Bank of America Merrill Lynch Consumer & Retail Conference

Company Participants

- Charles Holley, CFO
- Robby Ohmes, Analyst

Other Participants

- Unidentified Participant, Analyst, Unknown

Presentation

Robby Ohmes

Everybody, we are going to get started here, thanks everybody again for coming to the Bank of America Merrill Lynch consumer conference.

Hopefully most of you in the room are familiar with Charles Holley, the CFO of Wal-Mart Stores Inc. Charles has been with Walmart since 1994 in several different roles including SVP of Finance and prior to that, the CFO of the International Division. Before Walmart, Charles worked 10 years at Tandy Corporation and Ernst & Young. He is on the Dean's Advisory Board from the Combs Business School in Austin. He does a lot of different things as well and he is also my favorite keynote speaker, if I am allowed to say that hopefully I won't get in trouble.

So with that, I am very happy to turn it over to Charles.

Charles Holley {BIO 18024865 <GO>}

Thank you, Robby. And it is always great to be here. This is my third year in a row I think and this conference gets better and better. I think it is definitely kind of the gold standard for conferences.

Before I get started, I'm going to have to ask you to read the obligatory forward-looking statement. I am not going to read it for you. But I would ask you to read it and just remember that any projections or opinions I may make may differ materially from actual results and also remind you to be sure and read our SEC filings in your analysis of our Company.

With that I get started. We released our Fourth Quarter earnings on February 20 and I assume that everybody has seen it and read through the earnings scripts. But I would like to give just a brief overview of those fiscal 2014 results and I will keep my comments to the underlying results, which exclude the impact of the discrete items related to restructures and store closures, lease accounting and tax and labor accrual issues in Brazil.

Now although the year wasn't up to our expectations, I think there was still in a lot of positives to take away from those results. Despite the drag of foreign currency and a number of economic headwinds, we still grew our sales to $473 billion and that was up from $465.6 billion in the prior year.

Our e-commerce businesses grew at over 30% and over $10 billion in what we call gross market value. And that really is our sales that we would sell of our own goods plus what we call the third-party goods that sell through our site. And that was over $10 billion last year.

Walmart US, despite their lackluster sales still managed to lever expenses which was quite an accomplishment. And overall even with slow sales and the investment in new stores and e-commerce, we are still able to grow our operating income.

Now some of the challenges as I mentioned a second ago, currency wasn't a friend to the sales line. The sales environment was wrought with real headwind that included the 2% payroll tax reversal that you saw about a year ago. We had a delay last year you may remember in the quick IRS tax refund and I'm not sure that we ever caught up with that last year. And then of course, the reduction in SNAPs that really hit us in the Fourth Quarter.

And then of course I think one of the toughest things our customers had to deal with was the political stalemate in Washington DC with sequestration, debt ceiling and the budget and that occurred last year about this time and it also occurred, as you know, in the fall. I think these issues caused more headwinds than I can remember at least in my career.

We did invest an additional $0.11 into the P&L for our global e-commerce operations and it is very important for us to do that. But it is a short-term headwind. And all of that said, we still have an increase -- we had an increase in our earnings per share of $5.01 to $5.11. And although it is not the kind of year that we would normally expect, we still see consistency and growth in our results.

I think if I was to give a report card, it might look something like this next slide. And I have broken it down into our financial priorities of growth, leverage. And returns which I think hopefully you have seen before. And we put this guidance out in October at our analyst conference.

Sales did miss for the reasons I just discussed. However, we did grow sales at 1.6% for the year. That is a $7.5 billion increase and that includes the negative effect of foreign currency of $5 billion. We were able to grow our square footage at the low end of the range and the range was 3% to 4% and that represented 32.6 million additional square feet.

And with the slower growth in sales than anticipated, we weren't able to lever expenses, as you know that has been a real focus of ours in the last three years. This was primarily related to the international segment which I think some of our countries specifically Mexico really had a difficult time getting their expense base down to the slower sales rate that they are just not used to. They are working very hard, we do expect that they will get there.

Also the investment in the P&L that we made in Global eCommerce along with our compliance initiatives, were headwinds. And although our free cash flow is still strong, it wasn't at the level that we would have expected. Two main issues; one the operating performance I just covered. And two, we did have some timing of income tax payments that did affect it.

If I could I would like to go into the segments a minute. I'm not going to say a lot about the segments from last year but just make a couple of highlights. As for the Walmart US, I think the storyline was obviously we had very weak comp sales. Still an overall increase of $5 billion or 2% to $279 billion. $5 billion I think is still very strong sales increase relative to other companies and relative to the economy that we were dealing in.

Walmart US also did I think as I mentioned, a very good job of levering expenses and actually grew operating income faster than sales and all things considered, I actually think that was a great performance.

Sam's Club headlines would be somewhat similar with tough sales but a very good job of managing their business and operating income actually grew faster than sales. Total segment sales were $50.6 billion. Now it is important to note that Sam's gross profit margin was negatively impacted by charges related to product warranty liabilities of approximately 8 basis points. Excluding those charges, gross profit would have actually increased 7 basis points.

Also this was Sam's strongest year for memberships in the last seven years. The membership income was driven by two factors. One, we did have a fee increase; but two, we also had an increase in sign-ups which was a very positive sign. We believe that this will be a very good foundation to increase membership for this next year.

With Walmart International, sales reached $136.5 billion. Now no doubt we were impacted with the struggles of Brazil and Mexico with expenses. This impacted our ability to grow operating income at a faster rate than sales along with our investment in (inaudible).

Now we've seen improvement in our China retail operations and we believe that we have seen -- that we have an even stronger business in Canada when we take into account not just the new openings and conversions of discount stores to supercenters. But if you remember in fiscal 2013 we acquired 39 former Zeller stores and converted those to Walmart’s. All of that we are extremely pleased with and we feel like we have a lot of momentum right now in Canada.

At the end of the day, it is all about Everyday Low Price for every one of our operations whether it is in the US or whether it is in international.

So let's transition a minute to 2015 or fiscal 2015. In October, we presented -- you can see this guidance up on the slide -- of our financial priorities for growth, leverage and returns including the operating metrics you see there. We have since updated that guidance. And let me take you through that.

Sales today are still forecasted at the low-end of that guidance of 3% to 5%. But most all of that miss is related to foreign currency. It was a headwind last year. I mentioned the $5 billion and it continues to be one today. If you look at the peg [ph] sales, which are the sales without any currency effect, we would be in the middle of that range. It is too early to really forecast what the actual foreign-exchange effect will be at the end of the year but that is what it is today and it is negative.

Square footage increased due to the additional 270 to 300 small stores that Walmart US announced in our Fourth Quarter earnings call. And I will cover more of that in a minute. And then we're going to continue to focus on obviously Everyday Low Price; it is one of our main competitive advantages.

We do plan to get back to leveraging expenses this year. We had a tough time last year for a number of reasons I have already mentioned. But we are very focused on doing that again this year. We may not grow though operating income as fast as sales. We would like to but we may not because some of the investments that we are now making in our Global eCommerce business in addition some of the investments we may be continuing to make in prices in every one of our operations.

Finally, we do feel we can deliver strong cash flows and I would expect a better performance than we had last year.

So what is important for Walmart to be successful this year? Well we've got a consistent strong financial base and I think it is always been key to allowing Walmart to be aggressive with our investments whether it is in new stores or technology or whether it is investment in prices. But I think it is a key to our success. And as I mentioned earlier, we still plan on levering expenses and that is obviously important for driving the price investments that we want to make, which of course (inaudible) will help us drive our positive comps and it is a prime focus of all of our operations and it is just a productivity loop, which you have all I heard before.

Now in addition, e-commerce will continue to outpace the rest of the Company as far as growth is concerned. We will continue to invest in those capabilities that we think will drive our e-commerce sales. I think the biggest way to think about it if we are going to offer our customer a seamless experience in shopping whether it is online or whether it is at the stores, small stores and large stores or the club, we have to have a seamless infrastructure. And we will continue to invest in that infrastructure to make sure that we can give the customer that experience.

Obviously with the growth we continue to experience and the complexity with which we deal with between Walmart US, Sam's US, International, the digital world, we have got to have world-class talent. And we do attract the talent that we need because they know when they come here they can have a very large effect on a large number of people, millions of customers, if they work at Walmart.

Give you kind of an example of that. We just hired 15 finance and strategy interns to work in Bentonville the summer. The schools that we hired from were Harvard and MIT, Dartmouth, Duke, Texas, Chicago, all the major universities. And we attract those kinds of students because they know they can make an impact at Walmart. And the kind of challenges that we have, they really do like.

Last but not least at all at least, our shareholders and customers deserve to know that Walmart is a Company that believes we should always do things the right way not just sometimes. We are working hard on this and believe that we will be a world-class model of excellence for ethics and compliance. Our brand and reputation really rely on this. So it is extremely important to us.

Let's dive a little deeper into the segments for 2014. And what I have laid out here are some of the priorities for each of the segments along with how I see some of the headwinds.

Of course the number one priority for all the segments would be to drive good comp sales. That is not going to be any different for Walmart US, that means staying in stock, that means having low prices. And having the best assortment for Walmart US. We started out the first two weeks of the quarter with some pretty bad weather and it did have a negative impact on sales. I think we mentioned that in our earnings call. Since that time, we've experience very good sales. It is amazing what a little sunshine can do.

We will continue our growth and new initiatives like small stores and e-commerce and we will have a continued aggressive rollout of those small stores as I just mentioned. We are still a retail store that represents brands. We do have private label and we will use those to slot in where we see a value gap for the customer but we still believe very much in brands.

Hopefully you have seen some of the new brands in the stores like Avia, Farberware, Calphalon and Russell. And we won't take our foot off of everyday low cost of the productivity loop.

Now as for headwinds, we are going to have some, we know that. I don't anticipate that the economic headwinds that we saw last year will be as tough this year. But there are still going to be some. We have already seen some weather impacts. We also know that the reduction in SNAP that hit us in the Fourth Quarter it will also affect us somewhat I think in the first three quarters of this year.

One additional headwind that is not so macroeconomic but did hit us was the increase in cost for our associate healthcare. We had told you that looking at our individual healthcare costs, we did not see that there would be a significant increase in our healthcare costs. And that would be true if you look at the individual cost for associates. What we didn't anticipate. And what surprised us was we had over 100,000 new associates sign up for healthcare. That was not anticipated, that is going to be a headwind of us for our warmer US operation of about $300 million.

Given all these headwinds though, we still feel like we can have a very good year and it really will take though that we are executing at a very high level in all of our stores.

Let's turn to Sam's for a minute. Increase in comp sales obviously the top priority for Sam's and Sam's accomplishes that through having great item merchandise. Now we have to have price leadership, we have to sell in bulk, great quality and we have to have excitement in our clubs. We need to ensure that our members can shop anywhere at any time. And we are going to also be opening new locations. We will have 17 to 22 net new locations, new Sam's Clubs this year. I think that is probably as many as we've ever done, since maybe, Carol, five or six years ago.

Our response to the instant savings has been very well received and I can't disclose what are the new plans for this year right now. But you are going to see more innovative offerings at Sam's Club this year.

Finally, we have to continue leveraging data to get closer to our members and to help meet their needs. Instant savings has been very positive. But we need to make sure we are really leveraging the member data to maximize their savings and increase our sales. The primary challenges and headwinds for Sam's really aren't too different than what we just saw at Walmart US except I would include the negative economic effects that we've seen on small businesses since 2008. That continues especially with small independent convenience stores. As you know, there has been a very big ramp-up of chain convenience stores. And Sam's has traditionally had a very strong business with independents and I think that continues to be soft.

Now as I mentioned earlier, increasing comps is a top priority for all the segments. Obviously it is for international. It is the best way that international honestly can increase and leverage their expenses. And we know we have to keep driving costs out, which in turn will be used to lower prices.

We also will continue driving capital efficiency. Now we haven't stopped our growth but we have only slowed it to make sure that we can get our operating cost model more in line with the current type of economic environment that we now face ourselves with.

Now our country's plan to deliver between 12 and 14 million additional square feet this year and that is I think the best growth companies will be Mexico, the UK, China and Canada. Now there are of course going to be some headwinds that we will encounter. There are going to be new consumable taxes in Japan and in Mexico and although we are seeing some recovery in the UK and China, we are still seeing it somewhat tempered.

And tight credit will continue to be an issue across all of our markets. And this isn't too much different than last year or the year before.

So what do we need to do to be successful in international? Well, we need to get better results out of our wholesale format. Sam's Club in Mexico and Sam's Club in Brazil have not been up to our expectations along with our Maxi cash and carry in Brazil.

We also just need to get Brazil I think much more stable in results, be able to lever their sales increases to the bottom line. We need to continue to gain confidence in China with our expansion with both our retail formats and our Sam's Club. And we need to drive better expense management in Mexico along with better comps. If we can do all of those things, we will have a pretty, pretty good year I think in international.

Let's turn to Global e-Commerce. And as a reminder, our e-commerce businesses are embedded in the segments. But I'm going to extract it out for you because it is a different kind of a business and I think it is important that we keep track of it that way for you.

As I mentioned, we did invest $0.11 into the P&L last year. We will invest $0.02 to $0.04 for this year for Global e-Commerce into the P&L. And I would expect us to continue to make acquisitions even small ones that would help enable our e-commerce efforts to add additional sales.

We have launched our technology platform this past year, Pangaea. And it is our global technology platform and it will deliver a world-class integrated customer experience. Specifically it will improve our website speed, our flexibility and our scalability. It will give customers the ability to shop globally and offer tools and automation that make it much easier for the customer and our associates to drive it.

The primary focus will be on the US, China, Brazil and the UK but we won't ignore the e-commerce businesses in any of our markets. We plan to increase all of our offerings in all of our markets.

We will continue to increase our fulfillment capabilities with new distribution centers in Pennsylvania, be coming out this spring. Later this year we will have another one in Indiana. And we have a dedicated fulfillment center opening this year in Brazil. We are committed to winning at the intersection of digital and physical and it is a long-term proposition but we believe it is extremely important for our customer.

Now our investments in e-commerce are driving innovation to combine the physical and the digital. But it is really all about I think convenience. We want to offer Walmart's full assortment from what a customer sees in the supercenter to everything at Walmart.com no matter where they shop. That means giving customers the same kind of access to this full assortment even at our small format stores like Express.

Now to make this happen, we are leveraging best practices around the world, we are adding things like ASDA direct kiosks which allows customers to order from online catalogs while they are still in the store, to grocery delivery and drive-through pickup which are testing right now in Denver and the US. We are also testing lockers in Washington DC and we have pickup locations in the UK and you are likely going to see many more pickup locations in the US for Walmart and Sam's.

We believe we are best positioned to win this intersection of digital and physical because it drives the ultimate experience with convenience for customers. Now combining and merging these two will create a huge competitive advantage and I think a great experience for customers.

I want to step back a minute and talk about the small store rollout in the US and just give you a glimpse of it. You can see the slide right now in front of you shows a pretty dramatic ramp up in the last couple of years. As I mentioned, we will add 270 to 300 new small units this year. That includes 160 to 180 Neighborhood Markets, 110 to 120 Express formats. This will allow us to gain more of a convenient shopping trip for our customers and what they want.

If you look at the Supercenter, this doesn't mean that we are not going to grow the Supercenter. We still feel there is good growth for the Supercenter. One thing we have seen is that what we call the stock up trip, the big basket trip in the Supercenter is very healthy and it continues to increase. What we have noticed though is that the what we call the fill-in trip, the bread and the milk trip has actually decreased. There are something like I think 11,000 new small stores that have been put out in the US in the last three years that we think have impacted that. That is the reason among others that we decided that it is time to go ahead and increase these Neighborhood Markets and Express's.

We think it will be a very powerful vehicle for a customer experience with this convenience and will be able to combine that digital and that physical for that customer.

So back in October, we also talked about our guidance for our capital expenditures. And we had said that we would spend between $11.8 billion and $12.8 billion in total CapEx. And we have since updated that guidance to include these new stores, these small stores in the US. That is an additional $600 million in CapEx. That brings the US to $6.4 billion to $6.9 billion in CapEx for this year. The total CapEx for the Company would be $12.4 billion to $13.4 billion CapEx.

So let me cover a little bit about our capital allocation process. Hopefully you have seen me talk about this slide but it is extremely important and we are I think very disciplined on how we look and divide up our capital.

The first thing we start with of course is the AA rating as our foundation. And it has served us very well over a very long time. And I know that some of you have asked if we will ever change it. And I can't tell you what we’re going to do in the future. But I can tell you that we won't change it unless there is a significant strategic reason to change that rating or the rating agencies change how they evaluate. Again, it has served us for a very long time.

So with the AA rating as a foundation and with the cash we produce, we first want to grow the business and that means we want to invest in new stores, e-commerce and to our leverage operations and then we want to do acquisitions when we feel like that they are going to be value added for the shareholder. And then we want to pay a good dividend, which I think we have done and proven that over the last few years. What is left over, we will use for share repurchase. It is a very simple formula that we use.

So how did we do this last year? You can see on this chart on the left, we had over $26 billion in sources of cash. We used just over $13 billion for CapEx and we used the rest to give back to shareholders in the way of dividends and share repurchases.

What do we expect for fiscal 2015, you can see on the right side. We will spend about $12.4 billion to $13.4 billion obviously in CapEx. What is left over we will use for acquisitions, dividends and then share repurchase and as a reminder in the First Quarter of this year, we did spend $1.5 billion acquiring most of the remaining shares of our Chilean subsidiary.

So just as a reminder also, we increased our dividend this year to $1.92. That is the 41st consecutive year of dividend increases. Now we don't forecast share repurchases. We want to be opportunistic and we can't forecast acquisitions either. But hopefully that gives you a sense on how we prioritize our capital and how we allocate it.

We have a history of returning to shareholders as a priority and we are committed to doing that today.

Now earlier I mentioned the importance of reputation and brand. And I believe there is a component of our stock value that is related to this. And we will continue to lead on issues that are important to our customers and to our shareholders.

So let me touch a few of these just for a moment. Sustainability. So many of our initiatives have benefits not just for the environment but they benefit our P&L. The biggest focuses we have right now are energy reduction and zero waste. And I can promise you my finance group is very involved with our sustainability folks to make sure that we are going to get returns on all the expenditures and all the CapEx that we spend on that. And it is good for the business not just good for the environment.

And women's empowerment, we have over 60% of our customers are women. We are helping to train more women, to use more women on businesses and develop and promote more women to our officer ranks. We are also making I think good progress on domestic manufacturing. I think you have heard about our initiative where we want to source an additional $250 billion over the next 10 years of products made in the US. We feel very good about the start of that right now. Also we want to make sure that we are offering our customers healthy and safe food choices.

The Walmart Foundation, it gave more than $1 billion worldwide distributed in cash and in-kind food almost all of it to local communities that our stores serve. And at Walmart, we believe in empowering associates for careers and hopefully you heard about our Veteran Hiring initiative where we will hire up to 100,000 veterans that are returning. We have already hired 30,000 so far. We know we have a responsibility to be a good corporate citizen. But beyond that, we also know with our size and our scope we have a responsibility to lead on important issues, those issues that are important for our stakeholders.

So let me kind of sum up some takeaways for you. One, if you gain anything from this, know that we are very focused on comp sales in every segment at Walmart. We will continue to work on delivering the operating expense leverage and as a Company and within our segments and that is even with the investments that we are making, the stepped-up investments.

Now there are going to be times when our ability to do so is going to fluctuate, it is not going to be so even quarter to quarter. But we are still very focused and it is still a very big goal of ours to lever expenses.

We've made a lot of progress with capital discipline and the reason we are able to accelerate -- one of the reasons we're able to accelerate the small store rollout in the US is because we took time out and expenses out of building and constructing those small stores. That has been one of the key elements I think. And we will continue to focus on this and every facet of capital discipline across the world in all of our formats.

We have been stepping up our investment during the past two years on e-commerce initiatives and you are going to see that continue. I talked about the $0.02 to $0.04 this year but this investment we feel like is critical if we're going to have a seamless infrastructure for a seamless experience for the customer. And we remain focused on always delivering strong shareholder returns.

Robby, that kind of concludes the formal part of the presentation. But I think you might have some questions for me.

Robby Ohmes

Yes, that would be great. You know, Charles, I think a lot of us sometimes get confused when you talk about small store formats. Can you sort of tell us about the difference in opportunities for the Neighborhood Markets versus the Express stores?

Charles Holley {BIO 18024865 <GO>}

Sure. I would call the Express stores still an expanded pilot. We said we're going to put 100 give or take out there this year, we have 20 right now. The sales of these Express stores we like a lot, we are still figuring out the P&L part of it, the expense part of it how to make it work. We don't have enough out there that I think we feel comfortable to say it is not a pilot anymore. So I think Bill Simon would tell you it is still in pilot mode. He wants to mass them out, he wants to cluster them and get the most efficient supply chain he can to them.

Neighborhood Market, we feel very good about. I think we have mentioned before that the sales and the sales per square foot are as good as any top food retailer in the US. And the returns are extremely good. The new ones are as good as the new Supercenters. We feel extremely good about these Neighborhood Markets.

And like I mentioned earlier, the convenience factor of both of these formats we think is extremely important. And as far as -- you didn't ask but somebody will end up asking is how many can you put out there? First of all, I don't know. But I would think that there would be if not hundreds, thousands you could put out there of this format.

Robby Ohmes

Let me just ask a question about e-commerce. What is your global approach to e-commerce? Is it sort of a US approach globally or how should we think about that?

Charles Holley {BIO 18024865 <GO>}

Well, I mentioned Pangaea as a global platform. We think it is going to be really important to have one common platform for multiple reasons actually across the world and that is what Pangaea does. We also know that the customer in every country is going to be different that we serve. But we need the flexibility and the technology to drive in any way that we think is necessary whether it is pickup today, whether it is pure delivery, whether it is site to store, whether it is a kiosk in a subway station in London, we know we are going to have to be able to serve the customer in many different ways and that is what this platform will allow us to do, be very flexible.

Robby Ohmes

Let me ask one more and then I will open it up. You made some positive comments about that this could be a good year for international. Is the goal for international now to improve profitability rather than grow or how should we think about that?

Charles Holley {BIO 18024865 <GO>}

Like I said earlier, all segments really the priority is comp growth. But when you have comp growth -- what is the easiest way to profit is through comp growth. So yes, we do want to get the international segment profits up but we also want to get the comp sales up also in all those markets.

Robby Ohmes

Are there any questions out there?

Charles Holley {BIO 18024865 <GO>}

One right there.

Questions And Answers

Q - Unidentified Participant

I was just wondering if you could just expand a little bit on the competitive landscape particularly as it relates to news about Safeway's acquisition? And do you believe as you grow your Neighborhood Markets that you will continue to displace traditional grocery stores or is there room for both?

A - Charles Holley {BIO 18024865 <GO>}

You know I can't really speak to the Safeway deal that got announced. But I can say I think that just part of the landscape we live in when there's consolidation in the market.

As far as what it means to us and food stores, I think that depending on what customer you are serving and what you are trying to do with that customer, I'm sure there is plenty of room for a lot of different players, I think that has already been shown. What we found that for our core customer whether it be low income to middle income, we have a very good vehicle to deliver that value to them to the Neighborhood Markets and convenience is what they are looking for.

Pharmacy is extremely important in these stores. Gas we are learning is extremely important at these stores and that is probably not new to the grocery industry. We see that with all of our competitors. I think at the end of the day as long as we can provide the assortment of great brands to our customers at an Everyday Low Price and we have the pharmacy and the gas, I think that we have a real chance to be very successful in that.

Q - Unidentified Participant

Just two quick questions. First, you talked about a number of ways in which Walmart seeks to be a leader. I think there has been some talk about potentially raising the minimum wage. I'm not asking you to say if you are going to do it. But how do you think about that issue and being a leader on that issue?

The second question has to do -- as a little bit of a follow-up on grocery. Some analysts have done analysis that suggests that Kroger it at parity with Walmart pricing in some markets and some other grocers are within 5% range. Is that your perspective as well? Does price need to be wider versus peers to be a winner with Everyday Low Price? Can you just talk about what you perceive to be the competitive pricing dynamics in grocery?

A - Charles Holley {BIO 18024865 <GO>}

Yes, I -- you know, first of all, Everyday Low Price means that we will have the lowest price. Our data shows that we do in all of our markets. However, it may -- that gap may be different. In fact we know it is different in every market with the same competitors. It just depends on that market.

For our success, we have to be Everyday Low Price. The basket has to be lower than anybody else. So that is our mission and that is what you heard me talk about earlier, we will continue to drive expenses out of our business and we will invest that back in price. And that is not just in the US, that is in any of our markets.

Oh, minimum wage. We are neutral in the minimum wage. That is something, we have seen so many knots tied up in DC on these kind of issues. We have less than 1% of our associate base even at the minimum wage. We are somewhat neutral on that.

Q - Unidentified Participant

I have two questions. One is, what is the technology spending component of your CapEx and is it growing? And the second is, I don't understand why you were surprised that 100,000 employees signed up for healthcare. Why was that a surprise?

A - Charles Holley {BIO 18024865 <GO>}

We don't have in-depth knowledge of every associate and where their healthcare is and what they have signed up for outside of Walmart. So that is why we would not know that information. What was your first question on the --?

Oh the technology spend on CapEx. We haven't spent significantly increases -- significant increase in technology CapEx except for probably some of the Pangaea technology that we have done. It has been fairly flat I think over the last couple of years, our technology CapEx.

Q - Unidentified Participant

Hi, just back to the small stores. I just wanted your thoughts and if the Board were to decide that a pilot program might not be enough given what is going on competitively in that format what your options would be to sort of turbocharge that effort?

A - Charles Holley {BIO 18024865 <GO>}

I'm not sure I understand your question. You are saying that what would we do if we want to get supercharge it? We would build more stores. Now one thing you have to remember, there might be acquisitions available but quite frankly the cheapest way to do that is usually the easiest especially for small stores is organic. It is not like -- the process isn't near as difficult to get obviously the small store approvals and all the permits as it is a large Supercenter.

So the barrier for that is not very great for us. So we would -- we much prefer if we can to do organic. But we will always look at opportunities if somebody wants to sell stores. Okay, yes sir.

Q - Unidentified Participant

(inaudible)

A - Charles Holley {BIO 18024865 <GO>}

Yes. The question -- I don't know if everybody heard him, it was about Brazil and where is the profitability and where will it come and will it be in the next couple of years? Now we are not profitable in Brazil and that is I think one of the things that we have to fix to have a successful year. We do expect to be profitable the next two years in Brazil. It is a sizable business and there is lots of reasons, it's a very complicated market, the tax and the labor costs are very significant in that business.

I think one of the primary reasons though, one of our biggest impediments is we had a greenfield startup business that we did I believe in 1995 or 1996. And then we did two big acquisitions in that market. We never fully integrated those acquisitions and that really has been a hurdle to get over. And we are working very hard to integrate all of the acquisitions into one Company. I think that will take it a long way. But we do plan to be profitable in Brazil.

A - Robby Ohmes

We have time for one last question. I have one if there isn't one out there.

Charles, you commented on that Walmart is still committed to lowering the SG&A ratio by 100 basis points over the next five years I think you guys had said. Can you remind us where the confidence comes from that you are going to achieve that, what the key drivers are going to be to doing that?

A - Charles Holley {BIO 18024865 <GO>}

That's a good question. I think the biggest, first of all, along the road what were the hiccups. We had the hiccup last year and the two things I think were the investment that we had to make in FCPA and investigation, I wouldn't call that an investment but the expenses we had and the investment in compliance which I would call an investment. Those would not have been anticipated when we set out that goal. But we were still very committed to that goal of 100 basis points.

In addition, the weak sales and the lack of expense being able not to lower the expenses like we would like in international hurt so we are very focused on those two things. And I think we have a much better handle on those going forward. And I expect much better performances out of our international segment on expense management this year.

And I also think that the -- I don't know -- nobody knows for certain, we put out guidance I think $210 million to $240 million for the FCPA expenses this year and those should start planning out and going down. But what is going up are the compliance. As we get through the investigation, the compliance comes up. This is probably the year that it kind of all flattens out and then we get a lot better after that.

So those really were the two big hurdles. And I think the biggest unknown of that is Global e-Commerce, where is that going to go, are you going to make a big acquisition that is going to make it tougher to do that? And right now I couldn't tell you that. But our plan and from what we have been able to do in the US and what we're able to transfer now in international, we believe that we can leverage expenses and meet that goal.

A - Robby Ohmes

Terrific. I want to thank Charles for a great presentation.

A - Charles Holley {BIO 18024865 <GO>}

Thank you, Robby.