FINAL TRANSCRIPT

Thomson StreetEvents℠

WMT - Wal-Mart Stores Inc at William Blair & Company, LLC Growth Stock Conference Presentation

Event Date/Time: Jun. 15. 2011 / 1:00PM GMT

THOMSON REUTERS

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PRESENTATION

Mark Miller - *William Blair - Analyst*

I think I'll go ahead and get started so as not to cut in on management's time. For those of you that I've not met, my name is Mark Miller; I follow the broadlines food, drug and e-commerce space at William Blair. I'm required to inform you that for a complete list of disclosures and potential conflicts of interest please see WilliamBlair.com. Following this presentation we will have a breakout in the Bellevue Room which, I think most of you know, is through at the restaurant.

It is my pleasure this morning to introduce to you the management of Walmart. Walmart has presented now at our conference for nine of the ten years that I've been covering the Company. Carol, I appreciate the Company is back again this year.

We have with us today Bill Simon, President and CEO of Walmart U.S., $260 billion in annual sales, $20 billion of operating profit. Bill was previously COO of Walmart U.S. and led many important initiatives including the $4 generic initiative. And I think, Bill, when you see (inaudible) later today that's something that he will definitely appreciate.

Also in Walmart's urban expansion I think Bill can draw on his prior experience as Secretary Florida Department of Management Services. In aggregate, Bill, when I look at your responsibilities with 1.4 million people, I can't think of many more difficult jobs. But I think your experience of 25 years in the Navy certainly has given you discipline to take that on. So it's terrific to have you.

We also have with us Michael Moore, Executive Vice President and -- EVP and President of the Central US operations, and also David Redfield, both of whom will be available in the breakout session following this presentation. And of course Carol Schumacher, thank you again for coming. Thanks, Bill.

Bill Simon - *Wal-Mart Stores, Inc. - President & CEO Walmart U.S.*

Good morning, everybody, how are you doing? Good, good, terrific. Mark, thank you, it's great to be here. I appreciate you inviting us. And you know, we had our shareholder meeting last week and we did save some new news for you. So I'm going to stomp my foot like the professor did or something so that you know when we have some new news to talk about so that those of you who are here and filled up the chairs will get that, those of you on the webcast will as well.

And we will be making some forward-looking statements because that's what we do, we look forward, and that's what you want us to do. Our forward-looking statement statement is available here if you have really good glasses and available online at our website and you can also find some more information about our SEC filings.

Let me jump right in. Hopefully these three bullet points, growth leverage and returns, are not the new news to you. You should be familiar with them, this is what we've been focused on for several years now -- top-line growth, leveraging our business and delivering returns to our shareholders. We remain committed in the Corporation and certainly in the US to supporting these strategies as we move forward.

Growth, growth is a key element of everything that we do. We're absolutely committed to growth, particularly same-store sales growth. We talked a lot about this at our shareholders meeting. But we're also committed to new store growth, and new store growth is actually a conduit to same-store sales growth. I'm going to talk about that in a little bit.

New formats or small formats really are important to us as well, I'm going to talk to you a little bit about that as well as multi-channel initiatives. And you've heard us speak about that; I'm going to touch on that piece very briefly for you.

Leverage, we've been leveraging now five consecutive quarters through the productivity loop. I'm going to give you a little bit of detail about that in just a moment. We are an everyday low cost retailer and everyday low cost drives everyday low price, they go hand in hand, that's what we do and we're going to continue to do that.

And then finally returns, our goal has always been to deliver strong returns. As you all know, Walmart U.S. is the major contributor to the Walmart Inc., are overall ROI performance. We have and -- have had and will continue to have a very disciplined approach to capital spend in the US business. We've been refining that over the last several years.

And if you recall, in October we gave you a capital number, then in February we gave you an updated capital number that was $1 billion below the October projection. And that range -- it now sits at between $6.5 billion and $7 billion in capital and we remain committed to delivering that level of capital allocation.

I personally think we can beat that number and be below even more savings than the $1 billion and we'll update you on that progress at our analyst conference in October. Today I'm going to spend most of my time on growth because it's where I get the most questions, it's what's utmost on my mind and it's actually how I'm incented. So it's important to all of us, including the shareholders as well.

Throughout the Company we said at our analyst conference, we talk about it every single day in our business, and that is growing same-store sales. Our goal, and we've stated earlier is to be in positive territory by the end of the year. If we can do it sooner we certainly will and we've had periods where we've been doing that pretty regularly, not yet been able to string together a whole quarter. We're doing it in a very difficult environment, I'll touch on that as well.

New formats, small formats particularly, we've had some lessons learned from some of the pilots that we've done and we're going to talk a little bit about the small formats, that's an important element of our growth. And beyond bricks and mortar, that e-commerce channel, particularly the way we're addressing e-commerce through multi-channel initiatives.

We've talked to you previously about a four-point plan to improve sales. There are three of these that are really -- I'm going to spend a lot of time on today, the multi-channel piece I'll touch on briefly. Everyday low price you know about, EDLP, with the broadest assortment possible, that's what we've been working hard on in the last several months since I took over less than a year ago.

Restoring the assortment to the customer and delivering consistent everyday low prices, not participating in that high/low approach that other retailers do and it's so easy to get sucked into in our business. It's with our reputation has been built on, it's what we're executing today in the 3,900 stores.

We won't be beaten on price, that's what we do. We will be able to lower our price by being very, very productive and operating efficiently, and partnering with our suppliers. It's that EDLP, that consistent price, that predictability in our business combined with a broad assortment that gives our customers a reason to come to us. We know that, we see it in our business and we see the customer responding to it.

I'm going to spend a little bit of time -- there are three real takeaways that -- new news that I'm going to address with you. The first is our small format, what we're doing with our small format; I'm going to give you some particular detail about that.

The second is tying the new store growth to the comp store sales with some data that hopefully you can help -- help explain some of the issues that we've been trying to deal with.

And the third is the remodel, the changes to our remodel program that are helping the business today. So let me jump in with a brief discussion about assortment.

I gave you a number at our shareholders meeting about add-backs of 8,500 SKUs and you can see how that totals up to date, the 8,500 SKUs, through the end of April. This morning, today as we sit here in June, but there are, as you would imagine, relatively hard to tally in this format.

Starting at the top, grocery and consumables, where a lot of the SKUs have been added back so far, as we've added back those SKUs we've seen an immediate up-tick in those businesses. As we said in our first-quarter release, that business -- which by the way, those two businesses which by the way account for 65% of our sales, or thereabouts, are positive comp and have been positive comp and we're pleased with the performance there.

As you go down the list the next category that we've been addressing are our -- starting with the GM businesses, have been in our hardlines areas. That's a big number, but fishing lures and line and tackle are small SKUs, so the SKU number is a big impact on our businesses and it's big because it's a smaller category. But we are seeing traction in all those categories -- hunting, fishing, fabrics, crafts where we've added items back.

And as we go down the list in toys and seasonal, because of the seasonal nature of it, you'll see items back in our stores that we would have had last Christmas or holiday season, things like outdoor inflatables and the Christmas Village items that our customers have become so fond of.

I'm just going to address apparel straight off. It's an area where we've been struggling and we continue to struggle. About 60% of our apparel sales come from what we would define as our core customer. Our core customer was impacted severely by a change in merchandising strategy in apparel. As we deleted items that were important to the core customer and tried to take more of a fashion forward approach with some designer and store brand labels we alienated with that customer and we lost market share there.

We are working with our suppliers to bring products back in shoes and socks, plus sizes, things that our customers want, and as we're able to get those back the customers are responding. As you all know, it takes a lot of time -- the lead times on those products are very long. And so we expect to see continued progress in apparel, particularly as we get into the fall and then the turn of the year.

Action Alley is back. Action Alley is so important to us. We're a mass discounter -- we're a mass discounter and without the promotional intensity and the product presentation that you get from Action Alley, the customer communication about broad assortment and everyday low price are lacking.

So Action Alley is back; it's not fully implemented because there were a lot of changes that were sunk in concrete in our business with Project Impact that are going to require a little bit longer lead time to fix in certain stores and in certain parts of certain stores. But for the most part we're back in with Action Alley.

I would tell you we're probably in the 60% and that's not a completion, that's a bill satisfaction index of how we're executing Action Alley today. What we're seeing in the first quarter, the example up here shows a lift of about 15 basis points from putting the items back in. But more importantly, while the 15 basis point comp increase is important to us, obviously, more importantly is we're back to our roots and we're back to our ability to execute against what our customers expect.

We're also operationally working on two things -- satisfaction and in-stock on-shelf availability, as we call it. We use a third-party monitor to go through our stores and check our on-shelf availability which is a proxy for in-stock. In-stock, you can be measured at so many different levels at the depot, at the back room.

The only thing that really matters to us is whether the product is on the shelf or not. That's the only -- in my view, the only indicator of whether the product is in stock. So we measure on-shelf availability and this is just an example of how our operators are focused on that and improving the offering to the customer by having the product on the shelf when the customer wants it.

We've been operationally effective from a leverage standpoint -- expense leverage standpoint recently. We keep a very, very close eye on customer satisfaction. Customer satisfaction is an indicator of whether the customer likes us. This is a survey of -- gosh, I think it's about 500,000 customers a month if I'm not mistaken. So the data is very robust and we have it all the way down to the store level. And it measures fast, clean, friendly and customer satisfaction which our merchandise offering.

And as you can see, through May our customer satisfaction remains at pretty high levels. This is on a scale of 10, it's measured here. So as we've worked to become more operationally effective, the customer satisfaction has remained high. We watch very carefully because we obviously don't want anything we do to impact the customer satisfaction.

We also believe that some of this satisfaction is directly related to the add-back of the merchandise because, as I told you, merchandise is a big component of whether the customer is satisfied. So as we've added back Action Alley and SKU assortment into the business satisfaction has gone up as well.

Okay, this is one of those new news things I told you I would point out to you. I said to you earlier that we're working on same-store sales. Working on same-store sales requires us to look at new stores. And while we don't count, as you all know, the new stores' same-store sales until the 13th month, the most productive comp store sales that we get from a new store are in years two, three and four. Then it kind of hits a sliding scale back down to the run rate of the Company from years four and beyond -- five and beyond, excuse me.

So as you can see from this slide, in fiscal 2007 -- in our fiscal 2007 we had a new supercenter -- these are just supercenters -- growth plan where we opened 277 units. And as we started to shift capital out of new stores and into pretty expensive re-models of the fleet we declined the new store openings down to 135 units.

And that had an adverse impact on comp sales, one that we're still digesting today, because the pipeline of a supercenter is actually quite long. It could be as long as seven years depending on the jurisdiction. We've got some more cooperative, friendly jurisdictions where we can get them done in two, two and a half years. But for the most part the pipeline is very, very long.

So as you can build back the pipeline to something that supports 3% or 4% square footage growth, we've been as high as 8%, we've been as low as 1.5%, 1% to 1.5%, you'll help your comp sales as you move into the out years and we believe we can do that.

More new news. While supercenters remain the primary growth vehicle for us from a square footage basis, we have made a decision, and we've talked about it a little bit, to move forward with expansion of our Neighborhood Market format, now Walmart Market. Today we have 185 supermarkets open, that includes about 30 in Puerto Rico under the Amigo banner, and 155 Neighborhood Markets in the US.

I'm going to proudly say now David Redfield and his team who have been managing that format for us have been able to get our returns on Neighborhood Markets on par with supercenters. And you know, supercenter returns are among the best in the industry. Now our Neighborhood Markets, the new Neighborhood Markets that we're building are delivering a return at the same level that our supercenters are. So that's encouraged us to move faster with the expansion.

What's also encouraged us to move faster is the fact that the pipeline for these are one to two years and we can move them up more quickly. So with 155 Neighborhood Markets today we'll be adding a significant number of them in the coming years. There are 180 that have been approved through our real estate committee. We expect to be -- have about 300 of them by 2013. The number for next year is approaching 100 that we'll be able to put in.

So we're going to take a 155 store business and add between 90 and 100 and we'll give you more details on that in October. That's also, if you recall from our earnings -- our first-quarter earnings release, going to help our comp sales as we go forward. In the first quarter we released that -- we shared with you that the Neighborhood Market format had a 4 comp.

So we have a fast-growing business that has the same level of returns as our supercenters that we can move more quickly on, increase penetration into areas that we don't have stores today and is delivering a 4 comp at the return of a supercenter. So we're very excited about that proposition for us.

I'm going to talk a little bit about -- we're going to give you more details about the "what" in October. But if you take what we believe we're going to be able to open in supercenters next year along with that 90 to 100 number of markets, without even addressing Walmart Express which I'll get to in a second, we'll have our opening -- new store openings at or around the 200 number again from, if you recall, the previous chart. We had gotten wet down into the 135 number.

We're doing that while holding our capital relatively consistent because we're able to shift capital back out of remodels and into more productive -- longer depreciation, by the way -- new store builds.

Walmart Express launched the week we had our shareholders meeting and we've been very pleased with the performance of the two stores that are open today. The next store opening is actually right now in North Carolina in Ridgefield, North Carolina. And I don't have a sales report yet, David. Hopefully we'll get one soon.

The stores in Arkansas opened very, very well. Just recall that Express is not our first US small format pilot; this is a refinement of Marketside which was launched several years ago in Phoenix with a very heavy emphasis on prepared meals. What we found there was prepared meals were a big hit but just not in Marketside, in the format.

We've now rolled the prepared meals in that Marketside brand and the products that we develop for those across the entire chain in Marketside today is over $1 billion in business, it's just not sold in the Marketside stores, it's sold in Neighborhood Markets and in supercenters.

So the learnings from the about traffic driving elements and product assortment were built into Walmart Express. We've worked collaboratively with our international operations where they've got a vast amount of expertise on effectively and efficiently operating a small format as we do so well in Costa Rica with Pali and in Mexico with Bodega.

And those formats are among some of the highest return formats that they operate in those markets. So we're very optimistic that the vehicle that we've developed, while it's not perfect and will need to be refined, will also be a very high return vehicle for us. Sales at the two locations that are open today have been very, very good.

But in the basketball terms, because the championship just finished up this week, that's kind of the layup. I mean you open a store in your backyard with the attention that that sort of thing gets and you ought to be able to make a layup. Well, we've got a jump shot coming today in North Carolina and we're optimistic and hopefully we'll be able to hit the jump shot.

And the real three-pointer opens next month here in Chicago with the opening of the Chatham location which is designed to serve one of the food deserts in Chicago. It's a store that if the indications that we've seen in the stores that are open today carry through to Chicago you will not want to miss that opening, that's going to be spectacular.

Remodel, this is the other bit of emphasis that I'd like to give you today, the third piece. Our ability to lower the duration, reduce the duration, significantly reduce the expense related to remodels by some of the changes that I'll describe in a minute are going to free up capital and change the depreciation model obviously from shorter-term remodel depreciation to longer term new store depreciation and allow us to free up the capital to return to those growth levels the new store levels that I described earlier.

The Project Impact remodels we've done for the last several years took as long as 18 weeks to complete and were extremely disruptive. And many of you who would have seen a previous presentation recall that the dip in customer traffic during those remodels was substantial and takes -- and has proved to take a long time to recover.

We've now got the remodels down to five weeks; we did that by eliminating the massive adjacency and macro space changes that were in Project Impact -- the movements of the pharmacy, the changes in the pet department. So the macro space changes are very, very minimal in the new remodel plan. We're still going to rebrand, fix and repair anything that needs to be done in remodel -- more traditional remodel that you would be used to and the costs come down very, very dramatically.

Because as you remodel -- our remodel schedule calls for in the neighborhood of 500 plus stores every year with the size fleet that we have. So if you can pull capital out of those remodels it frees up capital that's much more productive -- much more productive for us. So that's a big deal for us. That's how we're going to pay for what I described to you before without fundamentally changing the return model.

We've got some headlines up here. And I put them up here not as an excuse, merely an explanation of the environment that you all know that we're operating in. As you try to course correct and you try to do that with -- I would call them headwinds, but they're shifting winds. Our customers, our core customer who we serve so well has an unemployment rate that's two times the national average and the national average is extremely high.

So you can imagine -- as you could imagine they are cash-strapped and you throw $4 gas on top of that, their ability to recover and respond is severely challenged. A paycheck cycle as severe as it's been and it's something that we're figuring out how to work through. Inflation is now more than creeping, probably more like running or at least a fast jog into the business today.

We reported in the first quarter, for example, about a 1% food inflation in our business. And what we saw was an interesting phenomenon. While we had about a 100 basis points increase in inflation, we saw about a 60 basis point trade down from a customer.

So the net impact was negligible on our top-line. Customers moving from premium brand to a less premium brand from a brand to an opening price point and a private label and we've got to figure out how to serve that. We are a house of brands, we like to sell brands, it shows the value better and we're working with our suppliers to be able to figure out how we do that.

A couple of merchandise points I'd like to make real quickly you may not have heard about, or you may have heard about. We've been piloting a meat program. Beef particularly hasn't been one of our strengths recently. We have a new meat program that's piloted in three markets with real terrific results, about 10 to 12 improvement in our meat business. As we roll that out you're going to really enjoy our beef and we expect the sales to respond.

The rollout will begin in June and my understanding is when we open here in Chicago, not in Chatham but in the next opening right after that, for those of you who are in Chicago, you'll be able to have that new meat program. It will come with a demo program, so we'll encourage everybody to try it again and it is very, very good, I'm proud of that.

I talked about hardlines a little bit earlier. As we've added back assortment we've seen the customer respond. We've gone out and aggressively talked to our suppliers about new items that we might be able to bring in, because innovation is so critical to our business.

And at the peak of the recession and in the teeth of the recession many of our supplier partners pulled back on innovation, it was a cost that they couldn't afford. And as they're getting back to innovation we love it. Nobody launches a new product better than we do and it's a traffic driver. We have the customers to get them broad exposure very quickly.

A couple of items on here to highlight. With all due respects to our friends in Wisconsin, these flat brat patties, they're brat burger patties are awesome; I've been eating way too many of them. It's an exclusive item we have at Walmart. I don't know why you want a flat brat, but they're really good.

You can cook them on a grill and put them on a hamburger bun the way you would do it -- maybe it's just -- maybe you can be more efficient in your bun operation that you don't need to have a hamburger bun and a hot dog bun, you can just kind of go with one bun, but they're terrific.

And the PetArmor product here, which is a generic for Frontline Flea and Tick, is doing very, very well and saves our customers a lot of money.

Multi-channel I'll just touch on pretty quickly. We have site to store, it's working well. We expanded site to store this year to Neighborhood Markets and now to Express as we roll them out and the response of those small formats is really, really interesting.

Customers now can get whatever they want in a supercenter assortment or an online assortment delivered to whatever location that's near them. And as you bring your store closer to them site to store becomes even more viable. And the expectation is, at least early indicators are, that that's going to be a big portion of the sales that will go through those smaller formats.

We also launched Pick Up Today this year which allows us to leverage the combination of the two channels, really the blending of the omni-channel approach to sales is something that online competitors can't do and is something that most brick-and-mortar companies can't do.

So you can -- they can order a product -- I've tried to get them to name this Pick Up Now, we're just not ready to do that yet because right now it's still a couple hours. But I want it to be now and we have the ability to do that. If you can deliver immediacy in the online channel that's something that will give us a competitive advantage.

Leverage, and just let me finish up quickly here. EDLC drives EDLP and we're focused on it, we work with our suppliers, we work with our support vendors in logistics. We have been able to leverage on negative comps. Something I'm proud of -- not the negative comps, but the leverage. I hope that we don't leverage on negative comps anymore; I hope we start to really show tremendous leverage on positive comps. And there are still many, many more opportunities. Here's just a couple of things that we've been working on.

You have to keep in mind, when people ask me how do you leverage on flat sales. Our numbers are so big that, for example, if we can remove just one second -- one second from the transaction through a process change at the register or a processing computer change speed at the register, one second is $30 million.

If you think about that, so we've got lots of seconds, we've got lots of half seconds, and work on those things every single day in order to become more productive. We have things like a pallet -- a one touch freight program where the pallet goes straight to the floor that we're working with our suppliers on; an associate workflow model that now uses systems to help direct the next task for the associate so they don't have to finish something and go find somebody to figure out what's next.

One of the things I want to highlight real quickly is the efficiency of our logistics operation -- always been world-class, they don't get enough credit for it. They're beyond world-class, they're universe class now. What they've been able to do over the last several years is the back bone of how we continue to leverage.

Just a couple of real interesting statistics for me. They have -- fuel prices have gone up about 9% over the last five years in total, it's gone up, it's come down. But the combined CAGR of our fuel price is about 9% up. During that same period our cost per case shipped has declined 5%, so a 14 point swing in cost of fuel to the market, if you will.

Staggering numbers -- in 2007 -- compared to 2007 we've delivered 300 million more cases, right, big number -- have driven 200 million less miles doing it from a productivity standpoint. If you have that kind of productivity in your supply chain, anybody who knows and follows retail really well, that's how you leverage with a challenging sales environment. And so there's a lot more to come there.

Let me just wrap up with the final slide here, growth leverage and returns. We're going to drive comp sales, we're working hard. Every single one of us is focused on comp sales, it's what we wake up and look at every single day. In fact, I look at it every single hour, for those of you who want to write that down.

We're adding supercenters, it's still our primary growth vehicle. The new formats or small format success now on a par with our supercenters is a great place to be, and multi-channel we believe gives us a competitive advantage. We're about productivity and we'll be about productivity and there's a lot more productivity to come.

The P&L and the shape that the P&L is in sets us up very, very well when the top-line comes back to a place that we're happy with we're going to be able to deliver an incredible amount of returns for our shareholders. So, thank you. I think we're going to have questions --.

Mark Miller - *William Blair - Analyst*

We're at the time, but it's [kind of] an important comment you made about the [income] market. So can I just ask, what's been the key in getting that up to the level of returns on supercenters? Is it all sales or is it also merchandise mix or other operating expense?

Bill Simon - *Wal-Mart Stores, Inc. - President & CEO Walmart U.S.*

It's a combination of several things. As we work closely with our counterparts who operate small formats and operate them effectively, some of those learnings that David and his team have operationally put into place have helped, so it's an operational efficiency on the first part. It's a merchandising assortment change.

We have a -- I was going to say slightly, but it's more than a slight difference in assortment as you sort of supercenter versus assortment in the food -- I'm sorry, in a supermarket as opposed to the food part of a supercenter. Those changes have helped quite a bit. And then a focus on removing costs from that system and those processes at the same rate as supercenters.

And I think with a small format -- a smaller in numbers formats, not small in footprint -- we hadn't given the productivity of those as much attention as we had in the past. So there's been a lot of changes in that group over the last three years.

Another part of it would have been the mix of pharmacy in those stores -- percentage of sales is higher than it is in a supercenter obviously because of the base that it's against (technical difficulty).
