

Goldman Sachs Global Retailing Conference

Company Participants

- Bill Simon, Mart Stores, Inc.

Other Participants

- Matt Fassler, Analyst, Goldman Sachs
- Unidentified Participant, Analyst, Unknown

Presentation

Matt Fassler

I'm Matt Fassler from Goldman Sachs and I am delighted today here at our lunch on our second day of our 20th annual global retailing conference to be able to introduce Bill Simon from Walmart and to moderate a fireside chat after Bill has his prepared remarks.

First of all in terms of Bill, he is the President and CEO of Walmart US, which is far and away the biggest driver of revenue and earnings for the Company. From 2007 to 2010 he was the Chief Operating Officer of that business. And prior to that EVP of Professional Services and New Business Development. He joined Walmart seven years ago; prior to that he had been at Brinker and had a career both in public service and in the corporate world prior to that.

In terms of Walmart, I am I think the newest analyst on the Street covering Walmart. I launched coverage on Monday just in the nick of time for this event. I think as the newbie Bill will probably have his way with me during the fireside chat. So be it.

Copies of our report our in back. But just to give you the highlights of our thought process, as we resumed coverage of the big-box discounters our eyes were wide open about the notion of price transparency and the ascendance of e-commerce. And we are very focused on companies that had sustainable edges when it came to price, cost and defensibility versus e-commerce. And our analysis suggested to us that Walmart is actually quite well positioned along these lines.

We did launch with a buy rating on the stock, thinking about the Company's solid foundation, thinking about elements of the story that we think have the potential to shift for the better; I'm sure we'll talk about those over time and thinking about the valuation of the stock. Bill will kick off this lunch session with some prepared remarks, afterwards we will engage in a fireside chat and hopefully a conversation with you all. So Bill, to you.

Bill Simon {BIO 15112481 <GO>}

Thank you, Matt; it is great to be with everybody here today. And welcome to the business and we look forward to working with you. As we were preparing for the presentation I was looking at an early draft and I got sort of caught up on this title slide, particularly the September 11 part of the title slide. And I think for all of us it will be forever difficult to separate the day from the date. And so mindful of that, glad to be here in New York where we can talk to you about our business.

And this is clearly one of the biggest and best retail conferences of the year and so we wouldn't want to miss it. But it is a bit difficult for us; we're two weeks out from earnings so there is not much to talk about new from what we haven't told you. And we are two weeks away from our Board meeting where we share our strategic plan with our Board of Directors. And we've been working very hard on that and have a great plan and I think I better share it with them though before I share it with you.

But I will tell you a little bit about where we are going and it's a follow-on from last year, an update to key elements of our strategy. And I guess by definition good strategies are (ownable) and (differentiateable). And I think the way we talk about it is being uniquely Walmart.

Before I do that I do have to show you the forward-looking statement. I do plan on making forward-looking statements. So you can either read this really quickly or refer to the website should you have any questions.

Ownable and differentiateable, a strategy that is uniquely Walmart, for us is what we are building and we'll be able to deliver in more detail at the analyst conference that we will have in Bentonville in October. But I want to give you some highlights of where we are going and what that might look like, focusing on four key areas.

The first as it always is -- with us is about EDLP, everyday low price and every day low-cost combining to deliver what we refer to as the productivity loop. This notion that if we work and manage our expenses we can sell products and drive traffic to the stores and build our business and lower our price again, building, growing around a cycle.

Secondly I would like to talk about a bit of a shift in strategy that is more multi-format driven and how we optimize the formats that we now have available in the US business. And I'm going to get into some detail about some exciting happenings on our smaller formats today and then more detail in October on those things.

There is a lot of discussion -- and we have had a lot of work in our business on e-commerce broadly. And Neil Ashe leads a great team out in San Bruno building and developing e-commerce capabilities that we believe will take us to the next level. We believe at Walmart that the real competitive advantage for us is in the convergence of the digital and physical retail worlds. And I'm going to talk to you a little bit about that today and sort of whet your appetite again for October.

Then finally I'm going to talk to you about how we are active in our communities, particularly in a couple of areas, in opportunity and most recently in some activity around US manufacturing and some initiatives that we have been participating in and particularly an update on a manufacturing summit we held last month in Orlando, which was truly, truly a great event.

Let me start with the productivity loop. We believe that we are well-positioned and we continue to execute the strategy that has got us through the first 50 years. First half of this year top line was challenged, as we reported in our earnings. But you already knew that. But the foundation of the business and the strategy itself is sound. We are positioned as sales -- we anticipate to recover and improve in the second half which is what we forecasted. We believe that it will show great rewards to the P&L. The P&L is in great shape.

Leverage is something that we found a way to do in many environments across multiple years and good comp times and in not great comp sales times. Leverage is inherent in our business. We don't get leverage only from same stores; we get leverage from the system. We have built probably 600 stores since we built the last distribution center, for example. So there is leverage in the distribution system.

And we have the ability to continue to drive leverage through our business. In fact, in the US segment 13 out of the last 14 quarters and the last three going on four fiscal years in a row we've been able to deliver leverage into the business and then have the opportunity to pass lower prices on to our customers to drive traffic.

We continue to look for opportunities to invest in price. As I said I think at this conference last year, it is a rational price investment that is very, very broad. And you might ask why then were your gross margins up in the Second Quarter? And there are a lots of reasons. But primarily if there is no elasticity, if we invest in price and there is no sales response we are not going to invest in those categories.

A great example for us is adult beverages, beverage alcohol; we have been continuing to move prices lower on that and seeing returns in the form of marketshare gains on that category. Last year dry grocery we invested pretty heavily in, this year with some of the pressures on commodity prices and deflationary pressures on the business there hasn't been as much of a response to that.

And so if you take that and combine it with the mix in our business we've had a pretty good run so far this year on our soft lines, home and apparel businesses, which are margin accretive to the business. You can get to how we might have not delivered what we thought we would in gross margin focus this year for the first half of the year.

But just to be clear, we are going to continue to be aggressive on pricing in the back half. Where we see the opportunities we are going to invest in opportunities to lower the price to drive traffic to our stores.

Increasingly access is becoming more important to customers. And we believe we have an opportunity today through multiple formats to take our brand closer to the customers and to deliver that Walmart promise about everyday low pricing and access to the products that customers want in multiple formats across the US.

As you know, Supercenters still remain our largest vehicle and one of our best return areas for us. And we will have continuing steady growth in our Supercenter businesses in both new units and we believe in comp sales increases. The Supercenter really created the stock-up category back in the day and still delivers that one shop stopping experience better than any format we believe in the marketplace today.

But increasingly we have the opportunity now with our Neighborhood Market format which has done really, really well for us over the last several years. We are at 300 plus units today on our way quite soon in the next 18 months to over 500 units and beyond. And I'm going to talk about them in a little more detail in a moment. But before I do I'm going to mention how pleased we are with Walmart Express.

The pilot phase of Walmart Express with 20 units in the ground have performed very, very well for us, mid -- double-digit actually comps and can you say mid double-digit -- I don't know? No. That doesn't even make any sense. Really well, they've done really well for us. They are really kind of a hybrid little store, about 10,000 or 12,000 square feet, we've tested them as high as 15,000 square feet, that deliver really, really well against three competitive sets.

Against a dollar store, they have fresh food, pharmacy and gas and perform really, really well and have a pricing advantage. Against drug they have a significant pricing advantage and they have fresh food and gasoline. Then against small grocery stores we have a competitive price advantage. So it is really performing well.

In addition to that we are learning a lot about servicing and constructing small stores that's actually helped us become more efficient in operating and building the Neighborhood Markets as well. So you will hear more about this format and our plans for that as we get into the conference in October.

Some detail on it Neighborhood Markets, consistently strong sales. I am sort of declaring here that -- I said this this morning at a couple of small meetings -- this is one of the fastest-growing formats in retail, 60% growth, mid single-digit comps over the last couple of years, doing really well. Customer experience is great. Providing operating leverage to our business as these stores and the comp stores, as they come online and returns approaching our Supercenter. We are very pleased with the format.

As I mentioned just a moment ago, the capital now as we start to roll these out has come down, some through scale and some through learnings from our pilot with Walmart Express. Lower capital means the ability to hit hurdle rates in more markets so the prospect of even more Neighborhood Markets exists. We are pleased with

this format and we think the returns are going to be very impressive to our shareholders.

You can see a graph about how the acceleration is planned. As I said, we are on pace to have over 500 units within the next 18 months and plans to expand even more beyond that.

As I was preparing to talk about e-commerce and this conversions of physical and digital, we pulled this slide together. And it sort of struck me that all of these things on here we just did in the last 12 months since I presented at this conference last year. And a lot of competitors can do some of these things. But I don't know that anybody can do all of them right now.

And so, if you think about it from kind of going around the circle, we extended and expanded our marketplace, we launched a new site driven through (Pangea) that was developed internally in fairly short order and it is a great, great search engine and site experience is improving.

Around to the right, we've been focused on distribution and have moved from pilot and beyond to ship from store for fast-moving items. If the item comes to your ZIP Code on a 53 foot trailer with the efficiencies and the scale of a Walmart distribution system the last mile in your ZIP Code, as you can imagine, is much more efficient and quicker to your home. And so, now we are looking at about double-digits as a percentage of Walmart.com shipments are coming from our stores today.

The in-store experience is also evolving; we launched pay with cash as a program for customers who are interested, as we thought, who might have some access issues to the Internet or to credit. As we found out, there's a lot of people who are very interested in not putting their credit card online but still wanted to make an online sale. So they buy online and they come into the store presumably to pay with cash. But then they use a credit card in the store and that has been an interesting piece of the business for us as well.

We stood up lockers and locker tests and the customer response has been interesting for us and the customer has been very pleased and shows an inclination to repeat purchase there as well.

We talked to you about Scan & Go, we're rolling that test out in more and more stores so you can do mobile self checkout on a smartphone in many of our stores. And now we have an in-store application for all of our stores that will help you understand what might be available in that particular store on that particular day. And that is a lot. That is a lot in a space where there is convergence. But there is much, much more.

And if you sort of take these things along with the initiatives from last year that were recent but seem like a long time ago, we launched last year and I think we mentioned it at this conference that we were going to do same day delivery. So we

have the ability to do same day delivery. We have had grocery delivery up in the US for several years now in the bay area. We have great learnings from our sister company at Asda in the UK who is one of the UK's leading online groceries.

So we have the capability to do what the customer demand leads us to do in the convergence of these channels and it is an exciting time and it will be an integral part of our strategy when we talk about it in October.

As I said, I think we are positioned well in the back half of the year. We've had some successes in the business on produce this year and I'm going to spend just a moment talking about that. Our food and consumable business, the core of our business, we are going to focus on that in the back half as well, we can be better there and we will be.

A great story for us in home and apparel, I mentioned that earlier and I want to give you just a little bit of insight into that. And I'm going to very quickly mention our holiday programs because we are underway there. In fact, today our Facebook fans layaway launched.

Produce has been a focus for us. We have methodically gone through the business and tried to improve in categories where we have the opportunity to do so and we will continue to move that forward. Last year we had a big focus on meat, particularly beef. And you saw we had some great results there. This year we have been focusing on produce.

And our produce business is driven by audit -- driven by audit, quality and buying to specs. And produce for us in our businesses had by far the best comp performance in our food business and a sequential improvement from the First Quarter to the Second Quarter by 100 basis points.

The audit process has been real interesting for us. We are not above teaching the test just for the record, the audit is of produce and we tell the stores they're going to be audited and they're audited regularly on produce. And the idea is if you teach the test they ought to get the test right. And if you tell them what to study then they will study the right things.

And the audit is real interesting, it is very simple. A third-party comes in unannounced to the store and looks at every item in the produce area. And if they go to the tomato bin and they measure for spec and quality, if three of the tomatoes fail in the bin then the tomatoes fail. And if three items in produce fail then the store fails. And since we implemented the program after a ramp up of a couple of weeks we are now running in the high to mid 90s in pass rate for the stores. So the produce quality through effort and inspection has improved substantially.

We do also audit our competitors, a composite of our competitors and we -- not surprisingly to us, maybe surprisingly to some of you -- we do very well, we beat

them pretty significantly. Maybe we should tell them that we are teaching the test as well.

If you combine that with price leadership nationally, over 10% price gap on produce. This is an area where we believe there's an opportunity to continue to invest. The results you can see there on the bottom chart is improving comp sales in our produce business and marketshare gains.

We've supported that with advertising and you may have seen the national advertising, this fresh over campaign much like we did the stake over campaign to communicate to the customer that the product quality is improved and surprising.

The core of our business is food and consumables and we are focusing on that in the back half. And you will see us be more aggressive in this space as we go forward into the back half. From everything from basic needs to special events we do really -- we need to do really well. Special events particularly have been a strength of ours.

Game time as football season ramps up, I was in Dallas on Sunday evening for that game and we have a store, literally a Supercenter literally right across the street from Cowboys Stadium. We put the store there first, by the way, they put the stadium in after we put the store there. I just wanted to let everybody know that.

And the store just -- I mean it is like black Friday before a game, they are buying everything that is not nailed down. It is like a retailers dream to be in there and I was under a couple hours before the game and I was so pleased to see the customer traffic but I was more pleased to see the store manager and every staff member out front helping customers. And those are environments that we really thrive in and you will see us focus on the customer and on events as we move forward.

We will support it all with marketing. The basket challenge ads for us have been very successful. Those are expanded this year into 60 markets and do well on a couple of fronts for us. The first in a direct price comparison to our competitors. And in a business like ours where your brand promise is price it is also image advertising for us, it is not just tactical advertising. When we tell the customer we have the lowest price in the market that builds our brand equity as well.

In addition, we're advertising on more nontraditional media channels, everything from Pinterest to Facebook and anywhere the customer might be today.

Home and apparel I think may be the story of the year for us. For several years we have struggled to get traction here. But a great new team and a focus on basics initially brought us some traction in home and apparel. And the performance -- I am very, very proud of the way things have turned around.

If you take that strong basic performance and you add some exciting new products and national brands like Ben Hogan and Avia athletic wear, we have seen that grow.

Coming in the Third Quarter some more great brands like Calphalon, Russell Athletic and the Russell products in the store starting to come in today and the sell-through already even before the official launch is really good. We are very optimistic about that line.

We continue to look for more brands in the coming months. If you can take a basic promise to customers in home and apparel and then deliver a plus to exceed their expectations we think we have that business model in place and running today and we are optimistic about that in the back half.

Holiday is here, it's already -- it's amazing. We launched layaway earlier not too long ago, no fee, no joke, ready to go layaway. Layaway is a little bigger than it was last year, a few more items and we are starting to see the customer respond to that. I think Monday was Associates, today is Facebook fans and Friday is open to the general public. We expect layaway with consumer price pressure to be an important outlet for us this year.

We also did something different with our toy offering this year and this has been real interesting. We brought -- before the buy we brought kids together, thousands of kids, young kids, old kids and had them play, physically play with all the toys that might be available that we might assort from this year and then had them choose the items that we thought that they would like. And so, we have kid chosen products, chosen by kids that are going to be -- and then we went and bought those deep and that is what we will be focusing our business on in the toy season.

This year the first time in six years we have got new gaming consoles and we are excited about that as an opportunity to help revitalize our consumer electronics business, Xbox One and PS4, presales have started and they are both doing very, very well. We typically do better in new product launches and so we are excited about what these things -- these two might mean to us.

Hopefully you will of heard yesterday about our -- or Monday about our cell phone exchange program. And so we think that is going to help drive our business too, that combined with Apple's new launch. And again, in new launches we tend to do pretty well.

So we're excited about the opportunities for the holiday, we know that the holidays are coming regardless of what the economy is doing and we are preparing to serve customers in what will be a time for them to celebrate with their families.

To shift gears just for a minute and our business is about people, it's about serving people, it's about employing people. And for us our Company and our business model is about Associates and opportunities. Walmart is not a complicated business model, it is actually quite simple. But it is driven by opportunity. On any given day we have about at least 15,000 openings and sometimes they are in the area of up to 50,000 openings. So it is not hard to get in the Company; if you want a job at Walmart you can find a job at Walmart.

Once you are in. And people join at all different points in their lives, whether you are a teenager looking for a part-time job while you're finishing school, whether you are a senior looking to supplement your income or whether you are joining us looking for a career, people come in at all different life stages and we provide access points at all different life stages.

Once you are in, I said it's not hard to get in, we have -- we promote about 160,000 people a year. We have still today in retail one of the largest full-time workforces. We are still in majority full-time workforce with the opportunity for 75,000 people a year to transition from part-time should they choose to into full-time.

We've got lots of associates who make good, solid middle-class incomes and that is represented by 300,000 associates who have spent more than 10 years working for our Company. We are going to defend our jobs, we are proud of our jobs because they can lead to long-term career opportunities. 75% of our managers started as hourly and our entry-level managers make over \$50,000 a year. And store managers average \$170,000 a year. So the opportunity to enter and to advanced and to achieve your dreams exists for our associates and I just feel compelled to mention that every time I get to.

One of the things -- you can attend conferences and sometimes they're real interesting. But every once in a while you go to one and you sort of feel that there is some magic happening. And if anybody were there and attended this domestic manufacturing summit in Orlando last month you would have felt it.

The turnout was phenomenal. We had over 1,400 attendees, over 500 suppliers and manufacturers attend, 34 states sent their economic development representatives, eight governors thought it was important enough to be there personally. And it was all focused around this common goal of rebuilding US manufacturing.

We provide at Walmart the opportunity for people to enter at any point and advance their career to middle-class. But one of the big issues in our economy today is the lack of growth opportunities for people to advance in their lifetime.

We all remember the towns that we come from and what is made there and you're sort of defined by who you are and what you make. I grew up near Hartford Connecticut where you make Pratt & Whitney aircraft engines. And that sort of defines who you are and we're a country that makes things. And we have to be a country that makes things.

And we are at a pivotal point in the economy that the metrics and the math is starting to turn in favor of US manufacturing and many of you will have read and some of you will have written articles about this.

And interesting survey results, after the people left the conference 94% of the attendees, the manufacturers who were in attendance said that they were already or were planning on pursuing opportunities to bring manufacturing to the US,

opportunities to the US. 75% said that either the math already worked or in the next two years would work in their favor so that they would be able to do that.

So this isn't a patriotic thing, although it is, this is a math thing, this is about the opportunity to bring production closer to consumption and provide an opportunity to help grow middle class jobs. And we are excited to be involved in it and personally we have seen commitments already at this summit.

We had six manufacturers make commitments for 1,000 jobs, over 1,000 jobs. And in really interesting categories too -- everything from apparel, socks manufacturers to electronics, televisions can be made in the US with the right sets of circumstances with the states and the governors taking active participation and move this thing forward.

We will be participating in the select USA Summit that the Secretary of Commerce will be hosting later this year and the Secretary was gracious enough to be at our conference as well and talk about that opportunity.

Thought I would wrap up by showing you an ad. Last year I showed an ad about challenge advertising, this year I thought we would show one about -- a little bit about where we think we are headed as a Company and some of the things that we believe in.

(Video in progress).

I thought that was a great ad to show on September 11. Only at Walmart the productivity is who we are, it is the starting point for this uniquely Walmart strategy. We can deliver low prices to our customers and give them access to our brands and multi-format portfolios. And this integration of physical and digital retail is something that we feel like we are uniquely positioned to do. And we're not afraid where we can to take a stand on important issues that will help move our country forward.

Thank you. As I said, I think we are in a great position as we head into the second half to deliver whatever our customers need from us. And with that ready to take some questions, Matt.

Questions And Answers

Q - Matt Fassler

Great, thank you, Bill. And thanks for those great remarks. I am going to start off by addressing the productivity loop and you mentioned at the outset of the presentation that gross margin in the US had in fact drifted up a bit. So the metrics on the loop are not I guess fully in sync at this moment.

Can you talk about the options you have for deepening price cuts, what you might contemplate? And talk about how customers are responding to price in general if

you think about the past couple of years and the actions that you have taken?

A - Bill Simon {BIO 15112481 <GO>}

Yes, I think it's a great observation. One of the things. And I think you noted it in your analysis, is food business is inflation driven, has been historically inflation driven. Then dry grocery particularly. And for us dry grocery is a much larger component of our food business than say it is as a traditional grocer because of our mix at our supercenters and because we have still about 600 or 700 discount stores that sell dry grocery products but don't sell fresh. So deflationary pressures on dry grocery impact our business disproportionately than a traditional -- some of our traditional grocery competitors.

In a deflationary environment when prices are flat to declining, price is more hard to differentiate. And as I said at this conference last year, we are going to invest in price but we are not going to invest irrationally in price. We look at elasticity not in the economic definition, pure economist definition of elasticity.

What we mean is if we can lower our prices and get more dollar sales and/or unit sales out of a product we will lower our price. It doesn't really matter what the price spread is, we could have a 5% price gap or a 25% price gap. If we can do better, serve more customers and generate more revenue by lowering the price we will.

But if we can't that holds that we shouldn't and in some cases and particularly categories like dry grocery we didn't see the opportunity to the extent that we thought because of some of the pressures on the business.

Q - Matt Fassler

Okay. I guess the second question related to that. With Nielsen now as part of your toolbox, presumably you'll have better visibility on price elasticity and on many other thing spend you have had before. One of my observations when I launched is that you set the clearing price in the market and you probably can be a whole lot smarter about where those price cuts do in fact make a difference as you observe. Do you see or foresee pursuing any kind of price optimization strategies going forward given that you have that incremental information?

A - Bill Simon {BIO 15112481 <GO>}

Yes, I think that has been a big help for us. It initially helped us -- Nielsen helped us identify items surprisingly that we didn't carry that we are doing pretty well in the market. So we've been taking more of a micro assortment strategy down to the geographic and in some cases even the store level.

Then the follow-on to that for us was prices. We have now visibility across the market and interestingly in our business that gives us an understanding of what velocity -- sales velocities or unit velocities are at virtually every price point at the marketplace. So it has given us a clear opportunity to identify items and categories where there is places for growth.

Q - Matt Fassler

I want to talk for a moment about data. So a lot of the companies at the conference. And a private equity panel we had up on this stage at lunchtime yesterday, spoke about customer data and how it is deployed. Now you don't have a traditional loyalty card per se, you do have a lot of data. I know that your dot.com people are probably very focused on this. Can you talk about how you contemplate accessing and deploying customer data to optimize the running of the business?

A - Bill Simon {BIO 15112481 <GO>}

Yes, I would be happy too. I mean first, while we don't have a traditional loyalty program, we operate a pretty big membership club that is the ultimate and loyalty programs. So we have that set of data that is available to us. If you take that data and you correlate it with traceable tender that exists in Wal-Mart Stores and then the identified data that comes through Walmart.com and then the trend data that comes through the rest of the business and working with our suppliers, our ability to pull data together is unmatched.

We've recently stood up a couple years ago a group that's designed specifically to understand that and find ways to leverage that in the Company. And so, while data is a commodity today or an asset today, the opportunity for us to use it I think is as good as if not better than others because of the wealth and the breadth.

Loyalty cards only give you kind of one dimension data and we get to see it from multiple different sources. We are using it in all kinds of ways today. Now we are very particular and protective about it. There are certain parts of data usage that kind of borderline gets into areas that we would never cross into like personally attaching data to a customer without their knowledge of it, we are not pursuing anything like that.

But understanding things and this is where it gets really interesting when you start talking about multiple formats. You have a small format store like a Walmart Express and it could sit on the same street as a dollar store.

And the ability to assort that -- for us to assort that same amount of square footage compared to a competitor in that space is just, I don't know, 100 fold, because we have an understanding of what everybody in that ZIP Code buys online through Walmart.com, buys in bulk through Sam's Club, buys at the Supercenter down the road and can assort the store, a 10,000 or a 15,000 square foot store so that it feels like a much, much bigger store.

So magically we know exactly which SKUs are bought in that particular geography because of our ability to understand the data. We think that gives us a competitive advantage that others would really struggle to get to.

Q - Matt Fassler

I want to move on and ask a question about online. So the highest profile online theme today seems to be the notion of food fulfillment via e-commerce and the notion that Amazon is going to roll out its fresh program to more markets. You are the largest food retailer in the US, you also happen to be one of the largest e-commerce players in the US in aggregate. What are your views about the viability of online delivery of food as a big business?

A - Bill Simon {BIO 15112481 <GO>}

Well I mean I think the customer will decide that. We have the capability to do it, we are doing it in the UK today where the customer demand is there. We've shown we can do it in the US. And when the customer demand exists for it we will be able to get the really quickly. So it is not -- it's not this mystical thing that we can only strive to deliver. We can deliver it today if the demand was there.

If the demand is there in pockets particularly dense markets I mean New York City is a great example, probably in the US the best success story. We have been watching Amazon as they rolled it out, the model that they rolled out with a \$299 membership fee isn't one that we think is going to be viable for our customers. It may work well for them, will have to keep an eye on it and watch. But we are prepared to move in that direction should the need arise and the demand be there.

Q - Matt Fassler

Do you think it is a model -- understanding that you have the capability to do it do you think it could be a profitable model in general?

A - Bill Simon {BIO 15112481 <GO>}

In and of itself it is hard to give you that answer. But for us as a combined element of what we do today with the forward deployed food, with 4,600, 47,00 counting Sam's Club's, pre-positioned food outlets with massive scale distribution all the way to the ZIP Code we believe we can do it profitably when the time comes.

Q - Matt Fassler

Great. On the online effort more broadly, can you talk about the so-called omni-channel efforts, those that integrate online and in-store that your customer is really taking to? What are they asking for and what are they using?

A - Bill Simon {BIO 15112481 <GO>}

Probably give you the best example I can give you is the stores -- Presidential Towers in Chicago is a neighborhood market. And so, you would think that our neighborhood market business would be purely food. But it is not. Actually at different points of the year, different times of the year we see mix as high as 30% general merchandise in a neighborhood market. And it is virtually all coming site to store.

So as customers contemplate their purchase decisions in general merchandise our price is always good and now access is available. And I think if you talk about it in the

context of buying online isn't always I want it at home.

If you are out here at this conference today and you were going to buy a TV on line and you think it might show up at your house in the city and get put somewhere or your home in the suburbs and get laid on your front step or they make you sign for it. And everybody who has ever done that gets that little orange slip or yellow slip stuck to the door and you go, oh, man, now I've got to go find the post office or UPS and go figure out how to pick it up.

There is opportunities for us to deliver experiences that the customer wants. And it is not just buy online ship to home. And we are uniquely positioned to be able to do that in a way that nobody else can. And we think that there will be certain elements -- I am pretty sure gasoline, for example, will never move online. Don't know how you could do that. It would be very messy.

And so, if you could focus your business around traffic and trip drivers. And then use e-commerce to wire and connect the rest of the business, we believe that that's an opportunity that could sort of mix our physical asset base and leverage that with the customers' increasing demand for digital retail.

Q - Matt Fassler

Sure enough. On the Neighborhood Markets, if you could talk about -- just update us on the ROI profile of the Neighborhood Market relative to the aggregate US business.

A - Bill Simon {BIO 15112481 <GO>}

We have said that the returns are approaching Supercenter returns. They're comfortable enough for us now that they provide an opportunity for us to roll them out.

Q - Matt Fassler

And is that a function of -- I guess what has led to that enhancement? You don't have the scale presumably that you have from a G&A perspective, whatever the right proxy would be -- the real estate I would think given the Metro market is probably a little more expensive, what is enabling you to generate that kind of return profile?

A - Bill Simon {BIO 15112481 <GO>}

A couple of things particularly, refinement of the model I think is the first. We started the program when we first of them up there was a lot of Supercenter fixturing and a lot of cost that we -- for example the point-of-sale system that we would put into a Supercenter we would put into a neighborhood market with just fewer registers. So wiring servers just because we were good at that.

And so as you refine it and you learn more about how small stores work you make some changes. I think delivery frequencies are another area where we have been able to improve. Assortment has also been a place where I think we had to again,

typically sent in quantities of product that were Supercenter because our supply 10 was built around supercenters. And so you get a whole bunch of plums instead of what you need. And that means you have less assortment. So I think the combination of assortment, operating efficiency.

Then finally for us I think the breakthrough came operationally when we had enough stores to create -- at the market level supervision for Neighborhood Markets separate from supercenters. So we have a district manager or a market manager whose responsibilities are for that format and not eight supercenters and two Neighborhood Markets, which you could imagine where their attentions would be.

Q - Matt Fassler

Now on the express format, my understanding is that one of the gating factors has been -- or one of the things you are working on is logistics and the challenge of less than truckload quantity is perhaps the optimal weight to fulfill based on demand. How do you think the logistics driving Express ultimately get resolved?

A - Bill Simon {BIO 15112481 <GO>}

We have got some things that we are working on that we are going to discuss with the Board in a couple of weeks that are very, very promising in that context, a different way to do distribution that I think can be -- that could be a game changing for those formats.

Q - Matt Fassler

I guess we will have to stop there.

A - Bill Simon {BIO 15112481 <GO>}

I wish I could tell you -- I'm dying to tell you. But I'd prefer to keep my job.

Q - Matt Fassler

Will it enable you to distribute gasoline? The competitive backdrop, you set the clearing price in the market, as I said earlier. So one would think that you would be the predominant actor. Any changes in the backdrop that you have seen year to date as food inflation has been soft and the consumer has been in some sectors subdued? Has there been a competitive response away from Walmart that has been notable to you?

A - Bill Simon {BIO 15112481 <GO>}

You know, interestingly enough, we do much better in markets that are more competitive. You wouldn't think so. But we do. Dallas is one of our best markets and is one of the most hypercompetitive retail markets in the US. And there's some really good competitors out there and because we compete in every category we compete with really good competitors in every category.

Kroger is just doing a great job right now in food, for example. Then Publix and ATB are great too on the food side. Target has always been tough and will continue to be tough. Best Buy is getting better recently. You sort of run the gamut. The drug guys are doing really well, Dollar General had a great quarter and is pursuing a good strategy.

There are a lot of really good competitors out there, which is I think making us better and makes us understand that what was good enough yesterday or last year isn't going to be good enough tomorrow or next year. So we have got to continue to constantly improve ourselves.

There are dynamics that are at play that are really fascinating and interesting to me. As I said earlier, I think the Supercenter created that stock up trip that one stop shopping trip 20 years ago. And I think frankly Drug and Dollar now have taken and created kind of this quick trip fill-in occasion that is fascinating to us, which is one of the reasons we are evaluating how to respond to that with smaller stores. So competition in retail in the US is better than it has been and I think better competition will make us a better retailer.

Q - Matt Fassler

Now as the largest Company in the country and certainly the largest retailer, you have your finger on the pulse of the US consumer. And a question that we are asking all of the presenters at this conference is, what your expectation is for the environment in the second half of the year relative to where it was and the Second Quarter of the year?

A - Bill Simon {BIO 15112481 <GO>}

I think we have said that we expect sales to be better in the back half than they were in the first half. So we are planning on that and we are focused on driving that through initiatives. I think there is a lot of angst still in the economy today. We all know what they are, the 2%. I think as the Affordable Care Act gets implemented I think individual customers, consumers are still trying to understand what that means to them and how they will go forward with that.

But come January hopefully a lot of these things will either be annualized or cleared up in their own mind. And so, I think the second half -- there will still be opportunities but as we move into the first part of next year -- I may be the eternal optimist. But -- and if I could forecast the economy I mean that Fed job might be open pretty soon. Maybe I ought to apply for that.

Q - Matt Fassler

If you think about operating margin. And I am asking not for an annual forecast per se but just directionally for Walmart US, do you think operating margin should be planned on a flat trajectory, a higher trajectory or a lower trajectory given all of the considerations that you have outlined today?

A - Bill Simon {BIO 15112481 <GO>}

We are looking for opportunities to invest in best in price. As we see them we are going to plan on those. And if we see them we're going to take them. So in a perfect world we would have lower gross margin and best in price and higher comps. And if we believe that there is the opportunity to drive sales through price investment we're going to take them. And we are starting to see those materialize, we believe you will see a different -- a little bit different pattern in the back half than you saw in the first half.

Q - Matt Fassler

I'm going to ask you one question that relates probably a bit more to Walmart Corporate then to Walmart US. But it is also a question that we are asking universally so I will put it out there which relates to capital allocation. Investing in the business through CapEx, M&A, buybacks, dividends -- we know what you have done but any visibility you can give us on what the Company's priorities are?

A - Bill Simon {BIO 15112481 <GO>}

We focus first on growth, growth in the form of construction and acquisition, if they are available to us we believe over time, over the 50 year history have proved to be the best drivers of value for the Company. Secondly, we believe in repurchase as a way to continue to move things forward as a use of cash and dividends.

Q - Matt Fassler

I have more questions but we have a nice audience here. We have roving mics and I would like to give people the opportunity to ask questions. And I see a hand right back there with a mic. Go for it, all the way in back.

Q - Unidentified Participant

Do you require a bit of inflation in order to get your comps moving forward? I mean you talked about lack of elasticity response on the grocery side. Do you really -- are you going to need some help from inflation to get positive here in the back half?

A - Bill Simon {BIO 15112481 <GO>}

I'm sorry, I don't know where you are. So I'm just going to talk to the room in general. But I'm not spacing out, I'm just looking for you.

Require is different than optimal I guess is the answer. We have always performed better when prices are moving. When they are going up we have the ability, because of our scale and our buying power and just the business model, to hold prices longer on the way up. And so, if there is inflation in the business, more broadly in the business, we'll tend to hold our prices and lag the market up and we do well driving comps in that market when there is an opportunity to show price.

The same thing actually happens in situations when the prices are coming down. We have the ability to move more quickly because our turns are faster and we can get

through the product more quickly than say some of our competitors with slower turns.

Where we run into trouble historically. And you can sort of trace this back, is when prices are just kind of not doing much at all, is that it is hard for us -- every bit a price motion is self generated. And the time lag required and the dollars required to invest in price to maybe try a fundamental change in velocity can be challenging. And so, I think we can drive positive comps in a flat pricing environment. When there is changes to price I think we do better.

Q - Unidentified Participant

Then the second question I had was just you have done an amazing job on the cost front. How much more opportunity to have to leverage your costs on flat comps before you need some comp help in the US?

A - Bill Simon {BIO 15112481 <GO>}

We have -- if you sort of take the large elements of our expense structure, biggest is cost of goods and that is not an SG&A lever clearly but it is a cost lever. We believe there's opportunities in cost of goods always for us to get better.

The second area is logistics and supply chain. We get leverage and supply chain from total sales, not just comp sales. So if you think about it that way, I know the analyst community is focused almost exclusively on comp sales. But you have to take a look every once in a while at total sales because the supply chain, probably one of the biggest lever points, gets leverage from the more boxes they distribute, not just the more boxes to the same stores. And that goes for our management structures as well, there is leverage there.

Then finally is productivity at the store. And productivity at the store is going to be driven -- continue to be driven by technology and technology improvements at the store that make associates jobs faster and easier and more productive. And that -- so those are sort of the combination.

To answer the question, I think we can continue to lever. I would prefer to lever on positive comps if you want my personal view, that has is always better and a better way to go. But the business doesn't require -- there are some inherent amount of leverage in the business just based on the total growth.

Q - Unidentified Participant

You briefly touched on some of your better competitors, one person you didn't mention was Costco. As I'm sure you know, they have been gobbling up marketshare probably more rapidly than anybody, mostly from the grocers. You compete against them but it's less so Sam's Club than Walmarts are from a location point of view your most direct competitors. They're capturing both share of different trip missions, the big basket trip as well as the small basket trip. Could you talk a little bit about how you are addressing each of those?

A - Bill Simon {BIO 15112481 <GO>}

Yes. Traffic competitor and I didn't be to leave them out, I just would've been here all day if I would have mentioned all of them, clearly Amazon. There is some really, really nice movement in the convenient sector recently for some guys as well. Costco is tough. I mean Costco is tough, they built a great business on an incredible amount of loyalty. And I think it is product driven.

I think they have got a great merchandising group, they tend to keep their merchants in place a lot longer and have like a level of expertise and consumer loyalty that is enviable by most. I think we compete with everybody because of the way we set up. Then geographically, while it's natural to assume that Sam's and Costco compete with each other because of the club format, we compete at Walmart on the US side in probably more locations than Sam's Club does because of the way the geography overlays.

And so as clubs have been more successful in recent years it's just another angle for us to have to figure out how to deal with from a customer perspective. Fresh initiative for us and the beef initiative for us have both been ways to try to address some of the drivers of -- have been some of the drivers of the club business.

Their focus has been -- clubs has been on those 4,000 fast-moving core SKUs sold in bulk that are primarily food and consumables more recently, they used to be more general merchandise driven. And as they moved into food and consumables that has put more pressure on our business as well.

But it is not anything that were not prepared to deal with. We responded with meat last year, we responding with fresh this year. It's beneficial to us to have a club business to be able to learn from what's working there and what's not working there and we transfer learnings between the businesses as well.

Q - Unidentified Participant

And on the small basket side a number of your store managers tell us that they don't even have small baskets and it's difficult -- I'm trying to understand what you are trying to do -- what you are doing to try to capture that small basket convenience trip?

A - Bill Simon {BIO 15112481 <GO>}

I'm sorry, I don't understand the question.

Q - Unidentified Participant

The small basket conveniences is the fastest growing trip mission.

A - Bill Simon {BIO 15112481 <GO>}

Right.

Q - Unidentified Participant

For items in and out, fewer than six or seven items.

A - Bill Simon {BIO 15112481 <GO>}

Right.

Q - Unidentified Participant

Costco does it, Kroger does it obviously, host of people do it. At Supercenters how are you addressing that?

A - Bill Simon {BIO 15112481 <GO>}

Yes. It's tough. I mean the Supercenter is a stock up occasion, it is a commitment. We talk about it that way that from the minute you decide to put your blinker on to turn into the Supercenter you've got to be committed because it's going to be -- it's a big store, it's a big parking lot, it's always crowded thankfully, always crowded. And you've got to find what you want at the best possible prices. So assortment and price.

But it doesn't lend itself naturally to convenience. You can be convenient in the context of one-stop shopping but the abundance of small stores that have sort of popped up over the last five years have given a new dimension to convenience, particularly when it comes to those core items. And that is one of the things that we have to figure out in the long run how to deal with.

We deal with that it through assortment and price and we deal with it through giving the stock up experience. Then we deal with it through this connectivity of our digital and physical world. And that is for me why we are in a constantly evolving and changing scenario where we have got to provide what the customer wants, where they want through whatever format whether it be digital and e-commerce, club through Sam's Club, small format through Neighborhood Market and Express. Then continue to deliver leverage out of the Supercenters which we've been able to do.

Q - Matt Fassler

We have time for maybe both of these questions. But one question, this lady here. If you could.

Q - Unidentified Participant

Could you talk a bit more about the home and apparel segments, what you have done differently to improve the performance there and the kinds of initiatives you are looking at going forward to further expand and grow in those areas?

A - Bill Simon {BIO 15112481 <GO>}

I think it starts with talent and the right structure and incentives to be put in place. I think our senior merchant team on home and apparel is as good as it has ever been

in the Company's history, just really, really talented people and industry experts. I think that is the starting point.

We changed our comp structure for our merchants about 18 months ago, 12 months ago to incent them to stay in place longer because, as we know and I just mentioned it with Costco, more tenure for a merchant, more experience lapping yourself, all those things are good. Particularly in long lead-time categories like home and apparel, you have got to be there for a while to understand what is happening. If you are buying a cycle and then (skedaddling) before you get to have to see the result of it it is hard to learn.

Second is a focus on basics, we are a velocity business, we have the traffic at 140 million customers a week to sell velocity. And velocity basics are the consumables of home and apparel. It could be towels or it could be candles. But those are the things that get people in and they are used and they are re-bought and they're purchased and their cycle creates velocity.

And once you have done that on basics you have the permission to move into kind of what we would call fashion basics and apparel. But a little bit fancier in-home where you can sell a polo shirt with a stripe on it. As Duncan talks about, that is a difference between basic and fashion basic for us. And what we've seen that is if you can deliver the volume and velocity off of basics you get permission to sell fashion basics, we've been able to layer that on with the acquisition of some great national brands in both home and apparel and seen a response in that business.

Q - Matt Fassler

Great. Do we have any other questions from the audience? Before we close there has been a room change for the next meeting, Restoration Hardware will be in here. So stay here if you want to see them. Please join me in thanking Bill for his terrific remarks.

A - Bill Simon {BIO 15112481 <GO>}

Thank you.

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