Bank of America Merrill Lynch Consumer & Retail Conference

Company Participants

- Charles Holley, Mart Stores, Inc.

Other Participants

- Robbie Ohmes, Merrill Lynch, Bank of America
- Unidentified Participant, Analyst, Unknown

Presentation

Robbie Ohmes

(audio in progress) most of you in the room are, I think, pretty familiar with Charles. Prior to taking over the CFO position, he was Walmart's EVP of Finance and Treasurer. He is also on Walmart's executive committee. He has been with Walmart since 1994 in several different roles, including the CFO of the International division where he led some of Walmart's international merger and acquisition activities.

In addition to his amazing career so far at Walmart, before that, Charles worked more than 10 years at Tandy Corporation and Ernst & Young. He is also on the Dean's Advisory Board for McCombs Business School in Austin and an active Board member for the Cancer Challenge of Northwest Arkansas. I apologize if I have left anything out. But I am sure I have. But I wanted to give Charles time to speak. So with that, I am very pleased to turn it over to Charles.

Charles Holley {BIO 18024865 <GO>}

Wow, that was a long introduction. Thank you, Robbie. It was very kind of you. It is a pleasure being here today. Before I get started though, I need to ask you to read the obligatory forward-looking statement and remind you that any projections or opinions today may differ materially from actual results. I also need to remind you that you should also consider our filings with the SEC in conjunction with your analysis of the Company. With that, let's begin.

When I was at this conference a year ago, I said there were four things that needed to occur for Walmart to have a successful year. The first one was our Walmart and Sam's segments needed to continue the momentum that they had experienced coming into last year. Walmart last year increased their revenues over $10 billion. Sam's increased their revenues over $2.5 billion last year. They both grew their operating income faster, at a faster rate than sales. We would consider that a very successful year.

The second thing I talked about was that we needed to continue to leverage our expenses. We were able to do that despite some headwinds last year with some unanticipated FCPA expenses, labor claims in Brazil. And what I think may not be known is that we were able to do that. That is the third year now in a row that we have been able to lever expenses. We haven't levered expenses three years in a row since 1992. Let that sink in for a moment. We feel very good about that performance. But we have just begun and you'll see more of that in the future.

Third, we needed to improve returns in our International segment and we did improve our operating profit margin slightly in International. But we know there is more room for improvement and we are particularly focused on Brazil and China.

Last, we needed to continue to grow our global e-commerce business and we needed to make sure that we expanded our capabilities in global e-commerce and I think we were successful in that. We have initiated our new search engine, Polaris. In addition, we finalized our investment at the back half of the year in Yihaodian in China. We are very pleased with that and gives us a very strong foothold in a market that can only be matched by the US in terms of potential. So we felt like we had a very good year. I feel like we did leave a little on the table and we can do even better.

Turning to the Fourth Quarter, we felt really good about our holiday season, particularly in the Walmart US. Actually, it was very strong. Our Walmart US business continued to pick up share in food and consumables. Sam's had a little bit weaker quarter than we might have anticipated. But there was a lot of investment in price at Sam's in the Fourth Quarter. International slowed a little bit in the Fourth Quarter. Quite frankly, the economies they operate in were also soft and I think that is the main reason for the softness in our sales. However, International is still very focused on EDLP.

And as you are aware, we saw a slowdown at the end of January at our Walmart US business. It was not disastrous. As we said in our earnings call February 21, we saw sales normalize around mid-February. Now I believe the slowdown had a lot to do with the delay of the tax refunds. And through the first two months or through January and February of last year, we would have seen about $4 billion of those checks cashed. This year, through that same time period, we would have seen about $2.7 billion. So through February, we were $1.3 billion behind in cashing those IRS refund checks. There is not a lot of information out of the IRS. We do expect that that will catch up through the quarter.

Now although the last 10 years have been volatile in terms of global economies, I think our results have been very consistent. We have grown our earnings per share on average about 11% over that period and despite that continued volatility in the global markets and the US markets with tax increases, sequestering, delays in refunds, we feel very positive about our ability to continue our very consistent and strong results.

We believe we can grow our top line 5% to 7% this year and our operating income should grow very close to that percentage. It goes back to what we do best -- driving the productivity loop through every day low cost, which delivers Every Day Low Price, gross sales and of course, that leads to growth in cash flows and profits, helps increase our returns to shareholders.

Now, our free cash flow has continued to increase over the last 10 years and I define free cash flow as operating cash flow less capital expenditures. And as a reminder, in this graph, you will see fiscal '10 was a bit of an anomaly. We had a reduction in inventory that was greater than we really would've wanted and that really was just an anomaly. But if you take that out, you would see it has been a fairly consistent increase in free cash flow over the last four years. We would expect to continue to increase this free cash flow. It will provide us great flexibility with strategic acquisitions, dividends and share repurchases.

Now obviously the most direct way our shareholders can enjoy the benefits of our returns is through our dividends. It has come to play a very important part in how we return to our shareholders. And over the last 10 years, we have returned about 18% on average in dividend increases. We recently announced, in fact, in March, a dividend increase of just over 18% to $1.88 per share. Now I can't tell you what the dividend increases will be going forward. But I can point back to our history and our track record and we are very focused on making sure that we return to shareholders.

We also have a strong track record of returning to shareholders through share repurchases. If you look at the amount that the Company has returned through dividends and share repurchases over the last 10 years, it is close to $100 billion. If you look at the last five years, it is around $60 billion. That is around 25% of our market cap. And I think that also speaks to our commitment to returning to shareholders.

Now, looking forward, there are six priorities that we feel are important for both short-term and long-term success. Our US businesses must continue to deliver strong results. We need to continue to improve our returns in our International segment. We have got to be -- we continue to be great stewards of our capital, drive great productivity and efficiency. We need to continue our progress of levering expenses, need to build a world-class global e-commerce business and we need to ensure that we have a world-class compliance organization.

Now, on our US businesses, let me start with Walmart US first. It is a very large business. But it still has a lot of growth through both comp and new stores, both large and small formats. And they are still gaining marketshare. Last year, if you just look at the food, consumables and over-the-counter, we believe we gained about 50 basis of marketshare in the US. It also still has a lot of leverage opportunities. It doesn't take a lot to leverage when you have got 4000 stores. And every year, I get asked is there any more left? I think last year, Robbie, we got asked the same question, is there any more left? I know this morning I have been asked that. Certainly there is more left.

Walmart US levered 27 basis points of SG&A to sales ratio last year. I think that is a great performance. Hopefully that will answer your question. There is more to be had. I don't think that we can forget though that we did make mistakes with our Walmart US business and our layouts and merchandise and obviously our pricing in the past. Bill Simon and his team have worked very hard to reestablish our EDLP trust with our customer and as you can see in this graph, as you can see in the sales performance, they gained traction back in 2011 and they have never looked back.

Now as Walmart US goes right now so goes the Company and I will show you a graph in a minute for total Company leveraging and it is going to look similar to this chart. But Walmart, as I mentioned, levered 27 basis point of expenses this year. That is they decreased their expense to sales -- expense ratio to sales by 27 bps. That is on a $275 billion business. That was, of course, invested in price. Margins declined as we had planned. But it was funded by these expense reductions.

I know many of you have been asking, well, what happened in the Fourth Quarter? Our margins increased a little bit. That really was the result mainly of sales mix and some progress we have made in supply chain, which has made it more efficient, less markdowns. But just as our leverage goal will not be spread evenly every quarter every year, our margin will jump around a little bit. But we were very clear on our goal of investing cost savings into price over the long term.

So that results in continued increased profits. Our plan is to continue to drive our expenses down, invest in price, grow our sales, grow our profits. I think the last two years of this graph are a very good representation of what it should look like in accomplishing that goal. It is very consistent.

Now let me make a couple of comments on Sam's Club. Sam's has had a very good record of driving sales and profits. There might be a little bit of slowdown this year in their profit growth as we do more investing in price. And you saw some of that in the Fourth Quarter. But we still expect to have solid results. We continue to see our improvement in our Advantage memberships, along with upgrades of our Advantage memberships to the Plus membership. I think many of you are aware of our pilot in Texas where we have a cashback plan for membership. It is still in test. We are still analyzing the results. But stay tuned. The new Sam's Clubs we have opened have performed very well and this year, we will open 10 new Sam's Clubs and then we will also have a number of relocations to improve our Sam's Club experience for our members.

We are very focused on improving results in our International segment and it remains our growth engine. We believe we can do that and continue to invest. Now we have slowed down some of that growth recently. But International still has a great amount of growth ahead of us. It is not just new store growth of 20 million square feet. But comp growth from Every Day Low Price in markets like Brazil, China and Chile. This year, we are projecting growth from comp stores to be around 40% of the total growth of International. That leaves the other 60% to come from new stores whether they were built in the prior year and haven't comped yet or they are going to be built and opened this year.

Our growth allows us to gain marketshare and last year, we grew our marketshare in every market except China. And just a quick comment on China, the numbers you see there, we have always had a hard time understanding the government's numbers for marketshare. What we do know -- and so this is a difficult comparison for us to understand. What we do know is that our sales growth isn't too far off of our foreign competitors. We would like to do better. But we don't think we are as far off as the market as this would indicate.

Clearly, with growth plans of 20 million square feet for International this year, we remain excited about the potential across those markets. Now, we have had consistent growth in sales and operating income during the past few years. And as you know, the majority of revenue and profit comes from our operations in the UK, Mexico and Canada. Particularly, high returns in Canada and in Mexico. We continue to convert markets to EDLP, like I mentioned earlier and we are making progress on reducing costs. This will help drive sales, profits and returns. Our priorities continue to be in making improvements, especially return improvements in Brazil and China. I think this is very important to our long-term success.

Before I speak about capital efficiency, I would like to take a minute to remind everyone how we think about using our capital. The first thing, it is a very simple model; it is about growing the business. So we want to use our capital to grow the business either through building new stores or e-commerce business or could even be setting up and standing up a shared services area to take costs out of our businesses in Latin America.

The last thing in investing we would do is look at acquisitions. Acquisitions you can't plan and we only want to do them if we think there is a very good probability that we can add value to the investment and it will add value to our shareholders. After that, with what is left over, we want to make sure we pay a good dividend to our shareholders and what is left over after the dividends, we want to use for share repurchases.

Now all of this is built under a governing AA credit rating. We have been very consistent with this over the last few years. We are not a company that believes in accumulating a lot of cash. We want to invest in great opportunities and we want to return what is left over to our shareholders.

In reviewing how we used our cash last year, we generated over $25 billion in operating cash flow. We invested $13 billion in capital projects and acquisitions. We paid $5.4 billion in dividends and $7.6 billion in share repurchases. Our philosophy on deploying capital is very simple.

Over the last few years, we have made a conscientious effort to be more balanced with our capital. You can see, of our available cash, we have reduced our CapEx spend to around 50% of the total cash generated. That is down from 70% in 2007.

Now looking forward to this year, I would not expect to see a dramatic change in these percentages. However, the caveat being that if there were an acquisition, it could make these percentages significantly different.

Our total company CapEx this year will be flat to down a little bit from the prior year. We spent about a little under $13 billion last year and our guidance is $12 billion to $13 billion this year. Then back in 2007, just as a reminder, our capital expenditures were $15.7 billion. So we have continued to deliver greater efficiency with fewer dollars.

Now this slide focuses on new store CapEx for the total Company. And just -- and it is to make a point that we remain very focused on capital efficiency. You may remember back about six years ago, we really got serious about how we spend our capital. We created a funnel, a fictitious funnel. So to speak. We wanted to make sure that we were building the highest return projects and that hasn't stopped; it has just probably gone up a notch.

And you can see, as we did that, we brought down our capital spending and this is again new stores and you can see now the capital spending is coming up a little bit. But we are really focused on getting more for our dollar. And in fact, our remodels from where they were two years ago, we have actually reduced the cost of remodels by 50% and how we have done that is make sure that our remodels are focused on areas that are very important to the customer. Those areas that aren't, we don't want to spend it on. Also, we are very focused on reducing the cost of building stores by 10%. We would like to do that over the next 12 to 18 months.

Now, our expense management has very similar focus and as I mentioned earlier, we have made a lot of progress over the last three years. As a reminder, we are committed to reducing our SG&A to sales ratio by over 100 basis points in a five-year period. We just finished the first year of that five-year period. We reduced our SG&A to sales ratio by about 14 basis points. And that is despite a lot of headwinds I mentioned earlier, plus remember we are investing very heavily in global e-commerce and we are investing right now heavily in our leverage areas.

Now, as I have indicated in the past, this is not going to be a linear accomplishment. Some years are going to see more reduction than others. We are still very focused and think that the over 100 basis points is still very achievable in the next four years.

So how are we going to achieve this goal? There are many initiatives and there is many different levels of initiatives. I will just give you a few examples. The first one is My Guide system we have had out 12 to 18 months now. It's in place across all of the US and what that does is for an associate. It tells them where they should be, when they should be there and what they should be doing. In the past, they had to go to their assistant manager or their department manager and find out where they wanted them, what they had to do. It has made us much more efficient in the store.

The second thing -- second example I would give you is a workflow management system. It is actually a scheduling system we have had in place for quite a while. Every year, we continue to fine-tune it to make sure associates are in the stores when they are needed when the customers are there. And quite frankly, we are still not I think where we should be. We have more room to get better in that.

Another item, the Sam's Club. The Sam's -- you may have seen the pilot for the self-checkout convertible register. That has made us much more efficient and much more productive in the club. Our membership scores also have gone up in those clubs along with associate scores.

Another initiative that I think is on a different level is shared services. We have started standing up, as I mentioned, our shared services in Costa Rica. It will serve all of Latin America. That will take out cost out of the back offices of all of our operations in Mexico and South America.

Let's turn to e-commerce for a second. Now, we have got three clear priorities for e-commerce. The first is to penetrate and expand in key markets. We have a very solid foundation of e-commerce in the US and the UK. We have a new and exciting platform of growth in China and we have a very fast-growing business in Brazil and we will continue to focus on these important markets, driving customer acquisition and retention.

We have made a lot greater strides in our Polaris search engine I mentioned earlier and also our search engine marketing techniques. We are much, much more efficient and our conversion rates are much better than they would have been just 18 months ago.

All of this is important. But it still comes down to merchandise and price. Our own SKU offering continues to grow and we continue to grow the SKUs offered by our e-tailers who participate in our marketplace. And this means increasing our ability to offer a very wide product assortment that provides great value and choice for the customer. It will continue to get even better. We are miles ahead where we were just two years ago.

The second priority is to develop a global technology platform. We call that Pangea. And to invest in additional technology and other areas of e-commerce. We will continue to make advancements in mobile. We are already piloting a scan and go mobile application and you are going to see more innovation in the next few months.

Our third priority for this year is to develop our next-generation fulfillment network. And that would be primarily right now the US. We will continue to invest not only in how the customer wants to shop. But how they want to receive the merchandise. We are still in pilot phases of our same-day delivery for Walmart US. But we know we have a very important advantage in our brand and promise along with the 4000 stores that are within a very short distance of a large part of the population. We are also going to be using dedicated fulfillment centers.

So the bottom line is we want to make sure that the Walmart promise is saving people money so they can live better carries over as seamlessly as possible to our e-commerce businesses.

Now last, we will continue to strengthen our global compliance organization. We have made significant progress this year and we have also restructured some of our organization. It will help strengthen our existing programs. Those areas would include the ethics, legal, compliance, finance organizations.

Regarding the costs associated with the FCPA issues, in our last earnings release, we mentioned that we believe those costs would be around $40 million to $45 million this quarter. The future quarterly costs may vary some. But, for now, I would expect it to be close to that range.

In concluding, Walmart has and will continue to be a very strong company. We have got a strong balance sheet, very strong merchandise and operations focused on everyday low cost and Every Day Low Price, strong growth in all markets, strong cash flows, along with strong returns to shareholders and a very strong culture, not to mention very consistent results.

Now, before I take questions, Robbie, I thought I would address a couple of questions that I have already had today if that is okay with you?

Robbie Ohmes

It's okay with me.

Charles Holley {BIO 18024865 <GO>}

All right. The first one is I know that somebody out there is going to ask, if not multiple people, what are we seeing with the customer and the economy and I kind of segregate that into the US and the International markets. I will start with International. We have seen some slowdown in some of these International markets. That is no secret. You see the economic numbers coming out of most of the countries we operate. However, there is still lots of very good growth in a lot of these markets like China and Brazil. We are still very excited about those markets.

But the customer is a little bit more stretched in a market like the UK. But we feel like we have a very good offering, especially in tough times, for those customers. In the US, the US continues to be -- the customer continues to be concerned about the economy. Our customer is concerned about jobs, about cost of living inflation, about gas prices and for the first time we have seen in a while, they are concerned about taxes. That hasn't shown up. We haven't seen a large -- or any kind of dramatic change in our sales patterns with our customers related to increased payroll taxes. I know that has been a question on people's minds. We think any slowdown we have seen has been primarily related to delayed tax refunds. But I think it is interesting that taxes are starting to weigh -- our core customer is starting to think about taxes.

What is the outlook for US food inflation? As you know, we went through a little bit of deflation last year in food. There has been a lot of reports about the drought in the Midwest and some thought that there would be reinflation or some new inflation coming out of that. I think overall, our projections would be we just see moderate inflation, nothing dramatic that would really cause you to change your strategies.

And the last really has to do with the IRS tax refunds and I think I addressed most of that is that we saw in January and February, most of last year, we saw most of the $4 billion being cashed in our stores. This year, it is around $2.7 billion. So there is still some catchup to do and we haven't seen a lot out of the IRS to know what they are seeing. But I have seen some notes from some of the tax preparers that do release public information and they seem to indicate that they are waiting until the last minute to hire a lot of people to put to work to file some of these refunds. So with that, Robbie, questions.

Questions And Answers

Q - Robbie Ohmes

Great. I will kick off the first one. When you look at the US growth, can you walk us through store format priorities? I think Bill was at a competitor conference and maybe highlighted the Express store format. You have got the Neighborhood Markets and then you still talk about Supercenters being your best return project. Can you help us sort through what the focus or driver of growth is going to be in the US?

A - Charles Holley {BIO 18024865 <GO>}

Yes. As you know, we are going to build around 125 Supercenters this year in the US. So it is still a very good return vehicle. The neighborhood markets though have continued to improve in their returns and they are approaching -- the new ones are approaching what you would see at a new Supercenter. So we feel very excited about that. And remember, we haven't focused very much on Neighborhood Markets until probably the last couple of years. So we feel very good. We are going to be looking at, as you know, urban and rural markets. And I think one of the surprises is is the amount of business we have seen in some of our tests with the Express stores in some of the rural areas.

So we are very excited about it and I think that -- I think what we have talked about -- our pipeline right now for Neighborhood Markets, it is about 500 units and that would take us through 2016. And the way we do that, we fill our pipeline with projects that we would like to do. It doesn't mean you are going to do every project. You may not get the approvals to do them. But we have a line of sight for at least

500 projects. That doesn't mean we are capped at 500. It just means that is our current line of sight.

If you asked me that question next year, I would probably go out a year and I would give you a number of what it would look like from that point. So we don't know what the limit is on these Neighborhood Markets. But we feel very good about the prospects of having a number of these over the next few years.

Q - Unidentified Participant

Good afternoon, Charles. I had two questions, one on e-commerce and one on International. On e-commerce, if you look to your eventual game plan four or five years out, is the $0.01 profit that you are expecting from your e-commerce platform on a per item basis going to be better than your US stores? Is it going to be more efficient than your US stores and what does the merchandise mix look versus your US stores that maybe enhances that?

Then on International, there has been a lot of disruption over the last several years. Has not really gone as folks had anticipated and I know you are very generous with analyst days all over the world and I haven't had a chance to visit one or two of those on an International equation. But could you just spend some time on like say Brazil and what has changed in terms of consumer behavior or preferences or shopping channels that they are utilizing that has caused some of that disruption? Thanks.

A - Charles Holley {BIO 18024865 <GO>}

I will take your first question on the returns in e-commerce. I think e-commerce has the ability to be an extremely efficient channel for us. I think our 4000 stores, or actually almost 11,000 stores internationally when you look globally, are a distinct advantage for us that we are really focused on how do we leverage those. It is not going to be an instant solution. It will take us some time. There will be some successes and some failures.

That is how Walmart grew. But we are very committed to it and we are very excited about the prospects for it. I do think it can be an excellent return. How high of a return? I am not really prepared to say. I know Neil thinks that we could do well over 20% in the not too distant future, not in the next year or two. But he feels like we can do 20% plus returns on that business pretty easily.

And your next one on Brazil and what is going on with the consumer, Brazil, I think, like some other emerging markets, took a little while for the financial meltdown in 2008 to really kind of effect. It is built on a lot of consumer credit and I think you are just seeing a little bit of a softness. We still saw very healthy sales in Brazil last year and we would expect to see healthy sales this year, maybe not quite at the level that you would have seen in the past. But it is a remarkable market. You are still having a lot of conversion with what we call the informal market to the formal market. So even as the overall formal economy may soften up a little bit, you are going to get growth just from the conversion of the informal market to the formal market.

Q - Unidentified Participant

Thank you. I guess I have three. The first one is when you say that you think e-commerce could achieve a 20% return, I assume that is not an operating margin return. Is it a return on invested capital?

A - Charles Holley {BIO 18024865 <GO>}

Return on invested capital.

Q - Unidentified Participant

Okay.

A - Charles Holley {BIO 18024865 <GO>}

20% plus.

Q - Unidentified Participant

Okay. And with respect to the Wal-Mart Stores business, what kind of comp store level must Bill Simon achieve on a secular basis in order to continue leveraging?

A - Charles Holley {BIO 18024865 <GO>}

I think they have shown that they can lever even when they have a flat comp. There is a lot of expense to still take out. Now having said that, it is a lot easier to lever with good sales. Last year, they had a 1.8% comp and they levered 27 basis points. So we don't have a number that we can tell you that we have done a sensitivity analysis and say that, well, at this point, we just can't lever anymore. That is not really in our DNA. We believe we can lever at almost any level of sales and put it on the bottom line or at least put it in pricing.

Q - Unidentified Participant

And finally, with respect to International, can you in effect achieve the improvement in International return without getting a positive inflection on traffic since traffic I guess has been problematic across most of your markets for quite a few quarters?

A - Charles Holley {BIO 18024865 <GO>}

Especially I think the Fourth Quarter where we were calling that out. It depends on the market. International is not all the same; not all markets are the same. If you look in the UK, there is very specific reasons why traffic was probably down. A lot of it has to do with the economy there, not with us. And I think we have a very solid operation there.

As far as we are going to make price investments where it makes sense and where it doesn't make sense, we won't. So we may hold back some of those price investments where it is not needed, we don't think it is going to be elastic on sales and we are going to go ahead and take it to the bottom line. That is part of our intent in the long term and especially a country like Brazil.

Q - Robbie Ohmes

There is one over here.

Q - Unidentified Participant

Two questions. One on the International, you mentioned that you are rolling out EDLP worldwide. Presumably that includes the UK as well and the UK is a significant contributor besides Canada, Mexico to your International profits. It is my understanding that the UK is going through a potential protracted price war with the market leader, Tesco, hurting a lot in terms of its own performance and a new management team at the helm that seems determined to alter some of their management practices.

How does that affect you and your strategy there and is there a risk of this protracted price war being a function not just of the weak economy. But of excess capacity in the full retailing industry, which clearly is what you participate in? (That's the second question and hold).

A - Charles Holley {BIO 18024865 <GO>}

As far as the UK market, one of the things that we have learned in the UK and other markets is we need to stay true to who we are and what we do best and that is Every Day Low Price. And if you've followed us and ASDA over the last few years, there was a time (technical difficulty).

Well we think we have a huge advantage in having 11,000 stores around the globe. Not all of our e-commerce competitors can say they have that. We need to make sure we leverage those stores. That would obviously have to do with same-day delivery. We also know that we have not been good in the technology part of this. But we are catching up quickly with our search engine and how we market on the Internet. We know our growth rates and our global e-commerce business far exceed the markets that we operate in and our key markets.

So we think we are competing very well from where we started from. We have a lot of work to do to make sure we are more efficient in getting the products to the customers. But we feel like that we have the tools to go do that. So we look forward to the competition. And by the way, we think our brand promise speaks very well on the Internet to our Internet customer. I think that was the first part of your question. Saving people money living better, it is no different for the Internet as it is for the brick-and-mortar.

Q - Robbie Ohmes

All right, Charles, a couple of grocery questions. One would be how are you guys currently viewing private label? Any reason to be pushing private label and why or why not? And I have another grocery question after that.

A - Charles Holley {BIO 18024865 <GO>}

We don't view private label maybe like some other retailers. We are a brand retailer. We like to sell brands. We use private label to fill in gaps where we see there is a value gap for our customers. So it is really very dependent on a category or a subcategory. Now having said that, we are improving our private label. You will -- the quality, even the packaging is changing. You will see more, I think, private label in certain categories later in this year. But it is not a strategy to replace or pump up profit. It is really a strategy to have an offering of value that is just not there right now for the customer.

Q - Robbie Ohmes

And maybe related to that, a lot of the supermarkets have seen a gross margin tailwind from the shift to generics. Can you kind of frame for us how that has played out for Walmart and how you expect it to play out going forward?

A - Charles Holley {BIO 18024865 <GO>}

Well as you know, we came up and drove the $4 generic and that has been very good for us. It drives loyalty, drives traffic and there will be more of that as more drugs go generic and we feel very good about where we are positioned right now in that game. And I think that that plays to what we do well is heavy traffic, a commodity type approach. There is still a lot of profit in generic, as you pointed out -- as you were kind of pointing out. And we feel like that we can offer the customer just great prices on that and drive a lot of traffic.

Q - Unidentified Participant

With the New York City Transit Authority and some other agencies coming forward with these plans to release public lands for development, is there any change in the deck of cards for New York City?

A - Charles Holley {BIO 18024865 <GO>}

I have nothing to announce right now. But thank you for asking. New York is a great market. We have a lot of customers that are in New York City that have to shop outside and it is a shame. But we have got nothing to announce right now. Thanks for asking.

Q - Robbie Ohmes

Charles, a lot of your food competitors use gasoline as a traffic driver. Can you remind us what you guys are doing to compete on that front and what you could see happening going forward?

A - Charles Holley {BIO 18024865 <GO>}

Yes, just a reminder is that we own our own gas stations at Sam's Club. We tend to farm those out to other companies, specifically Murphy Oil, in a lot of our Walmart sites. But it is a good traffic driver in both those channels, whether you own it or not.

And it is interesting on the Sam's Club, it's kind of counterintuitive a little bit. But if you think about it, it will make sense.

If you are going to be really competitive in gas, like at Sam's Club, you only make money when the price is decreasing. You think you would make money when it is going up. You only make it when it is decreasing. As it goes up, because the pricing lags, as it goes up, you really don't. The cost goes up, your pricing lags that cost. But it is a good traffic driver. We do think it is a good benefit for both channels, both our retail channel and our club channel. And you will continue to see us develop gas sites, either our own or through others. I think it is key, I should also add, Robbie, I think it is key to being a one-stop shop for Walmart.

Q - Robbie Ohmes

And Charles, you mentioned a bunch of the macro -- you mentioned some macro headwinds at the beginning of the conversation. Can you remind us which ones matter the most for your customer? Is it gas prices, is it house prices, is it tax increases, is it --?

A - Charles Holley {BIO 18024865 <GO>}

Yes. The first thing is jobs, number one. The second would be taxes, which was the real surprise to us recently because we haven't seen that rise to the top three, I don't think, in a long time, if ever. The third would be cost of food and then higher gas prices. Gas prices typically, depending on what is going on, can jump up real quick also. Those would be the top ones.

Q - Unidentified Participant

You had a slide on investments and technology and I was wondering if you could add a little color on where you will be making these investments and what you are hoping to drive with these and if they are going to be taking away a disadvantage or providing an advantage for you guys going forward.

A - Charles Holley {BIO 18024865 <GO>}

I would say providing an advantage for us. I talked about our Polaris system, our search engine, which has taken us a long way in a short period of time in our search. Also, our Pangea, our platform, our global e-commerce platform and that will take us a while to build out and it will take some investment. But we want to have a common global platform that can flex to the market. Right now, we have different technology we are using in some of these markets and we need one common platform and we think that will take us a long way.

Mobile technology is another small part of investment. But it is important I think. And it will go with the scan and go that I talked about. It will also work with providers, even like our MCX and financial services where we will use a standard to try to work directly with banks on debit and things like that. So it is going to go in a lot of different directions.

Our investment in acquisitions we don't talk a lot about because they are not very big. But we also have been acquiring talent over the last 18 months through small acquisitions. Some of these can be as small as two people acquisitions. But they have expertise that we have not had before and it might help us with mobile, it might help us with how we combine mobile with the checkout experience in a store. It might help us with how we use our marketing dollars for search engine. So it is going in a lot of different directions. We are much more sophisticated than we would have been, like I said, two years ago.

Q - Unidentified Participant

You've flagged investing in your compliance activity as one of the priorities for this year. Do you expect to have the main bulk of that investment or the main improvement in that process complete by the end of the year or what is the timing?

A - Charles Holley {BIO 18024865 <GO>}

I don't know that we will be complete by the end of the year and I don't know that I can give you a specific time when it will be done. I don't expect that we will see continued increased costs for compliance after this year even more, which substantially increased cost. We wouldn't think it would be too much more than what we are seeing as far as setting up compliance costs.

What we did in finance, for instance, really didn't cost us anything. We just reorganized how -- financed the structure across the world and where it reports. It didn't really cost us anything. We did set up and have set up more of a formal compliance organization globally and we have brought in some very good people to help run that and help us with that. That does cost more and you bring in some outside. But I think it will continue through this year and then we will have to see next year.

Q - Unidentified Participant

Yes, I was wondering if you could talk a little bit about several categories for your US business, apparel, consumer electronics and media. You had a good quarter for apparel in the Fourth Quarter that you were pleased with. Just what is your learning there for the go-forward? I know it is back to basics and doing basics well. But if you could expand on that.

Consumer electronics is a category that has been very important for you. But it has been, from a category perspective, has been disappointing and what is your outlook for that and what do you think to do with that real estate? Then lastly, media, obviously, is not going to be coming back as a category. But it had been historically a traffic generator. What do you do with that space? Thank you.

A - Charles Holley {BIO 18024865 <GO>}

There are plenty of categories -- to take the last one -- there is plenty of categories that we look at and review and what makes sense for us. There are no major plans to readjust the real estate within the store. But we are always tweaking it and that will continue. What was your first question?

Q - Unidentified Participant

Apparel.

A - Charles Holley {BIO 18024865 <GO>}

Apparel, yes. You said, yes, you knew about -- we got back to basics. Well that was the lesson and we have learned it painfully now a couple of times since I have been with the Company is when we try to go too far outside of what we are good at, which is basics and what I call fashion basics, when we start going fashion-forward, we lose our customer. That is not our core capability. But when we get really focused on basics, we bring in good brands for those basics and good quality and great value. We do pretty well and we saw that this last year.

Q - Unidentified Participant

Electronics?

A - Charles Holley {BIO 18024865 <GO>}

Electronics has been important. You mentioned -- I think you mentioned media or music.

Q - Unidentified Participant

(Inaudible; microphone inaccessible)

A - Charles Holley {BIO 18024865 <GO>}

Yes. And it is amazing to me. But the TVs keep getting bigger and bigger and our customers seem to buy them. They are buying 60 and 70-inch TVs, a lot of them and we sold -- tablets, as you know, do very well for us. And electronics, I came out of the electronics industry before I came to Walmart and it really does rely on innovation and for Walmart particularly, it really relies on getting the price point down so that it is affordable to the average consumer. And when it does that, when you have innovation that finally gets the price point down, Walmart plays extremely well in that. But you do have to have some of that.

What is interesting is you saw probably last year we started putting back in those dump bins of DVDs, which I know DVDs are kind of old hat now, those do very well. It is amazing, those $5 dump bins, they do very well.

Q - Unidentified Participant

Charles, could you speak to Walmart money, your financial side, in terms of where the business stands now and what the vision for that is both domestically as well as internationally?

A - Charles Holley {BIO 18024865 <GO>}

Sure. First of all, it has many different faces to it, whether it is in money cards or the new American Express Bluebird or it is in MoneyGrams or whatever it is. And the newest one, as you probably know, is our partnership with American Express on this Bluebird card. And it has been very successful. It is still early days. We have about 600,000 of those cards out there. What I think is so great about the card, it's at very, very low cost. You are going to be able to write checks on that card and for a lot of our customers that are unbanked, that is a really big deal because a lot of the cards that compete with us out there, there is a monthly charge, service fees that it really eats up and they don't have a lot of money they can afford.

Which brings me to what we are trying to do in that space in financial services is find where there are value gaps. Again, kind of like I talked about private label on food. We are looking for where there is a gap and there is not good value for the customer and how can we provide that either ourselves or with a partner.

Q - Robbie Ohmes

And could you give us some sense of the metrics of that business?

A - Charles Holley {BIO 18024865 <GO>}

We don't disclose a whole lot about that business. It is not --.

Q - Robbie Ohmes

That's why I asked.

A - Charles Holley {BIO 18024865 <GO>}

Yes. It is not a huge part of our operating income. But it continues to grow and be important. But it is not the primary -- it is an ancillary part of our business.

Q - Unidentified Participant

Charles, on International, you mentioned shared services I think in Latin America and Walmex is one of the ways you could get the profitability of international up. But are there other things going on that could get the International operating margin up over the next few years?

A - Charles Holley {BIO 18024865 <GO>}

Sure, there are. I mean I talk about Brazil. Just as a reminder that Brazil is made up of a greenfield startup we did in '95 with Supercenters and Sam's Club. Then we did an acquisition in the north with the old Bompreco stores and then an acquisition in the South, which was Sonae. Well we have never fully integrated those three. So imagine the excess cost that we have. That is a big focus of ours right now is getting these three entities integrated, whether it is in merchandise systems or whether it is in financial systems. It is easier said than done and if anybody has done business in Brazil, the tax structure is the most complicated in the world and it is not that easy or we would have already done it. But it is very much -- it has got very important for our long-term success to be able to do that to take cost out. So that is just a little mini part of what we have got to do.

Looking for more and more ways where we can take out redundancy across the Company is what we want to look at. The shared services is a big part of that. But anyway, that will give you an idea I know of Brazil where I think we have some huge opportunities for us.

Q - Unidentified Participant

Could you talk about the opportunity you have to address providing more value and living better for your consumers in the services space? You have clearly done very good in the goods space. But how can you sort of extend. And I don't mean financial services, I realize that is a very different kind of set up for you. But are there -- is there an opportunity for you to extend what you can do for consumers because increasingly, of course, the US is a service -- I mean it has always been a service economy. But what can you bring to the table there and how do you think about that opportunity for yourself?

A - Charles Holley {BIO 18024865 <GO>}

Well as you mentioned, our core business is about goods, it is about item merchandise. However, I think you hit upon a good point. We do look for, on the ancillary like I talked about financial services, that can be very important to our customer. We have such high traffic, 140 customers in the US are in our stores every week. What else on a one-stop shop can we provide? I think healthcare is one we haven't cracked that yet. But that is an opportunity for us. We tested some clinics and things like that. We have not rolled out anything in a major way. But I do think it is things like healthcare, financial services that a one-stop shop can be very helpful to the customer. So we will continue to be looking at those things.

Q - Robbie Ohmes

You commented about one of the things that drives electronics is pricing. Over Black Friday, I believe you offered a 60-inch flat panel for like $699.

A - Charles Holley {BIO 18024865 <GO>}

Did you get one?

Q - Robbie Ohmes

I didn't. But I am wishing I had. It seems like panel pricing in the Far East is moving toward being supportive of a price not far from that. Are you seeing -- I mean based on your demand for that, could you see a potential upgrade cycle where Americans upgrade their 42-inch living room TV to a 60?

A - Charles Holley {BIO 18024865 <GO>}

I did. Yes. And I think you are hitting upon it. It definitely -- I don't know where prices are going to go. But one thing is for certain. In my lifetime, I think you're going to see consumer electronics continue to be driven -- the prices driven down every year and that's going to make those kind of 60-inch flat panels very affordable for the average customer. And so, yes, I do think people have been switching out their 42 and I think that is why we are selling a lot of 60-inch TVs right now, especially around Super Bowl and those kind of events. By the way, Sam's has a 90-inch in case you are interested.

Q - Unidentified Participant

Charles, some of your competitors have had success with loyalty programs, companies like Kroger, one of your competitors. Target has come out with their Red Card 5% off. I am sure you guys have evaluated these programs. Can you share with us what -- why or why not those programs would not make -- would or would not make sense for Walmart?

A - Charles Holley {BIO 18024865 <GO>}

Absolutely. We believe that all of our customers deserve the lowest price possible, not just certain customers. Also, those are some very good programs and you learn a lot about those customers that participate. But some of them are also very expensive programs. And we don't think that that serves everyday low cost and Every Day Low Price. But the bottom line is we think that we want to offer Every Day Low Price to all of our customers and they don't have to be in a certain special group.

Q - Robbie Ohmes

Charles, can you talk a little bit more about what is going on at Sam's Club down in Texas? A lot of us don't get down there that often. I think there was a -- I think that Sam's was discounting memberships on Living Social at one point and maybe just give us some color on -- and then also what is the holdup on rolling this out to the rest of the US?

A - Charles Holley {BIO 18024865 <GO>}

Yes. What Robbie is referring to, a couple things. We did a test on Living Social I think a week or two ago, last week. Gotten a lot of interest. It is just a test. I wouldn't read anything into that, a very successful test. It is our first time to try something like that and so far, early returns were very good.

The Texas test has to do with giving a cash back for Plus members and what we are doing there and it is still in test mode. We don't have enough analysis yet to be comfortable to make any assumptions and conclusions on what we ought to do on a national basis. But I would stay tuned.

Q - Robbie Ohmes

And Bill Simon is not here. But if Bill were here. And somebody was asking him why we should feel confident that the same-store sales in the US after a slow start to February could pick back up and get back into that type of comp range that you were in last year, what would he say to us? Would it be further breadth of assortment, would it be price investment?

A - Charles Holley {BIO 18024865 <GO>}

That's a good question. I think there is a couple of things I think of. First of all, regardless, Robbie, of what is going to happen with the economy, I think we are much better prepared to deal with a customer that is a little concerned about economy, jobs, taxes than we were three years ago, two years ago. Bill Simon and his team have done a fantastic job of regaining that trust and bringing back the SKUs they needed to. So the customer could trust we were going to have the product they wanted when they wanted it at a price they wanted it at.

Going into this year, one of the exciting things I think you're going to see is, as you know, we started working with Nielsen data on food consumables and OTC and we're being able to work a lot more surgically with our vendors on items. And I think you will see innovation in some of our items coming out here this year. It is making it a lot easier to hone in on where we have gaps in value, where we may have a gap in a product assortment or a pack size or whatever. So I think you'll see us use that much better, on a much more smart way than we have in the past because we didn't have that kind of data. We might have known our sales were down. But we didn't know if we were doing well from a marketshare. Now we know and I think it is giving us a lot more information.

Q - Robbie Ohmes

And as you look at store growth, should we expect you to be targeting the coasts, more California or more Northeast or is it pretty spread out?

A - Charles Holley {BIO 18024865 <GO>}

I think it is pretty spread out. I have mentioned earlier, it is going to be large format, small format. It's going to be some urban, it is going to be some rural and we see some great opportunities in some areas that quite frankly they are not big cities. But I would call them a little bit food deserts in a way because the competition there is not very good. It has never had to be very good and I think it produces some great opportunities for us to have some great stores and great returns in.

Same with urban. I think that we still have some great opportunities in the urban markets.

Q - Unidentified Participant

Just back to a grocery question. In the US, there is definitely a movement to real food and food with authenticity and food that is good for you that tastes good. Just as the largest grocer in the nation, how are you looking to change your merchandising mix in grocery to feed those changes in consumer behavior?

A - Charles Holley {BIO 18024865 <GO>}

If you have watched us over the years, you know that we have put more organic in our assortment. You have also known that we are partnering with a number of vendors and universities looking at sustainability type indexes that consumers can rely on to understand the food that they are eating. We are not for trying to tell consumers what to eat. But we are definitely -- we want to work with our vendor partners and others in the government to help educate consumers about what they should eat, what is good for them. We think that is very important.

Q - Robbie Ohmes

We have time for one more question if there is one.

Q - Unidentified Participant

Could you provide just a little more color on your comment that you don't think the payroll tax has hit your customer or hit your sales? It's a little bit surprising.

A - Charles Holley {BIO 18024865 <GO>}

Well the best way I guess I can tell you, when we saw the slowdown in sales in the end of January, we went back and we were trying to sort out what it was and we knew the checks from the IRS, the refund checks that we weren't cashing near as many as we were. So we charted daily cash -- daily checks that we had cashed in the prior year and this year and looked at the comps prior year and this year and there is a distinct -- I mean very direct correlation on our comps and those checks cashed.

The payroll tax, if you were to do the same thing, you wouldn't see near the correlation. So we are not sure what impact, if any, that has had yet. It has not been significant. But we definitely saw the delay in tax refunds did. You can definitely see the direct correlation. Does that make sense?

Q - Robbie Ohmes

Terrific. Thanks, Charles.

A - Charles Holley {BIO 18024865 <GO>}

Thank you, Robbie.

Q - Robbie Ohmes

Great presentation.