Another great example was many of you would've heard about the one-hour guarantee that we gave our customers on the most sought after items on Black Friday. We were able to oversell what we had in the store and fulfill it within days through Wal-Mart.com.

The customer who came in and wanted that 32-inch TV for \$148, we sold about 600,000 of them in about an hour in the stores, but we actually sold more than that, another 100,000 or so. Then fulfilled them through Wal-Mart.com. That integration of physical and digital retail is placed where we believe we have a huge opportunity and we'll continue to expand on that.

We've also, online, been innovating to deliver the customers' needs. You would have hopefully read about our new Polaris search engine, which, by the way, was completely developed internally, so we now have the engineers with the capability to develop a world-class search engine that's resulting in conversions from Wal-Mart.com and all of our e-commerce businesses at a much higher rate.

We've launched, this past year, Pay with Cash and had some really interesting results with it. Pay with Cash was a way for customers who we thought, without credit, to participate in e-commerce sales, and low and behold we found out that a substantial portion of the Pay with Cash business was actually paying with a credit card. Pay with Cash, you'd go online, and you order the product, and then you go to a store and you pay. Well, when they showed up in the store to pay, a substantial number of them used credit cards to pay in the store, which will give you an idea about there are still some people out there who aren't quite sure about that whole Internet credit card thing. At least, that's what we believe.

Site-to-store has been expanded for us with pick up as early as today, we call it, so now you can order online and get it now in the store. We were very, very fortunate and pleased to be named Mobile Retailer of the Year. Some of the activities that we've been able to generate through our mobile application are things like Scan and Go that's in pilot now, where you can mobile self checkout on your smart phone. And, as you all know, you heard we launched a same day delivery pilot and are very, very interested in that as a concept of service for our customer. The bottom line is anytime, anywhere, and we're able to do that. The idea is that we can expand our reach and deliver our everyday low price promise to customers wherever they might be.

I'm going to transition a little bit and talk to you about our real estate portfolio and how we think about Supercenters and small formats. It's important because you'll see us, as the chart on the bottom indicates, increasingly moving into smaller formats. And, just to be clear, when we talk about smaller formats, we're talking about anything below, say, 50,000 or 60,000 square feet, non-Supercenters, so Neighborhood Markets and Express stores would fall into that category. Just so everybody's aware, as well, 90% of our fleet is Supercenters, and Supercenters are still a great growth vehicle for us from a dollar perspective. And we'll continue to build those where we see the opportunities. And we've given you those real estate numbers, and they're on this chart, as well. We'll add about 125 new Supercenters this year.

You can see the rate at which we're expanding our small formats, and it's a very rapid ramp up. And I'm going to explain to you in more detail why and why we're so excited

about that. We'll build as many as 115 small formats this year, and we've seen that fleet relative to be about 40% of our new openings.

We're excited about it because they compete really well against multiple channels. We might think of Neighborhood Market as a drugstore or a grocery store competitor or Express, as you've thought about it, as a dollar store competitor. Well, they're not really. They're more hybrid stores than you would think because they have, obviously, our low price promise, but they all have fresh food and pharmacy and the Wal-Mart everyday low price promise, they're all enabled with dot com capabilities, site-to-store capability, so you have that endless aisle, that we can offer, that other's might not be able to offer.

So if you put it up against each of these channels that they compete with, against the dollar stores, while the prices of dollar stores, we still have a price disadvantage against them, they're known for their price, as well. But we can deliver price and assortment and fresh food and RX and the Wal-Mart EDLP promise and then give you anything that we can get online, in the store, that digital capability is a deal breaker. Against grocery our prices are, against traditional grocery our prices are much, much better. As you see in the advertising campaign that we're running, the Wal-Mart brand is also very important.

Then, again, enabled with e-commerce capabilities that most traditional grocers can't, can't and don't compete against. Then against drugs, obvious price advantage, fresh foods, and then the dot com piece. So, we've seen our small formats compete very well against every one of these channels and deliver sales that we're very, very proud of.

Just as an example in pharmacy and over the counter we've had single digit positive comps in these small stores with a strength in OTC and RX, RX driven by our \$4.00 generic program. Grocery, against, on the grocery side, small stores are mid single digits with strength in fresh and deli, bakery, where, exactly where you think they would be. And our GM business, in the consumable parts of GM like light bulbs and air filters and things like that, we're able to fulfill the order right then and there.

But some of our stores, these small stores have a very, very high percentage of site-to-store sales. There's a store in downtown Chicago, a neighborhood market in the bottom of a tower that has, at times of the year, up to 20% to 25% of it's sales are done through walmart.com site-to-store. In fact, so much volume is done there that we had to rent more space from the landlord just to be able to store the products that were shipped to the store through walmart.com.

It's a terrific story for us that's resulted in very, very good growth across our formats. A neighborhood market has, for fiscal '13, delivered mid single-digit positive comps against the competitive set that you would think is as good as or better than everybody in the traditional grocery space. Traffic's up two percent every quarter, strength in everyone of the categories.

For those who know the history of neighborhood markets, we started in the late '90's with neighborhood markets and built them in year groups, for example, all the way through

this recent year. The growth and the positive comps that we've been delivering have had this year were in every single year group. So, even if you go back to the '99 year group, they had positive comps, the 2003 year group, they had positive comps. Of course, the more recent ones because of the velocity and build up had better comps, but we're really pleased with the entire fleet and the comps that they've been able to deliver.

Wal-Mart Express double digit positive comps and while there are not a lot of them on comp, yet we're very, very pleased with the results that they've been delivering. Positive traffic, every single quarter. The RX portion of this has been very, very important. If you can deliver prescriptions to markets, access to low price prescriptions to markets that haven't had access to them before. It's very, very compelling from a traffic and a customer perspective.

The assortment in these stores is really interesting too, if you think about it. If you're in a 12,000 or 15,000-square foot, say, drug or dollar chain, you have the ability to assort your store based on your distribution network, which might be two times the number of SKUs. Say, if you carry 10,000 SKU.S. in the store, you may have 20,000 or 25,000 in your distribution system. When you go through your assortment calculations and you try to figure out how you should assort that small store, you're limited to what you carry in your system.

At Wal-Mart, we can assort a 12,000 or a 15,000-square foot store with the entire assortment from a Super Center, a 600,000 distribution system. The best-selling items at an adjacent Super Center can be assorted into a Neighborhood Market or an Express store. That's a capability that we have that others don't. Then when you take that to the next level, with the digital capability through Wal-Mart.com. That has been a very, very powerful customer proposition.

With Neighborhood Markets, we're in a roll-out mode on this. We have a direct line of sight to 500 by fiscal '16. We've been able to decrease the building costs. We're seeing, as I said, improved sales trends and productivity because as we scale these things, it's built the return so that they're now in line with and approaching Super Center level returns. We're very, very pleased with this.

You can see geographically where they are. We'll be building out penetration in many of these markets, and there are a few new markets that we'll be going into this year as well. This is a great opportunity for us. 500 is by no means the end. It's merely just the beginning of what we think the opportunity might be for this format.

With Express, we're in the middle of a density test. If you've been in North Carolina recently, around Raleigh-Durham, you would have seen us building a lot of these. What we're trying to understand here is what happens when you put a lot of these in close proximity.

Again, these are not dollar stores as you would think of them, or drug stores. They have a sales volume that's fairly substantial compared to a dollar store, five to eight times what a

dollar store might do, but only, say, 30% or 40% of what a Neighborhood Market might do.

The density test for us is to try to decide where and how many we can put these, and do you use them as a filler strategy or a penetration strategy? One of the things that we want to make sure that we don't do is put a 15,000-square foot store where we should have put a 35,000-square foot store. We're learning a lot from this. We're actually learning a lot from Express that we're now applying to Neighborhood Markets, about building costs and discipline with capital. That's making us better on all of our small formats.

While I have you as a captive group, I'm going to take the opportunity to talk to you very briefly about some of the things I'm most proud of with our company. That is, the things that we're doing to lead on issues that matter to our customer. In January, we announced that we're going to step up our commitment to U.S. manufacturing by adding \$50 billion over the next ten years in U.S.-manufactured products.

The equation is changing very, very rapidly with higher oil costs, transportation costs, and emerging demands in markets that are outside of the U.S. That manufacturing equation is changing, and there are categories of products that are ready to come back to the U.S.

With our access and visibility to a lot of the manufacturers in the U.S., and the world, and a lot of the state and local governments, we believe we're in a position to make some commitments - longer-term purchases, working with state and local governments - to bring this manufacturing back. In fact, later this week we'll be at a summit with our suppliers where we're going to be discussing this in detail. It's a very, very exciting opportunity for us, and we're focused on it.

We also talked about veterans' jobs initiatives. We believe, like everybody in this country, that if you fought for your country, you shouldn't have to fight for a job. Veterans are great workers. We know that. They deserve an opportunity. We're going to give them that. We believe that if you think back along the history of our company, every single time we've had a conflict, the veterans have been the ones that led an economic boom after the conflict was over. It happened after World War I. It happened after World War II. It happened after Vietnam.

We have ten years' worth of veterans right now, and they're one of our best hopes for the next phase of growth in the U.S. If you've left active duty within 12 months, with an honorable discharge, and you want to work for Wal-Mart, we're going to give you a job. We've also called upon the top 50 employers, many of whom are already very heavily engaged in this. We're going to see if we can't get a broader commitment for America's businesses to employ our veterans, because that's one of the ways we're going to get the economy growing again.

Of course, we're still very, very focused on sustainability. We're very proud of the zero waste initiative. Our journey towards zero waste, we're at about 85%, and we've been

able to divert 85% from landfills to date. We're now the largest on-site user of renewable energy and solar fuel and wind.

Of course, we're still focused on women's empowerment. Our ability to attract and retain internally top female talent, and then the establishment of the development of women and women-owned businesses all around the world is something that we're focused on as a company.

Briefly wrapping up, we had a great year, both for the corporation, and the Wal-Mart U.S. segment. Our strategy in the U.S. is right on and working. We're very pleased with the productivity loop and how it continues to move forward. We think whatever the economy does, we're the best positioned retailer in the country to serve our customers, and we're very, very excited about the opportunity to reach more customers with our everyday low price promise that these small formats give us. With that, Bud, let's see if we've got any questions.

Budd Bugatch

We do have time for some questions from the audience. Who would like to start us off? Anybody? Well, Bill, let me ask you a question... What have we got? Let's start at the end of that last comment about you being the biggest user of renewable energy sources. How do you calculate that? Is that just by virtue of your size, or is this energy that you generate on-site?

Bill Simon

I guess, if I understand the question, we have solar installations at well over 100 plus of our stores today. We've just expanded our solar installations in Ohio. The roofs are big spaces where we can gather a lot of solar.

We're one of the initial customers of a company called Bloom Energy, which is fuel cell technology, in the Bay Area where we've now got, I think, more installations than anybody does. That's a fuel-cell sort of generation of power on-site.

We're business people, so these are great business opportunities and returns for us. While they're great for the environment, we believe in the long-term will result in a cleaner planet, it's good business for us. We generate this power on-site. They're in different forms and fashions, with power usage agreements with the owners of the product. There's not a lot of capital outlay and some of the deals are slightly different. By and large, we have solar, wind and fuel cell installations on our properties, stores, clubs and distribution centers.

Questioner

I presume these are generated returns. This is cheaper than buying off the grid.

Bill Simon

Yes.

Questioner

Just curious, going back to the slide where you were showing the evolution of what percentage of your stores are going to be under the large versus smaller format, do you foresee your square footage in total staying about flat? Or do you think that it'll be in decline?

Bill Simon

I think what we're trying to do is to do more with less, so we're trying to become more efficient in the use of capital. The square footage will roughly stay the same, but you'll see more doors open because we're going to be opening smaller stores instead of Super Centers.

Questioner

Can you talk a little bit about the impact to labor costs over the next, say, three years from ObamaCare, and will that be significant to the company?

Bill Simon

The Affordable Care Act, like it or don't like it, it's the law of the land. It's been argued all the way to the Supreme Court and we're prepared to implement it. Our healthcare benefits were well above what was required by the act anyway. While there are some bulges that are not where we were spending the money, we feel like we can absorb that in our business.

Questioner

On the other side of that, is there any way you can benefit either from Minute Clinics or RX from the healthcare reform?

Bill Simon

There probably is, and we're working towards figuring what that is. I don't know if it's a benefit from the change in the legislation so much as it is the opportunity to benefit from the increased demand and relative scarcity and high cost of healthcare in general. If you think about our business model, anytime that there's an inefficiency in the system - and there's no better poster child for inefficiency than the U.S. healthcare system - we believe there's an opportunity for Wal-Mart.

I'm not sure that I can answer your question that as a result of the law there's a big opportunity for us, but there is a huge opportunity for us in that space and we're pursuing it.

Questioner

You were instrumental in the \$4 prescription. What's the progress of that now that it's been place for, what, five or six years?

Bill Simon

Oh, yeah. We lost it in the fall of 2006 and our market share and RX increased substantially with that and, I don't have the latest dollar amount, but we have saved billions of dollars in healthcare costs. If you really think about and if you're really, really honest, it's the only thing you can point to that's actually lowered the cost of healthcare in the U.S. Everything else just moved it around. The Affordable Care Act and changes to Medicare and Medicaid and everything, this just lowered the cost of healthcare because we did this and then about 30,000 other locations in the U.S. matched us. That's great. That's a wonderful thing.

Before 2006, the timeframe, if you recall, people were talking about having to cut pills in half and going and importing drugs from Canada because they were too expensive in the U.S. They're not talking about that anymore. We just lowered the price. And, by the way, we still make really good money at \$4.00. The cost of goods of those things is not all that complicated. So there's an opportunity for us to take that same mindset into the healthcare space and, frankly, other services as well where there's disjointed in nature and efficiencies.

Questioner

One last question. There was an article, I think, in one of the reporting services yesterday about you're doing something with Amazon or trying to get through the partnership. Is there anything you can talk about on that at this point in time or?

Bill Simon

No. That article in that particular publication in that particular reporter got a hold of something that's about six weeks old that I think she's just trying to continue to write about and that was the same story that you read about, about an email that got out of our company. By the way, just for perspective, we generate, and this is shocking to me when I found out, about ten million emails, external emails, not even the ones that I send to Carol or Brett, ten million a week.

So since that person got a hold of that email we've had 50 million more emails than that and that was a snapshot of a day and time that isn't even really relative anymore, so the Amazon story, I would tell you, is probably an interpellation of an interpellation.

Budd Bugatch

Well, thank you very much. We'll continue with the breakout. Thank you, Bill.