

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **WMT - Wal-Mart Stores Inc. Analyst Meeting**

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## CORPORATE PARTICIPANTS

**Mike Duke**

*Wal-Mart Stores, Inc. - President, CEO*

**Brian Cornell**

*Sam's Club - EVP, CEO - Sam's Club*

**Doug McMillon**

*Wal-Mart International - EVP, CEO and President - International Operations*

**Eduardo Castro-Wright**

*Wal-Mart US - Vice Chairman*

**Tom Schoewe**

*Wal-Mart Stores, Inc. - EVP, CFO*

**Cindy Davis**

*Sam's Club - EVP Membership, Marketing & E-Commerce*

**Linda Hefner**

*Sam's Club - EVP Merchandising & Replenishment*

**Stephan Fanderl**

*Wal-Mart Emerging Markets - East - President*

**John Aden**

*Wal-Mart International - SVP International Operations*

**Ed Kolodzieski**

*Wal-Mart International - COO*

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*Asda Group Ltd. - President, CEO*

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*Wal-Mart US - EVP, Chief Merchandising Officer*

**Jack Sinclair**

*Wal-Mart US - EVP, Grocery Merchandise*

**Stephen Quinn**

*Wal-Mart US - EVP, Chief Marketing Officer*

**Bill Simon**

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*Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

**Liz Kirkwood**

*Sam's Club - SVP Finance*

**Jane Thompson**

*Wal-Mart Financial Services - President*

**Robin Forbis**

*Wal-Mart Stores, Inc. - SVP, Finance*

## CONFERENCE CALL PARTICIPANTS

**Robby Ohmes**

*Banc of America Securities - Analyst*

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**Peter Benedict**

*Robert W. Baird & Co., Inc. - Analyst*

**David Strasser**

*Janney Montgomery Scott LLC - Analyst*

**Adrienne Shapira**

*Goldman Sachs & Co. - Analyst*

**Michael Exstein**

*Credit Suisse - Analyst*

**Daniel Binder**

*Jefferies & Co. - Analyst*

**Wayne Hood**

*BMO Capital Markets - Analyst*

**Mark Miller**

*William Blair & Company LLC - Analyst*

**Scott Mushkin**

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**PRESENTATION****Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

Good afternoon, my name is Charles Holley and I'm the Executive Vice President of Finance and Treasurer for Wal-Mart. I'd to welcome everybody that's here with us and those that are on our webcast. Before we get started to I'd like to -- I'm not going to read it but point everybody and ask you to read the forward-looking statement on the screen above and on your computers back in your offices and at home, and just remind you that any projections made today may differ materially from any actual results.

Just a brief note about the agenda today. We're going to start off with Mike Duke, our CEO, who will give some opening comments, and then we'll go to Doug McMillon about international, then we'll do Eduardo Castro-Wright, who will talk about the Wal-Mart US business, and then we'll go to Tom Schoewe, our Chief Financial Officer and he'll update us a little bit on finance, and then we'll close with Mike Duke.

Each of the sessions starting with Brian there'll just be some opening comments and then they'll be open for Q&A. And when we do the Q&A what I'd ask you to do is remember to state your firm name and then your name before you ask the question and please don't ask the question before we get a mike to you.

With that, I'd like to introduce our CEO.

**Mike Duke** - *Wal-Mart Stores, Inc. - President, CEO*

Well, good afternoon. It's great to see you all back here in the Wal-Mart auditorium. Many of you have been here before and sometimes we do this in other places, but we do not charge ourselves much rent for using this room and every dollar we save is one more dollar that we can give back to the customer.

So, I'm going to start off by just giving you a few comments and that's one -- is if you get anything out of this visit and even you know if you think about the transition with Lee and I and what's Wal-Mart priorities. Is Mike going to do anything very different?

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I would tell you the answer is not different, just again back to how we're going sell (inaudible) them even faster and even broader where more people are active and participating. So, saving dollars and giving customers savings is one of those that I'd just like to continue.

You noticed in the meeting this morning -- I loved Eduardo that you had gotten the group energized about saving people money, so I just capitalized on that, too, when I got up there. I want associates I believe are committed to helping customers save money and live better. We also know that the only way you can do that is to be more productive, to save expense, to find ways to operate more effectively every single day.

So this is just Wal-Mart though, isn't it? It's a same old story. It is -- except what my focus, my priority is to take those things that we do well -- that's really who we are -- that's our company, and to go even faster, to move even with greater speed and with all associates involved in it. Yes, I do think as I said this morning this is a great opportune time for Wal-Mart.

It's a challenging world, isn't it? I mean I know you -- if either you're in New York or Chicago or Boston or another city from maybe outside the United States -- this is a global crisis that we're in. But I really do believe that this is Wal-Mart time. This is the time that Sam Walton really created the Company for.

But I'm also really pleased as we seize this moment we're also building that loyalty for the longer term relationships with our customers, and I am so pleased with the progress in merchandizing and operations and the in store experience, and how we're marketing and telling our story around the world. This is true here in the United States with Wal-Mart, with Sam's, but it's also true in every market.

I'm really, really pleased with the continued speed and aggressiveness and development of our business in the international markets as this whole thing about helping customers around the world live better then there are more customers that come to our stores. So I really -- for our introduction this afternoon I don't have anything any different than what you heard this morning. I just wanted to give you a few additional comments to just underscore what I said this morning about accelerating and about helping our customers in operating a more effective organization.

The one thing I was pleased to I think Rob or Linda in the introduction were saying -- it's embarrassing sometimes in a town like this when you're being introduced and people are saying good things about you. That's not -- we don't usually do that at Wal-Mart, do we? We just kind of give the microphone and say it's Mike's turn to talk.

But the one thing I took pride in this morning even as Rob was talking about the transition from David to Lee and Lee to myself was that the comment was made about my focus on people and developing people. I would want to be known as someone that is absolutely committed to developing people, to working with -- from all -- from those that I work directly with to the hourly associates that work in the stores.

I really do believe that that has been the secret weapon of Wal-Mart. That's another area that I believe we will accelerate even more is the opportunities that we have those of us that get to be a part of this Wal-Mart family. And I think that will be something that will be even a greater competitive advantage will be the quality of leadership. It is a tremendous competitive advantage today.

I think it's like we are doing with price leadership -- we'll widen that competitive advantage because of the quality of talent that we have throughout our organization at every level imaginable. Now with that, you know you're going to get one more time now because I get to come back at the end, but the quality of Singer team that's up front sitting here -- I stand here and look and with great pride of the team that I get to work with every day.

One new member of that team I'll start off by introducing is Brian Cornell. Brian is a new President, Chief Executive of Sam's and I think now this is day 62 if I'm not mistaken. He speaks and handles himself as though he already has a pretty good handle on the Sam's business after 62 days.

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We were very fortunate to recruit Brian. I think Eduardo first met Brian -- was it two and a half years ago, was it? Three years ago -- so a little time -- then we had the right opportunity to bring Brian on board and so it's a pleasure for me to hand the ball to Brian and let him come and tell you about Sam's Clubs first. So, Brian?

**Brian Cornell** - *Sam's Club - EVP, CEO - Sam's Club*

Thanks, Mike. I appreciate it. Good afternoon. Why don't I start out by introducing our senior team at Sam's Club. And I'm going to start out on this side of the room and introduce Whitney Head who is our General Counsel for Sam's Club.

Now I'm going to shift over to this side of the room. Liz Kirkwood, our CFO; Sharon Orlopp, who leads Human Resources for us; Linda Hefner, who many of you may know from her time leading Home at Wal-Mart who is now leading merchandizing for Sam's Club; [Fin Yasco], who oversees supply chain, inventory replenishment and systems support for Sam's; Todd Harbaugh, who oversees all of our planning and integration, really making sure that we bring together our great merchandizing, marketing and operations plans each and every week for our member; Cindy Davis, who leads membership and marketing; and Nacho P rez, who is our head of operations.

So I'm going to look to a number of them to answer some of the questions today, but I thought I might start out by proactively answering some of the questions that I would expect to be on your mind now starting with -- now after a couple of months here at Sam's, my overview of the channel and our business.

And as I've looked at the channel performance, as I've looked at our business, particularly in this challenging economic environment, I think the warehouse channel is very well positioned to meet the needs of today's consumer and our members. And, I think that's been evidenced by the traffic trends you've seen in the channel of late.

I think our Sam's Club business is uniquely well prepared today to meet the needs of both our Advantage member. And as I talk to our members, as we've watched their shopping behavior, our Advantage member today is interested in great brands, they're focused on great quality, they're looking for innovative new items, and they're certainly searching for value like never before and I think we're very well positioned to meet their needs.

From a Business member standpoint, I think we're at a very unique inflection point, and I think our members needs us more today than perhaps ever before in our 25 year history. Our Business members are clearly challenged from a cash flow standpoint. They're looking at their credit lines being reduced, they're shopping more frequently to manage their inventory more carefully, and they're looking for greater savings.

And I talked about the work we've done recently with our small business savings front, working with over 100,000 Business members, saving them close to \$300 million, and it's an important way for us to connect with that Business member, and I think we're well positioned to continue to meet both the needs of our business and our Advantage member.

The other question I expected this morning was as I look at our new team, and we have a number of very new members at Sam's Club, but as I introduced this team I am introducing a very experienced group, a very diverse group that brings a very unique blend, experience with some leading consumer package good companies and other leading specialty retailers. So I am feeling very good about the diversity of our team, the unique blend of critical experiences, and I think we're very well positioned from a leadership standpoint to build this business going forward.

The third question I expected to be on everyone's mind is what's happening with membership and what's our view, what's my view of the membership trends to-date. And as we sit here today, we're very pleased with the way our members are reacting to our marketing and membership offerings. If I look at the traffic and the membership generation and they came from our Advantage members as a reaction to some of our marketing programs like Taste of Spring, our 100 Days of Summer, we're seeing very positive signs.

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Our Small Business members are clearly interested in maintaining that membership. And today, we're seeing very steady membership trends year on year. We do have some challenging pockets and it relates to the pressure that our Small Business members are facing, so our primary Business memberships are tracking very well.

Where are we feeling pressure? It's what we call those [add on] memberships. There is additional membership (inaudible) businesses we're buying for their employees, that right now they're scrutinizing very carefully. And if they're making decisions it's because they're preserving cash, they're looking at those add on memberships very carefully and we expect that to continue over the balance of the year. But overall, we're very pleased with the way our members are reacting to our marketing offerings, and we think we're on the right path as we build a more targeted and relevant approach to building membership.

The final question I'll ask before I open it up -- or answer before I open it up to the group is, are there going to be any significant changes in direction? A new leadership team, a new CEO, where do we go from here? And I will tell you you should expect our Sam's Club team to continue to focus on leveraging consumer and member insights that guide our strategy and guide our growth.

We'll be focused on utilizing the insights we have around our member, both Business and Advantage, to sharpen and improve our merchandizing offering. You should expect us to use those insights to continue to build a more targeted and relevant relationship with our members.

You should absolutely expect those consumer and member insights to guide how we merchandize our club each and every week, and how we create a wow experience inside the club for our members. And at the same time, you can absolutely count on the fact that we'll be focused on managing costs and driving greater productivity throughout our system.

So, I thought it'd be helpful just to start out and answer right up front three or four questions that I would expect to be on your list. And now, I'll open it up for other questions that might be on your mind. Yes?

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## QUESTIONS AND ANSWERS

**Robby Ohmes** - *Banc of America Securities - Analyst*

Hi, Robby Ohmes from Banc of America of Merrill Lynch. Can you comment on you know I know that you've seen mixed shift at Sam's towards food and consumables, can you sort of comment on how long you expect that to continue in this environment and sort of your view on (inaudible) rate in that category and how that could affect your seeing for sales?

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**Brian Cornell** - *Sam's Club - EVP, CEO - Sam's Club*

Well, why don't I start with some of the mix changes that we're seeing and you heard us talk throughout the day about some changes and certainly the economic environment here in the US, how it's affecting consumer trends and consumption trends, the truly worst thing in consumer right now that is much more focused on consumable products. We're certainly very pleased with the performance trends in our fresh categories and a number of our key consumable categories.

Where we're seeing some changes is as it relates to higher ticket discretionary items, and I think that's to be expected in this environment as consumers shop much more carefully for discretionary items and we're managing our mix and our inventories accordingly. I would expect that to be a trend that continues. A consumer who is certainly focused on high quality consumable products, we certainly would expect to see our fresh business continue to grow -- many of our key consumable categories continue to grow. And, we're also very careful about how we manage higher ticket discretionary items.

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So, I don't think that's a short term trend. I think that's a longer term trend as consumers really think about how they shop. We recognize right now that consumers are tapped for credit. They're saving more and they're just being much more careful about how they manage their cash flow during the course of the month. So, those are the general trends we're seeing. I expect that to continue.

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**Unidentified Audience Member**

(Inaudible - microphone inaccessible)

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**Brian Cornell** - *Sam's Club - EVP, CEO - Sam's Club*

Yes, sure. I think we've talked about -- I think you've heard Eduardo talk about some of the inflation and deflationary trends. We continue to see significant deflationary trends in dairy categories. Overall, we're seeing very modest rates of inflation throughout the business.

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**Unidentified Company Representative**

Brian, let's go over here, okay?

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**Brian Cornell** - *Sam's Club - EVP, CEO - Sam's Club*

Yes?

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**Peter Benedict** - *Robert W. Baird & Co., Inc. - Analyst*

Yes, Brian. Peter Benedict at Robert Baird. Can you talk about the membership fee structure for Sam's Club versus competition and maybe your thoughts around using that as a vehicle to attract new members.

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**Brian Cornell** - *Sam's Club - EVP, CEO - Sam's Club*

Sure. Why don't I let Cindy Davis, who heads up our Marketing and Membership, address that question. If we can get Cindy a microphone.

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**Cindy Davis** - *Sam's Club - EVP Membership, Marketing & E-Commerce*

So, if I understand your question it was about would we do anything around perhaps just counting membership as it relates to membership income to our trends. We talked -- we talked about this the last time we were together. We don't have plans for this kind of membership. We feel very strongly that we're seeing, in fact, future members respond to our \$40 membership and our \$35 membership in a positive way.

What we are doing, as you've seen, is some short term fractional membership opportunities. Like a \$15 membership that we just launched for (inaudible) or ten for \$10 where we're giving people a chance to come in and try us. Those memberships aren't discounts, they're actually a little higher on a per day basis than our base membership and we're pleased to see the number of people that are converting to \$40 memberships as a result.

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**David Strasser** - Janney Montgomery Scott LLC - Analyst

Thanks. David Strasser of Janney Montgomery. A question -- the bigger ticket items. It's a relatively higher demographic. It's more business. Are you seeing any issues at it relates to credit -- you were just talking about it a little earlier as part of the reason for the weakness in those areas? And just along that are you seeing more cash used for purchases inside the stores even for your customer?

**Brian Cornell** - Sam's Club - EVP, CEO - Sam's Club

I think the simple answer is yes, and yes. And as we talk to our members and as we talk to our Business members, credit is one of the top issues that they're facing right now. They're seeing their credit lines contracting. They are clearly managing cash more effectively, so that is a big issue for both of our members, predominantly our Business member clearly facing the pinch of their credit lines being contracted.

And we're seeing a reduction in the use of credit throughout our business, so those factors are real. I think they're here to stay as today's consumer recognizes that the days of receiving credit cards in the mail every single week and the availability of cheap and flexible credit are gone and they're now looking at how they manage their budgets much more carefully.

**David Strasser** - Janney Montgomery Scott LLC - Analyst

Could I just follow up -- what's the strategy to combat that because at some point there's just demand that will disappear? So, what do you do to try and offset some of that specifically to that area?

**Brian Cornell** - Sam's Club - EVP, CEO - Sam's Club

Well obviously we're understanding the needs of our Business member. We've been doing a lot of work with them right now. Part of our small business savings drive is really to make sure we show them ways that demonstrate savings through products, through services, and through energy costs. So we're really trying to partner with our small business member to show them ways to improve their budgeting and find other value within our club.

**Adrianne Shapira** - Goldman Sachs & Co. - Analyst

Thanks. Adrianne Shapira, Goldman Sachs. Can you talk about private branding, what your thoughts are there? We're seeing Wal-Mart relaunch private brand - make a big push there, -- your competition as well. Give us a sense what percentage is today and where you think that can move to?

**Brian Cornell** - Sam's Club - EVP, CEO - Sam's Club

Well I won't talk about the percentages today. I certainly think that private brand is an important part of our strategy going forward. We want to continue to look at our brand architecture, make sure that we understand by category what the needs of our member are going to be; how we provide them with a great private brand offering where appropriate.

So, it's certainly something we think about every single day. It'll be a key part of our strategy going forward and we recognize the importance of providing high quality private brands at Sam's Club.

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**Michael Exstein** - *Credit Suisse - Analyst*

Michael Exstein with Credit Suisse. Two questions. Number one, in a prior capacity you competed with Costco. What insight from that period of time do you apply -- will you attempt to apply in this capacity? And secondly, do you take or contemplate taking food stamps and what do you think the impact is on the business?

**Brian Cornell** - *Sam's Club - EVP, CEO - Sam's Club*

Let me start the prior experience competing with Costco. Certainly, I've had prior experience competing very directly with them in a prior role. I think today it's really making sure we step back and understand what today's marketplace looks like and what the current consumer dynamics are, understanding how we apply great consumer insight, insights for our member, to meet their needs. I think if we meet their needs effectively, we'll compete very effectively in the market.

So, I certainly spend a lot of time thinking about prior learning, how we apply it here at Sam's. But I also recognize we need to update that, we need to be staying very close to what's happening in today's marketplace, the needs of today's consumer and member, and I'll take some of the old learning and apply it with new insights as we go forward.

Your other question was regarding food stamps. I think we may have talked about this previously. We're certainly seeing the expansion of EBT or food stamp usage. It's a very small part of our business, but we are seeing more members use food stamps or EBT in their shopping, but it's not material in our overall mix.

**Michael Exstein** - *Credit Suisse - Analyst*

Just following up -- what does their transaction look like --

**Unidentified Company Representative**

(inaudible-microphone inaccessible) use the microphone.

**Brian Cornell** - *Sam's Club - EVP, CEO - Sam's Club*

Yes, sorry.

**Michael Exstein** - *Credit Suisse - Analyst*

What does the profitability of those transactions look like, versus the typical transaction?

**Brian Cornell** - *Sam's Club - EVP, CEO - Sam's Club*

We've looked at it. Mike, I don't have the numbers right in front of me so we'd have to go back and take a look.

**Michael Exstein** - *Credit Suisse - Analyst*

That's great. Thank you.

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**Daniel Binder** - *Jefferies & Co. - Analyst*

Hi, Dan Binder, Jefferies. Two questions. First, you spoke about the pressure in the add-on membership. If you net that out against the positive trends you're seeing in your core member, can you just give us an ideal of what your member counts look like year on year in comps -- in comp clubs? And if they are negative, when would you expect that to reverse?

**Brian Cornell** - *Sam's Club - EVP, CEO - Sam's Club*

Cindy, do you want to talk about the recent trends?

**Cindy Davis** - *Sam's Club - EVP Membership, Marketing & E-Commerce*

So if we net out -- if net out add-ons we're seeing growth in Small Business memberships as well as Advantage memberships in terms of new sign ups. Renewal rate is holding pretty steady -- basically flat.

As far as when we expect to see significant turnaround, we've talked about this again in our meetings before that we are still in a rebuilding phase from really what is a multi-year impact of some softness we saw in membership sign ups after our fee increase. So we are still working through that -- expect to see that be an issue for us I think at least for the next few quarters.

**Daniel Binder** - *Jefferies & Co. - Analyst*

And the second part of my question had to do with store productivity. I realize there's a big difference in the geography -- geographical exposure that you have versus Costco and that explains a lot of the difference in the productivity per box, but from a real estate standpoint do you see a big opportunity to relocate a portion of the store base? And is that something you plan to pursue?

**Brian Cornell** - *Sam's Club - EVP, CEO - Sam's Club*

Yes, obviously early days from a -- we're always looking at our real estate portfolio, looking for opportunities to relocate where appropriate, to remodel as appropriate so that's part of our strategy going forward -- is really to make sure we look at our real estate portfolio today; where do we have expansion opportunities, where do we have clubs that are in need of remodeling, where do we have relocation opportunities. We will continue to look at that as we plan for next year.

**Wayne Hood** - *BMO Capital Markets - Analyst*

I have two questions. One I was curious -- Wayne Hood, BMO Capital . I was curious about the actual conversion rate on your trial members and what that might be. And, is that entire program profitable with the conversion?

And then I had a question about capital allocation. In light of what may be an extended slow cycle down cycle, would you anticipate that your capital would be requirements for '10 would be down and if you do, by what magnitude?

**Brian Cornell** - *Sam's Club - EVP, CEO - Sam's Club*

Cindy, you want to talk about this first?

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**Cindy Davis** - *Sam's Club - EVP Membership, Marketing & E-Commerce*

First things first, yes. The good question -- our renewal rates on those members obviously we can't disclose the exact number, but I can tell you that we exceeded our expectations on the factual membership that we did a for ten for \$10 which is why as you would expect we did another -- launched another \$15 membership for 100 Days of Summer. So the exact numbers -- can't give them out to you, but we are very pleased with it.

**Wayne Hood** - *BMO Capital Markets - Analyst*

Did you want to talk about capital and some of the changes that we might see this year? There's a mic coming your way right now?

**Unidentified Company Representative**

I'm sorry, could repeat the capital question?

**Wayne Hood** - *BMO Capital Markets - Analyst*

I have to get the mike. What I was curious about, in light of what's going in the economy, I would suspect that your capital requirements in '10 would be less than they were in '09 or '08, but I may be wrong. If they are less, by what magnitude would they be less and if they're not less why wouldn't they be less? That's a number of questions.

**Unidentified Company Representative**

So going into next year, I think what we'll ask you to do is wait until we get to the October meeting where we'll be talking about overall capital investment for the entire company. We wouldn't change guidance right now.

**Brian Cornell** - *Sam's Club - EVP, CEO - Sam's Club*

One more. One more.

**Unidentified Audience Member**

Sir, actually one really on the last question. The first part of it is from a real estate perspective, are you being presented with opportunities that you haven't been in the past?

And then secondly for Linda Hefner specifically. Obviously you did an absolutely phenomenal job in home at Wal-Mart. Can you talk about -- still through obviously early days for the opportunities that you see in merchandizing at Sam's?

**Brian Cornell** - *Sam's Club - EVP, CEO - Sam's Club*

Linda, do you want to answer that one first then we'll wrap up?

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**Linda Hefner** - *Sam's Club - EVP Merchandising & Replenishment*

Sure, thank you. We have a great home team in Wal-Mart and the team will keep taking it forward. I've just been at Sam's for a few weeks and see quite a number of strengths and a number of opportunities. We will be prioritizing first and foremost what categories we really want to focus on and prioritize as priority categories.

What Sam's stands for is value and we're very keen on making sure that we win on the quality part of that value equation while offering better prices than the competition. So, that's the second priority. And then thirdly, the in club experience, and a lot of merchandize choices affect that in club experience -- assortment, adjacencies, presentation discipline and so that's a third area of focus for us. And the home merchandizing team here behind me has lined up against those priorities at Sam's. Thank you.

**Brian Cornell** - *Sam's Club - EVP, CEO - Sam's Club*

I'm going to turn it over to our real estate expert to answer that final question.

**Unidentified Company Representative**

Thanks. I don't know about expert, but yes, to answer your question we are seeing opportunities both in Sam's and in Wal-Mart as tight as capital has gotten and as much as growth had slowed around the country and really real estate costs probably being 30% to 40% land deals versus where they were at peak a couple of years ago. There are lots of opportunity for us around the country as we go forward.

**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

All right. Okay. Thank you, Brian. Thank you the Sam's team. Next up I would like to introduce our Chief Executive Officer for the Wal-Mart International segment, Doug McMillon.

## PRESENTATION

**Doug McMillon** - *Wal-Mart International - EVP, CEO and President - International Operations*

Good afternoon, everybody. I've been with the Company for 19 years, but actually went to my first shareholder's meeting way before that. I think it was in 1984 and I think I was 16 years old. My dad was a dentist and he owned a few shares of Wal-Mart and a shareholder's meeting at that time fit in this room, and that was before we expanded this room.

And Sam brought up Sidney Moncrief, who was an Arkansas Razorback basketball player and that was high point in my life at that point to actually see Sidney Moncrief and today I met Michael Jordan. My life is complete. I don't need anything else, Mike. I'm not even sure you have to pay me this year.

I offered Susan Chambers \$5,000 to trade with her on today's program and she declined that. Pretty cool meeting. A lot of diversity in the meeting. Over time you can certainly see how the associate base has changed and it's cool to see Chile there this year. We let of associates come from Chile. I think about 275 this year which would have made it in the biggest group and you could tell that they were certainly enthusiastic.

One of the reasons that they're enthusiastic is because of the leadership team that they get to work with in international. And I want to take a minute to introduce the members of that team. And Andy Bond, I'll just start with you since I saw you. Andy Bond runs the Asda business in the UK, and that team is clicking on all cylinders it appears and doing a fantastic job there. I'm really appreciative of the job that Andy's doing.

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Vicente Trius in ICU. Vicente, as you know, was asked to move recently from Asia as a regional back to run all of Latin America. So if you would like you can congratulate him on his promotion or his change anyway.

I'd to ask the people the people that report to me in Arkansas to stand up for a second -- John Aden, ICU. If you do, would you please stand up and I'll just point to you, wave your hand. Mitch Slate runs our development area. John Aden is responsible for the operating group which includes merchandizing as well as logistics and operations. [Jose Onhill-Diagos] -- you heard from him this morning.

He leads the people area for international. Wan Ling Martello, who I'm sure you know, leads the finance area for the international team. And I think that's all I see there for the [Mitchell] - but there's [Rob Leggett]. Rob leads communications for us and a relatively new member of the team.

And now, I'd like to ask the country presidents to stand up quickly if I could and just wave your hand. I'll start way back in the back. Eduardo Solorzano, who leads our Mexican team - does a fantastic job, welcome, Eduardo. Hector Nunez, who leads our team in Brazil; Enrique Ostale, who leads that loud Chilean group that we were talking about earlier; Raj Jain, who leads our efforts in India; Ed Kolodzieski, who leads our efforts in Japan; Ed Chan who leads the business in China; and Stephan Fanderl, who is responsible for the business in Russia. How are your stills today?

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**Stephan Fanderl** - *Wal-Mart Emerging Markets - East - President*

On budget.

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**Doug McMillon** - *Wal-Mart International - EVP, CEO and President - International Operations*

Zero. He keeps saying on budget. And David Cheesewright, who I see back here, who leads our business in Canada. So if you would please welcome all of them.

I'll start out by sharing the things that I see in common and then maybe comment on a few of the countries and then we'll open it up for questions. Around the world customers are all feeling pressure. And so, you've got to start out by thinking about your expense base. What are you spending in expenses? What are you spending on capital? What does productivity look like?

So, every country around the world is working on increasing productivity. On of the measures that we're focused on today is a new way to compete internally would be units per labor hour and we track the improvement in that area as one way to track productivity. But the team has also made adjustments in the home office area as it relates to expenses -- I think in every country, if not close to every country has recently made adjustments.

The second thing would be communicating or delivering price -- I should say delivering value. That relates to how we're purchasing goods from multi-national suppliers, local suppliers, how we're leveraging GP into the business just to get costs down and get sale prices down as much as we can as an advocate for the customer.

And then the third component would be the communication of value and it's the idea that you've got to get credit for your price leadership because if you don't have the credit it doesn't really matter that you're delivering it.

And in fact we asked Andy Bond, together with Rick Bendel in the UK, to take on a new responsibility to this -- these past few months and we created a marketing center of excellence where Rick is helping all the countries in International to stay connected to what Stephen Quinn and the team in the US are doing in marketing and make sure that we're taking those best practices and leveraging them around the world. So, we appreciate Asda stepping up and having an international impact there.

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I'll start out commenting on Chile. Enrique I think would agree that we are making very good progress as it relates to the integration. We are taking a different approach relative to integration in Chile than we've taken in previous acquisitions.

Under John Aden's leadership we've been working on a project in the last few months that we've implemented in Chile where we're really focusing on a narrower set of issues in the integration. I think our integrations in the past may have been too broad, taken too long. And now, we're taking more of a phased approach and I think it's returning better benefits than what we've done in the past. And we certainly appreciate the work, Enrique, that you and your team are doing.

Next, I'll comment on the UK. In the last quarter the Asda team took about 30 basis points in share with their sales growth and, Andy, I believe 40 basis points on the George brand, so it's not just food. And as I mentioned before a lot of momentum going on in Asda which we certainly appreciate.

In Mexico, Eduardo Solorzano's team is doing a fantastic job also taking a lot of share. I believe 200 to 300 basis points in share in the last quarter, and they are managing expenses very deliberately. Every one of the formats in Mexico is growing faster than the market.

And during the H1N1 crisis in Mexico Eduardo and his team stepped up and did a great job managing the stores, communicating with associates, communicating with the government, doing all the things that they needed to do to manage through that crisis. We did have to close Suburbia for a few days. We closed many VIPs and some of VIPs could only do carry out for awhile which affected sales negatively.

But on a net basis, we saw that the swine flu was a moderate positive not a material issue as we look backwards. I think going forward Eduardo would tell you he expects from headwind as it relates to resort areas in Mexico not having as much traffic. And we've got 64 stores in resort areas that will be impacted -- something like that, so that may be a bit of a headwind going forward in Mexico.

Let's see the next play I would comment on, Ed Kolodziecki, would be Japan. I am pleased with many of the efforts going on there and I would say cautiously optimistic that we are seeing some momentum build there. The team has been moving more and more categories to every day low price, creating price leadership. And you would probably know that Japan's GDP is one of the most challenging numbers in the world with the impact from automobiles and electronics.

And what's happened in Japan may actually be somewhat in our favor, although we wouldn't wish it on anyone, as people are living through that in Japan they are more price conscious. And if the Japanese consumer becomes more price conscious over time, that plays into Wal-Mart's favor and Seiyu's favor.

And so, Ed is starting to drive some sales increases there. I've heard in the past you'd be updated relative to expense management. The team in Japan has really been bringing down expenses both in the stores, in the home office, DCs and everywhere else they can focus on. We need to continue to cause that to happen and then over time learn how to price at a price leadership position and manage our margins in such a way that we deliver returns. I think Japan is a long term proposition, but we are seeing some things there today that are encouraging.

I think the only other two things I would mention would be that currency is obviously playing a large role. We would expect that until the fourth quarter that's what you're going to see. If the currencies stay where they are right now -- there's a basket. That would be the period of time where we would start to see things turn around and we wouldn't have such a big penalty as we've been having the last few quarters.

I think that's it. And I will pause there and open it up for any questions.

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## QUESTIONS AND ANSWERS

### Unidentified Audience Member

Thanks, Doug. Could you talk about the inventory management? It seems as if Wal-Mart US has embraced that more than International. And talk about that opportunity -- Tom's laughing -- in terms of growing inventory and half the rate of sales.

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**Doug McMillon** - *Wal-Mart International - EVP, CEO and President - International Operations*

You're being helpful.

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### Unidentified Audience Member

Okay, thanks.

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**Doug McMillon** - *Wal-Mart International - EVP, CEO and President - International Operations*

We have been talking a lot about inventory management in International and I'd like to call on one of the country presidents to answer it -- just kidding. There's a certain bit of room for improvement in the International division, and we have the same objective that Tom has stated many times; to get our inventory to grow at about half the rate of sales or less.

And there are processes that we've been using both in Wal-Mart US and in Sam's Club with Todd Harbaugh's leadership that can be deployed around the world. And the truth is some of them are being used and some of them aren't and there are different attitudes about inventory around the world. And the first thing we have to do is win some hearts and minds that this is really a priority and by asking the question you just helped me do that, so I appreciate that.

Clearly a huge asset, opportunity to drive return on investment, and within the International division that's one of the key focus points; sale growth and return on investment that I've really got on my mind. So I have made a commitment that we will improve as it relates to inventory management, so you can hold me accountable to it in future conversations.

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### Unidentified Audience Member

(Inaudible-microphone inaccessible)

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**Doug McMillon** - *Wal-Mart International - EVP, CEO and President - International Operations*

Yes, you can. As long as the bar doesn't get any higher.

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**Mike Duke** - *Wal-Mart Stores, Inc. - President, CEO*

In fairness to Doug and his team, the situation in inventory is a little bit different in the international markets. As you all know, I think, Charles, in every quarter, we talk about our inventory -- payables to inventory ratio, and as a corporation that number last quarter was a number like 83% is the number I remember. In our international markets, that ratio, Doug, in many cases could be higher or way higher to the extent where payables might be higher than inventory. So, that's something to keep in mind.

Having said that, the emphasis on improving inventory remains an ultra high priority, so without putting words in Eduardo's mouth, I think -- just like we said this morning the lower inventory in the store systems that we have now is helping us run better

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stores. It yields a better customer experience, lower mark downs, lower shrink, lower accident costs -- just better overall. So, that's meant to be a fully rounded answer.

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**Unidentified Audience Member**

Just to add onto the last question, is there anything that's happened in the US supply chain that we can kind of carry over in terms of learnings to International? And then secondly, can we also get an update on EDLP and EDLC in Japan?

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**Doug McMillon** - *Wal-Mart International - EVP, CEO and President - International Operations*

John, why don't you answer the supply chain question.

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**John Aden** - *Wal-Mart International - SVP International Operations*

Yes, of course, there's a lot that we can learn from the US. In fact, most of the processes that Doug referred to just a moment ago, frankly, originated here or in many cases from the UK, and we're just in the process of then harmonizing those around the globe.

So there's the process side we learned from the US, but there's -- I think even bigger right now is the structural changes that the US had done that I think have really been significant and key in some of their success here that obviously we have an opportunity to learn from that and replicate around the world.

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**Doug McMillon** - *Wal-Mart International - EVP, CEO and President - International Operations*

One conversation that we've been having is, where could we work together process wise across countries that would create more scale -- more leverage, create more economic value. And while we want to protect the [autonomy] in each market to serve the customer, it's possible to do that at the same time as leveraging some of the back end processes. And I say processes instead of systems because until we have common processes, Roland would quickly remind me it's hard to have common systems.

Relative to the EDLP in Japan, Ed Kolodzieski, do you want to pop up and answer that question, please?

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**Ed Kolodzieski** - *Wal-Mart International - COO*

In regards to the EDLC side, when we had the analyst's meeting in October, I talked about the fact that we had reduced expenses by 180 basis points from the prior year. That is not a one year kind of event where I'm not able to really disclose the specific numbers, but you will be looking at a multi-year, large reduction in expenses. We have a ways to go.

We are continuing to see very large improvements in productivity at store level. Doug talked about this units per labor hour -- that is a statistic that's important to us. We've improved in units per labor hour by 30% compared to the prior year.

The reason for the intense pressure on expenses is to be able to invest heavily in price. All of our price investments seem to be paying off very well. From an EDLP standpoint, we look at it as having price leadership. We are very comfortable that from a food and consumable standpoint that we can tell our customers with confidence that we have the best price in the neighborhood. And because we're able to do that in those particular categories, we are seeing really quite good growth in comparison to what we've had in the past.

We don't have price leadership in every category throughout the store, so there are some general merchandize categories that we still have some work to do.

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**Doug McMillon** - *Wal-Mart International - EVP, CEO and President - International Operations*

Go to Dan.

**Daniel Binder** - *Jefferies & Co. - Analyst*

Dan Binder, Jefferies. A couple of questions. First, I just wondered if Andy could give us some feedback on what he's seeing in terms of a competitive response as he takes share? Typically competitors are nothing like that, right? So, I'm just curious what you're seeing on that front. Secondly, if you could give us a little more color around this Chilean integration -- what is really different?

And then thirdly, perhaps the most difficult question, your operating margins have been down three years in a row on International. Some of that has to do with FX, some to do with acquisitions. We understand that, but it's the fastest growing part of your business. You've focused on ROI -- when we expect that to reverse trend?

**Doug McMillon** - *Wal-Mart International - EVP, CEO and President - International Operations*

Okay. Let's take them in that order. Andy?

**Andy Bond** - *Asda Group Ltd. - President, CEO*

Yes, I mean inevitably there's some tough, good competitors who are not going to just sit down and let us take their share. And the way they're responding, as you might expect in an economic downturn, everyone's being very tough on price. And I would suggest actually that's great for us. And if you look at TV and press advertising is a simple example of that.

Two/three years ago all of the top four retailers in the UK had very different marketing propositions. Today, everyone is trying to tell people that they're the lowest price. In a couple of weeks we, again, for the 12th year running we'll be awarded the accolade of being the lowest price retailer, so their attempts are great for us.

**Doug McMillon** - *Wal-Mart International - EVP, CEO and President - International Operations*

John, do you want to describe project forage?

**John Aden** - *Wal-Mart International - SVP International Operations*

Yes, so as far as the integration goes, this is something that really we started working on more than a year ago -- a new template for how we might approach this. And I think the simple answer is to really accelerate integration by focus and there's three key areas we focus on; the mitigation of risk, the transfer of the culture, and then ultimately the harvesting of value.

And each one of those buckets we've tried to isolate what are the most significant activities that we can do that yield the biggest return and the shortest amount of time, and then to stay focused on that and not be distracted by the literally thousands of other of things that we can become distracted by.

And by the way, this goes both ways; it's not just what we have to offer to the DNS or to the team in Chile, but it's also what we can harvest back and then kind of reverse engineer around the world. And Kevin Harper and our integration team, I think, have done a fantastic job so far bringing this to life. It'll be really interesting to see how it plays out over the next few months.

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**Doug McMillon** - *Wal-Mart International - EVP, CEO and President - International Operations*

So relative to the mix of operating margins and profitability I would offer - I would ask Wan Ling, if she's still here, she was right -- there you are, to add anything else you want to add to what I'm about to say, but the focus would be on portfolio management. And we've been reviewing the efficiency frontier -- that tradeoff between risk and return, and how could we blend a portfolio together that would chart the path that we want to chart.

There's a lot in that, as you know -- potential acquisitions come into play, price competitiveness in certain markets that are still underdeveloped from a share perspective for Wal-Mart, So I think my answer would be we would like to see improvement, but at the same time if there are acquisition opportunities that pop up around the world we're still going to take advantage of some of those opportunities.

But over time, in terms of the way we manage the portfolio, our expectation will be the same as yours is that we would be bringing that up to be more in line with the rest of the Company as we deliver the growth that the Company is looking for the International division to deliver.

She said I did okay.

**Daniel Binder** - *Jefferies & Co. - Analyst*

Yes, I guess along those same lines, I'll come back to Ed -- I don't know if he's still over there or not, but I was just curious -- of an update, do you think that the business will break even this year like you did think earlier in light of what's going on?

And I was curious also you had centralized some processes there with meat and some other areas to reduce costs and I was curious whether or not the competitor is responding to more of a packaged product than a local cut product and how that response might be?

**Doug McMillon** - *Wal-Mart International - EVP, CEO and President - International Operations*

Okay. Well, the first one is we really do not provide country specific profitability forecasts, so I don't believe I'll be in a position to answer that question for you. Your second question which was about the meat processing, that has actually gone very well. When we went to the centralized meat processing, we are doing the processing ourselves. The product looks exactly the same as it looked when it was processed in the store, so the customer is not seeing a difference.

What has been surprising is because our in stock is better we have had a sales increase in meat that outpaced what we were expecting. A lot of times if you go through those transitions, you have some bumps in the road, you have a little bit of a negative trend and then you kind of work your way through it. We were fortunate; the bump in the road was a positive bump.

**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

Let's take one more, okay? [Greg]?

**Unidentified Audience Member**

Doug, now that you have a few months in the new role, what's been your biggest surprise in terms of opportunity? And to follow up a little more on that, do you think the growth opportunity more is through acquisition or through building market share in all the markets you already are, given how many markets you're already in?

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**Doug McMillon** - *Wal-Mart International - EVP, CEO and President - International Operations*

Organic growth first. M&A within the countries that we're in, and some cases there's still a great opportunity. And then thirdly, entering new markets is how I would prioritize it. I don't know that there have been a lot of surprises. I mean, when I stepped into the job my expectation was that we had great talent, that there was a lot of autonomy happening in the markets, and I knew that we were winning and taking share virtually everywhere.

And those things have continued and the talent assessment was right in my view. And so, what I'm trying to figure out and I think I have maybe 90% clarity on it is what role can I play that will add even additional value and kind of take the baton from Mike and take it to the next level. And right now my answer is the scale issue. I think autonomy is most important and that we need to protect it, but this problem that we have where we're solving the same issue 15 times, it doesn't make sense to me.

Working at Sam's I knew what problems we were solving. Working next to and around Eduardo I knew what problems he was working on. And as I've traveled around the world and I've been almost everywhere since February, there are smart people in every country trying to solve the same problem and it's relative to how we're checking people out or what the in stock level looks like or how we manage inventory.

And so, what I see is an opportunity to cause us to agree that some of those things should be done in the best practice manner and then do it that way and create more value for the Company. So that's where our focus is, and particularly John Aden is helping to figure that out.

**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

Thank you, Doug, and the rest of the International team. Next step is Eduardo Castro-Wright, the Chief Executive Officer and Vice Chairman for Wal-Mart.

## PRESENTATION

**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

Good afternoon. I'll start by asking each one of the team members, although you know some of them -- I thought probably I'd refresh your memories. Bill Simon is our Chief Operating Officer. You've heard a lot about the impact that Bill has had across not only stores, but he has also responsibility over some of the things you've heard today -- and that actually Rick Webb got even the innovation award and some were an award today for. And Bill is responsible for that, and certainly he's responsible also for distribution and logistics. So a very broad operating role that has made a big difference in the Company.

Michael Fung -- Michael is our Chief Financial Officer. John Fleming. You know John well -- Chief Merchandizing Officer and again the architect, the visionary in what has to do with how we go to market today. His win, play or show strategic framework is making a big difference, and we'll take the opportunity today to update you on some of the things that we've done.

Mr. Stephen Quinn -- Stephen is the Chief Marketing Officer. And again, he's been behind every single decision on how we bring to life the Wal-Mart brand in the United States and more now, Doug, across all markets once we have proven that the integrated way of managing the brand has proven to be very successful.

A new team member that you haven't -- you have met in the past, but not as a team member of the Wal-Mart US business and that's Tom Mars. He's our Chief Administration Officer today and he's got a lot of responsibilities, but I would single out two that I believe that are critical for us. The first one, he is responsible for talent development within the Wal-Mart business and as such he's got his hands and fingers in the future of the business.

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And the second is compliance. As you know that's been an area of opportunity for us in the past and having someone of Tom's talent now leading that effort across multiple areas in the store and in distribution centers and across businesses, I think, it's going to be great. Eric Zorn. Eric has responsibility for real estate for the United States so he does both -- and his team does real estate and of course traction both for Wal-Mart US but also for Sam's Club.

Jane Thompson. Jane leads our Financial Services business and it's a business that's been growing at pretty nice rates over the last few years and we're very pleased with. And it's probably a business that works extremely well in delivering the grand promise of saving money to customers and we do that everyday with financial services that are very expensive, particularly at times like now where you have so many people that are un-banked and many that were banked and now suddenly find themselves un-banked. Those financial services that we provide become incredibly important for our customers.

And Jeff Macho is in charge of global procurement. Jeff works with both John Fleming and myself on helping hands with Doug McMillon, and helping us create that economic value that Doug just talked about in terms of, so how do we take advantage of our global scale and how do we make that a reality not only for the United States, but across the globe.

With that, let me just address briefly what I believe are the highlights for the business in the US. I met with many of you recently, so what I'm going to tell you is not news. First and foremost, I believe that we are very pleased with our financial performance in the first quarter. We had a very solid quarter.

We had very nice comp growth during that quarter and, more importantly, we outperformed the market across not only the total business, but we outperformed the market in each single one of our business units. As you know, we have segmented the business in six businesses in total - including -- seven actually once you include financial services. And in each one of those businesses, we -- our comp growth is higher than the leading competitor in each one of those for the past quarter, so very solid performance.

Inventory was mentioned already, but I think that we should highlight that again because I think it reflects the effort that we have done in the last three years to start with the low hanging fruit. As you will recall, when we just decided that we would not have risers in the stores and we talked with many of you about that -- that was a simple decision.

The more difficult one was the process driven decisions that required to be made and that in many cases required also a systematic support, and now we've been building those systems and as a result our inventory for the first quarter was down I believe 4% on the sales growth of almost 4%, so a massive change in the inventory that we carry in our stores.

Tom Schoewe said it already, but I will repeat it, Tom, that has resulted not only in more free cash flow as you would expect, but it has resulted in much better financial performance simply because of the fact that we touch the merchandise a lot less, we don't have as many accidents, our mark downs are lower, our shrinkage is at record lows, and that whole compass it becomes incredibly powerful in driving the overall business.

In addition to great performance in inventory and the fact that we had pretty good growth, other highlights have to do with the (inaudible) about project impact. Project impact is more than the store. And I've mentioned this in the past, but we'll reinforce that today. It is really the way that we go to market today. It is based on the principle that what we stand for is that we save customers money.

And we save them money and you know that that is a very powerful proposition not only today, but forever. And as you know, many of our competitors are finding that they would love to own their trust. Unfortunately, for some of them the fact of the matter is that Wal-Mart owns that position in the marketplace. Customers trust Wal-Mart to deliver on that promise. And because of that, we obviously enjoy a momentum that some others might lack.

In addition to that, to deliver on that save money promise, you can't do that if you don't assort the stores in ways that actually improve the customer experience, but more importantly it also balances margins across different categories. So how you assort

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the store and how you present merchandise which has been the center of all the transformation that John Fleming has wrought is also having a major impact as part of this redefinition of how we go to market.

And last, but certainly not least, the fact that our customers today and we survey them -- we have a very robust survey that we do every month of over 0.5 million people that we ask every month to rate their individual stores. And they rate our stores today as being cleaner, as having faster checkouts, and having friendlier associates. And that composite of great customer experience that has been -- every month has been going up and I'll let Bill later on talk about that has resulted in overall satisfaction with the brand that is record highs.

In addition to that project impact and inventories and our store growth, the other part that we're very pleased with is how we have managed capital. And our capital efficiency model continues to produce outstanding results for us under Eric's leadership in real estate, but also across every one of the businesses that manage capital we have seen incredible performance in terms of getting our construction costs down for example significantly. And looking at stores also and opportunities to enter markets that we did not enter before with formats that we have tested and that we're pleased with some of the results.

So overall, a pretty good and solid performance in the first quarter. Now as we go into the second quarter, as you all know, we have some significant headwinds. We've covered that with you all. Also those headwinds are related to the fact that last year we had a very beneficial impact from stimulus checks. We captured more than our fair share of that benefit, and that obviously will have an impact this year. That is a trend that for this quarter is going to be a headwind.

Fortunately for us we have put in place the processes as I said before that allow us to manage our cost structure in ways that we know how to protect the bottom line even when the going gets tough in terms of top lines. So, we feel good about the underlying performance of the business and we do expect that once we roll over this bump in terms of stimulus checks -- and again we've disclosed this in the past, that we -- our underlying performance that has been around 2.5% to 3% comps that that underlying performance is one that we feel very strongly that can be replicated going forward.

So with that, I'll open the floor for questions and I'll ask my team to be ready for that. Robby?

## QUESTIONS AND ANSWERS

**Robby Ohmes** - *Banc of America Securities - Analyst*

Thanks, Eduardo. Actually two merchandizing questions. The first one is some others that you compete with have sort of indicated that across categories they've seen the customer -- if you look at good, better, best they've seen good and better performing much better than best more recently. And if you could comment on if you're seeing that in Wal-Mart US and if you're not?

And then the second question I had is on the price promos increasing externally at your competitors, especially in discretionary categories -- seeing a lot more high/low out there. I've spoken to some vendors even of yours that would say that on items that used to be not in Wal-Mart that are there now that sometimes that EDLP you're achieving better [NURs] than when these brands were in high/low competitors. And sort of how that fits into maintaining EDLP when the rest of the world is getting more high/low and if you see that impacting your business.

**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

I'll ask -- I'll only address that last part and then I'll ask John to take it. But remember that we always have talked about the basket, and our promise to customers that they will save on the basket. We'll -- we've never competed on an individual prices across

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every, every, every market. Now our promise to our customers is that on a market-by-market basis that we will match the lowest price available in the market and that continues to be the case.

And rest assured that we will not allow to be under priced and competitors will find that out because in markets where they are taking some initiatives of that nature, they're finding that we are very responsive because we stand for price and intend to continue to stand for price.

John, I -- if want you to take that.

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**John Fleming** - Wal-Mart US - EVP, Chief Merchandising Officer

Yes, I think regarding your first question, I think the customer's seeking value and so in some cases that can mean that they're going to a lower price point to find that value. But even in the premium products where there's innovation, they're still opting in there and so there just has to be that value.

So when you have innovation with a price, customers are participating. Where it's clear that there's a -- there's terrific value and that's probably even easier for us to communicate at the opening price level, there is [a lot of value], but it's the stuff in the middle where it's not clear what the value proposition is. The price alone isn't enough for what it is unless there's innovation attached to it.

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**Robby Ohmes** - Banc of America Securities - Analyst

(Inaudible-microphone inaccessible)

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**John Fleming** - Wal-Mart US - EVP, Chief Merchandising Officer

Yes, I mean we continue to always look at where the customer is going and where's the growth. And then developing the assortment and the presentation based on where the growth is, so in some cases where customers are seeking more value at a certain level those are the things that we would broaden and sometimes in the middle.

If the customers are not participating as much, that might be reduced. But that is sort of the basic principle -- the win, play, show -- it's a framework to be able to prioritize growth. And so where we see the growth, we expand and then where we see the decline, then we narrow down pretty quickly and to try and drive productivity.

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**Robby Ohmes** - Banc of America Securities - Analyst

So would you say you're editing more towards (inaudible - microphone inaccessible)?

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**John Fleming** - Wal-Mart US - EVP, Chief Merchandising Officer

It depends on the category -- it really it depends on the category. But yes, opening price points are doing quite well.

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**Charles Holley** - Wal-Mart Stores, Inc. - EVP, Finance and Treasurer

Why don't we go over here to the left?

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**Unidentified Audience Member**

Speaking of opening price points, can you guys comment a little bit about the -- an update on great value, the private label relaunch? Have there -- the execution of it. Are you delaying any aspects of that? Can you just give us some color?

**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

Jack? Jack, why don't you take that one. For those of you that have not met Jack Sinclair is the Executive Vice President that runs our grocery business. He's from northwest Arkansas as you will know pretty soon.

**Jack Sinclair** - *Wal-Mart US - EVP, Grocery Merchandise*

You'll hear from my accent I'm not from Arkansas or Alabama. Great -- great value. We've put a lot of work and resource into this over the past year and under Andrea Thomas' team there's a whole load of relaunches coming through and they're feeding their way into the store. But strategically, we're about selling brands for less. Our program is all about selling the brands that matter most to our customers in that basket at that discount -- at that price separation.

So, the work that we're doing on great value is very much about giving our offer to the customer, but it's about making it as an alternative -- not -- it's not we're trying to get to the kind of levels that Andy Bond in England would have in terms of what the participation is in private brand. We're about putting a very professional team in place who can bring products that are very clear, very well formulated products, very well presented products, but we're very much about trying to sell brands for less and providing great values and choice within the range.

**Unidentified Audience Member**

And has the plan changed from the beginning of the year to where we are today in terms of the timeline of what you're trying to do?

**Jack Sinclair** - *Wal-Mart US - EVP, Grocery Merchandise*

No, I don't think the plans changed. I mean, categories come and go into what we've done and certain categories have happened faster than has happened in others. But as John says, what we're doing -- we're responding to where the customer is going so if the customer is going to OPP or going to the entry point price, we will be there for the customer. If the customer is not then we won't, but we're still very much on track with the original plan.

**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

Stephen Quinn as you know leads marketing and the private label relaunch are a great value and other brands has been the work of Stephen's team. We've taken a page from the consumer product company's book and have replicated what you would see there in terms of marketing being responsible for product development and how the brand gets built.

And then it's hands -- and the consumer products company would be handed out to your sales organization and marketing and here it moves to merchandizing. So, I don't know if you want to add something with respect to private label?

**Stephen Quinn** - *Wal-Mart US - EVP, Chief Marketing Officer*

Yes, the only I will add to what Jack said is there -- clearly there is a customer that is looking for a private brand offering or in some cases has to use a private brand. And I think what we're doing is providing a better offering than we have in the past to

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that customer so that that customer doesn't have to supplement their national brands by going to another retailer. So effectively now, I think as Jack said, we've got a portfolio that really meets a broader range of needs for customers.

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**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

Let's go in the center -- Mark.

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**Mark Miller** - *William Blair & Company LLC - Analyst*

Mark Miller with William Blair. I have several pharmacy benefit questions for John. Can you talk about some of the key of earnings from the Caterpillar pilot as you evolve your strategy? And what are their long-term objectives here, and how are you measuring success?

And then last, you have great generic pricing, but what steps are you taking to improve the pricing on (inaudible) those particular (inaudible) which later you were telling in there? (Inaudible) you've talked about the pilot and what you've learned, but I thought for this audience to maybe also integrate that in how we think more broadly about the stores as well. But what are the greatest learnings, successes from that program?

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**John Fleming** - *Wal-Mart US - EVP, Chief Merchandising Officer*

Absolutely. So I think for those of you that aren't aware, it's a pilot program that we've recently begun to expand with Caterpillar a wonderful company -- a program basically where we offer Caterpillar great prices on prescription pharmaceuticals and in response they incent their employees to come to Wal-Mart to fill their prescriptions. It's really that simple.

Caterpillar continues to use its pharmacy benefits administrator to manage its claims transaction data flow and that end of the business. But we have a direct relationship with Caterpillar on product, on prescription pharmaceuticals. It's gone very well.

I think it's safe to say that it has done better than we expected at this point and we're quite pleased. More importantly, the customer appears to be very pleased -- the employee. I would say that it's not a mandatory program -- meaning customers can choose to fill their prescriptions wherever they want in the affected market and from our perspective it's quite clear the customer is choosing Wal-Mart. So, I think that answers that question.

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**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

I think it does. And the next question was --?

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**Mark Miller** - *William Blair & Company LLC - Analyst*

Okay, if you're willing to take the next part, yes. Just longer term the objectives here -- there's some discussion about how large this passed through model could be in the marketplace. Do you have -- are you past the pilot stage? And I guess for this to become larger you've got great pricing on generics, but some in the industry don't see your pricing on branded pharmaceuticals particularly brands that mail as being as competitive? And what steps can you take to change that?

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**Stephen Quinn** - *Wal-Mart US - EVP, Chief Marketing Officer*

I would just revise what Eduardo said a little earlier -- I think it was Eduardo -- I think Jack echoed that. Our has always been a basket strategy and as it relates to the employer, the employer is very pleased with the savings that they're seeing. We are

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expanding beyond Caterpillar and if you know any companies that are struggling with their health benefits cost, have employees who need savings, we're in that business.

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**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

That's what I told him. I said you [got] here a lot of financial institutions that seem to be in trouble. So I said you probably will find here a very good audience -- they might want to go back to their respective companies and pitch our program to their companies so that --

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**Mark Miller** - *William Blair & Company LLC - Analyst*

No follow up.

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**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

All right. Thank you.

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**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

Why don't we go back there?

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**Unidentified Audience Member**

Eduardo, hopefully everybody appreciates the headwind from the stimulus checks in 2Q, but from your comments it seems to suggest you may have some incremental SG&A savings here in the second quarter. Can you elaborate on that for us?

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**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

I can a little bit. I can tell you for example that if you compare the gas prices year over year obviously they are lower. And if you think about the cost of this tradition for us and how much that weighs in the overall cost structure, you could expect that in relative terms so you get a tailwind from that. So, that's for example one.

The second one is one that I would ask Mr. Bill Simon to talk a little bit more about it which is the fact that productivity from a store point of view is at an all time high and if you read our report for the first quarter you probably saw that wages grew at a slower pace than sales in spite of the fact that we had obviously rate increases as you would expect. So that gives you a sense of how much productivity is having an impact.

Bill, I don't know if you want to examine that.

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**Bill Simon** - *Wal-Mart US - EVP, COO*

Thank you, Eduardo. Across all of our store operations at logistics and warehousing operations, productivity initiatives have been underway that are yielding results. Some of them you've seen in the previous quarters, and we continue to accelerate those.

You know Rick Webb got the award this morning for leading a lot of those projects -- the back room project that I've described to you before has been -- I think it certainly exceeded all of our expectations to the point where Thursday when we had our

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hourly associates in Bud Walton where you all were this morning, they were spontaneously applauded on inventory management and back room process.

And that in and of itself would tell you how much it means to them because it's making their lives easier which then allows them to be more productive and us to be better in stock and to deliver a little bit higher sales and a better return in stores. And we continue to accelerate those activities and believe that we're on a productivity cycle that will begin to -- or continue as it has for the last about 18 months to generate operational improvements.

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**Unidentified Audience Member**

Eduardo, you've had tremendous success in combining the supercenters and the neighborhood markets in various metropolitan areas. Could you comment on how the market size and some of your other newer small formats might fit into this overall scheme of things, and what has been your experience so far?

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**Eduardo Castro-Wright - Wal-Mart US - Vice Chairman**

Certainly. We -- if you think about our neighborhood market -- and by the way market side is -- it's a neighborhood market; it's just a different size of grocery store. But the principal is the same, it's to capture a different shopping trip. Right? And typically, our supercenter has done a brilliant job in capturing your stock up trip and in some cases your fill up trip. But you still have a significant number of grocery trips that we are not capturing and that our grocery stores led by our neighborhood markets certainly can do.

Under John's leadership and I'll ask him to cover a little bit more on this, but under his leadership we have been refining not only what the supercenter look likes - and that's what you've seen at project impact, -- but also what -- how do we go to market with grocery stores.

The best example of that and I think it's a -- the best way to exemplify that win, play show strategy where you have categories like fresh where we have defined that in fresh we're going to win, but you have a very large segment of the population that is -- would be -- the Hispanic demographic where the presentation of fresh requires a different level of authority than the one that we have in supercenters.

And if you think about grocery stores then and neighborhood markets, the transition to serve those specific opportunities as you would have for example with our recently opened supermercado de Wal-Mart which is in Houston. Have you been in that store, [Maggie], yet? If you haven't, I suggest you might want to go -- it's a wonderful way of presenting fresh merchandise with authority.

John, I don't know if you want to add to that?

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**John Fleming - Wal-Mart US - EVP, Chief Merchandising Officer**

Yes, I think we're in the process of what we did for the supercenter with project impact of applying those same principles to the neighborhood market and, in fact, we had an opportunity with an existing neighborhood market to convert it to the supermercado because it was in a Hispanic neighborhood and it gave us a chance to really pilot a new program which would better connect with that consumer.

But we did some pretty dramatic things there where we increased the presentation of fresh dramatically and downsized some of the packaged goods and some of the frozen areas, and we were able to drive - I mean when it opened it got just incredible

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response from customers. And the sales kind of fell the way that we had spaced it, so I think we got to the -- sort of the same level.

And what you'll see over the next few months is that we are taking that same approach with the general market - neighborhood market where we will apply some of those same principles in terms of adjacencies and space allocation and you know navigation site lines and product presentations to figure out how can we better engage customers in different shopping occasions because the supercenter it is a tremendous vehicle for the stock up and we get some fill in there, but we think there's an opportunity to have complimentary vehicles where we can get quick trips and more of our share in fill ins.

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**Charles Holley** - Wal-Mart Stores, Inc. - EVP, Finance and Treasurer

Let's do one more question. David?

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**David Strasser** - Janney Montgomery Scott LLC - Analyst

Thanks, a lot. You know in the first quarter you talked a bit about on the conference call about the healthcare costs being significantly higher. Can you just talk about the opportunity that through the year or into next year how we should be thinking about that opportunity to manage that a little bit maybe into the back half or least into next year and how we should be thinking about it?

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**Eduardo Castro-Wright** - Wal-Mart US - Vice Chairman

That certainly is going to continue to be a headwind this year. As you know, the programs change on a yearly basis. Part of the issue has to do with the fact that with the current economic environment and just the dynamics in terms of employment that that has created, there are things in the design of programs that you will have to adjust for different circumstances. And this is probably one where a program was designed for a different type time and we need to adjust that.

As we enter the enrollment period at the end of this year, then we can make those adjustments so you can expect that we can optimize some of the issues that we have right now going forward next year.

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**David Strasser** - Janney Montgomery Scott LLC - Analyst

So as we think just about that -- the 37 basis points that it was up in the US -- I mean was that -- you said it was predominantly that. I mean, should we be thinking that is a cost that's going to continue that same type of dollar amount -- 200 and some odd million per quarter for the rest of the year?

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**Eduardo Castro-Wright** - Wal-Mart US - Vice Chairman

I wouldn't make that assumption. I wouldn't make that assumption.

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**David Strasser** - Janney Montgomery Scott LLC - Analyst

Do you think some of it --?

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**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

No. And you have to think that in addition to that I believe that we also disclosed that we had some incentive bonus payments to our stores that also impacted the cost in that quarter and as you know those are related to performance. So if there's performance I'm glad to pay those, too, even if they have a headwind against -- and that's going to the store, so I wouldn't make -- that assumption you just made is one that --

**David Strasser** - *Janney Montgomery Scott LLC - Analyst*

So it may be a little aggressive -- that is --.

**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

I think that's aggressive.

**John Fleming** - *Wal-Mart US - EVP, Chief Merchandising Officer*

And if I could, Eduardo, expand on that just a little bit. There is a little bit of a catch up adjustment that took place in the fourth quarter. You heard us talk about it in the first quarter again. Specifically what happened, Susan Chambers, is we saw the level of take up in the program higher than we had anticipated. With the benefit of that in hindsight you've got to go back and correct the record for that.

The second thing is the utilization -- once you have more people participating -- was higher than we expected so the catch up nature of this, David, is not going to replicate itself. Eduardo, there is a higher ongoing cost level. That's going to be a pressure, but the level of increase that you saw in that quarter is not representative going forward.

**David Strasser** - *Janney Montgomery Scott LLC - Analyst*

Can you give a sense of magnitude on that, or should we just kind of --?

**John Fleming** - *Wal-Mart US - EVP, Chief Merchandising Officer*

I think you'd understand.

**David Strasser** - *Janney Montgomery Scott LLC - Analyst*

All right.

**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

All right --

**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

The only thing I would add on that -- because I think it's important when we don't talk -- we talk only about the cost side but we're not talking about the other side and the fact of the matter is that if you look at our healthcare offerings right now for our associates are best in class. And that has also beneficial impact in the business.

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Suffice it to say that we just had our engagement score both associates (inaudible) field management and in both cases (inaudible) to report that (inaudible) so people -- our people appreciate what we're doing for them, including that component. Now it is a much lower cost than any other retailer today for associates, so we've got a pretty good program. It costs little money.

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**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

Okay, Eduardo. Thank you, Eduardo Castro-Wright and the rest of the Wal-Mart US team.

Next up is our Chief Financial Officer, Tom Schoewe.

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## PRESENTATION

**Tom Schoewe** - *Wal-Mart Stores, Inc. - EVP, CFO*

Hi. You're on the home stretch, we're almost there. Based on some of the conversations I've had in the hallway today, there are a couple of things that I'm going to address up front and then we'll just open it up to Q&A.

First of all, the short discussion -- on share repurchase several of you have asked us is there a specific timeframe associated with the new \$15 billion program. The short answer is no. Just as we would have done two years ago when we had the initial \$15 billion program, we told you that we would be in the market, we'd be active and I think with a bit of hindsight you can see that that is in fact the case. I think we went through, Charles, about \$13.5 billion of that in the last two years, so no assurance on the pace, but assurance that we will be active.

The second thing is a discussion around expenses. It's obvious that any one of your questions have centered on the overall expense level for the corporation. You're as sensitive as we are to that and our business model is. You've heard Brian, Doug and Eduardo talk about this inside their business. I thought I'd take just a couple of minutes and chat about that other segment as well.

Inside there you've heard us talk over the longest time about transformation and we've always had three subsets of conversation around transformation. You've heard us talk about merchandizing, finance and people. Well fast forward to the end. I'm hopeful after our dialogue today the only conversations that we'll have going forward will have to do with the finance transformation that's under way. So, let's talk about all three.

The reason I've come to the conclusion I just stated is my guess is while you care about transformation, you care a lot about your own -- your model that reflects what you think about us and whether or not there's going to be expense pressure year over year. Well what you're going to find out -- take people as an example, Susan -- the work that's been done in transformation there -- a lot of work has been done.

You've seen some year-over-year increases, but going forward you're not going to see significant year-over-year increases. What you're going to see is a continuation of some very good work that's been done on best practices, Tom Mars on talent development. You'll continue to see that happen, but you won't see the people transformation act as a headwind. And so going forward we're going to continue to invest in that -- those best practices are still very, very important for us, but we won't have the need to bring that up in this conversation.

Likewise, when you talk about merchandizing, you've heard about the substantial progress that's taken place specifically in Wal-Mart US. One of the many things we've got a great strategy and that's what is driving this whole thing. But an important part of that strategy is the role that systems has played and the tools that have been helpful to John and your team to help us get to where we are now.

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We will continue to invest in those systems but again it's not going to be presenting year over year headwind for your model or for us as we're closing those books. So again -- like the people things -- we're going to continue to invest in systems for merchandizing, but you're not going to hear this conversation on transformation going forward.

Finally, you have what's going on in the finance area. These are significant dollars that we're investing to catch our financial systems up to the rest of the business for that matter. I've got some good news and some more difficult news on that front. The good news is as we speak this week the very first country that we've put through this process would be Andy Bond and his team in the UK, and in fact we're in the process, Robin Forbis, of going live in that environment right now.

I'm very, very proud of that progress. In all transparency here we're a little bit later than we would have thought. It cost us a little bit more, but we've made solid progress. What you'll see going forward is that we're going to be rolling it out in Latin America, here in the United States and significant dollars will be spent there.

There will be some year over year expense pressure that's created by what's going on in our financial systems transformation. You'll see that probably peak in the second or third quarter of this year and then hopefully after that the year over year variances will moderate. Does that make sense - at least I hope it does.

Before we get started, I should have introduced the finance team as well. Everybody else has done that. If I could get my direct reports to stand up or we're going to confuse you here in just a minute. But I think you all know Charles Holley, Treasurer and capital markets, investor relations, tax; Steve Whaley, corporations Controller; and Ann Bordelon, Chief Audit Executive; Robin Forbis, used to be the CFO for Wal-Mart US, and is now leading that systems initiative -- that financial systems -- the conversation to SAP.

Over here is Wan Ling Martello -- you're probably thinking well didn't she stand up just a minute ago? That's exactly right. She has the unfortunate situation of having two bosses. She's shaking her head up and down. She has to report to Doug and to Tom. The solid line reporting relationship is to me. The day to day activity is into the operations. Michael Fung is the CFO for Wal-Mart US and Liz Kirkwood for Sam's Club. Did we get everybody? I think we did.

We have 14 minutes and three seconds for your questions. [Deb]?

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## QUESTIONS AND ANSWERS

### Unidentified Audience Member

So I think we can all agree you've been very strong stewards of capital. If we think going forward (inaudible) new rates, how should we think about future DC growth?

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**Tom Schoewe** - *Wal-Mart Stores, Inc. - EVP, CFO*

Well I'll give you a macro kind of discussion and then maybe even ask Eric or Bill for that matter to chat about this. Roland, when he was running the distribution network did a very, very nice job of putting a good system in place, leveraging the assets, passed that on to [Johnny Downs] and he has continued to just do a remarkable job of leveraging that base.

What we found, Deb, as a result of all the things that are going on in capital efficiency that includes what's going on in inventory -- not just at the store level but also in the DCs -- I think that our need for the next incremental DC has been put off for some significant time period because of all the operational efficiency that we've seen in the business. I hope I didn't overstate that too much, Bill. Maybe you could expand, or Johnny for that matter.

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**Unidentified Company Representative**

No, I think you said it very well, Tom. In fact, Debbie, we're operating as you see our inventory levels growing less than half the rate of sales. (Inaudible) and dollar levels that we were five years ago. We see a lot of opportunity and efficiencies in the distribution system and we see that kind of in the upcoming years as well.

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**Unidentified Audience Member**

Hi, Tom. Two questions. The first one on the transformational expenses. So going forward is the size of the impact on the expense side in the next two quarters, how does it relate to what we've seen over the last several quarters? Is it going to materially be larger, smaller?

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**Tom Schoewe** - *Wal-Mart Stores, Inc. - EVP, CFO*

No. I think what you should expect to see is that moderating over the next several quarters so we'll get to the point where it's not a headwind quarter over quarter when you make the comparison to the prior year. Hopefully, that's the case by Q3 for transformation specifically.

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**Unidentified Audience Member**

And then the second question is, can you give us an update on your credit card relationship? I think -- does the a program expire at the end of this year and sort of the updated thoughts about that relationship.

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**Tom Schoewe** - *Wal-Mart Stores, Inc. - EVP, CFO*

I'm going to let Charles answer that, but there's one other thing that we need to mention when it comes to both systems investments and transformation. And that is, if you've been listening today you've heard about some very impressive things that have taken place inside the business; in many cases, that's been enabled by the investments that we've made in technology.

We talked about it just a little bit earlier about what's happened in merchandizing, but Bill Simon, I think that the tools that you have today to schedule labor might be one of the many reasons why labor grew at a slower rate than sales over the last little while. So you can't just look at systems investments on a stand alone basis, you need to look at it holistically and see the benefit to the corporation.

I've given Charles the opportunity to think about the credit card question.

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**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

Well we have several credit card agreements, so I have to know which one you're talking about.

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**Unidentified Audience Member**

(Inaudible-microphone inaccessible)

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**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

Yes. Liz, is that maybe something you want to take? Why don't you repeat the question for Liz.

**Unidentified Audience Member**

The question is I think on the credit card arrangement, I believe that the program ends I think with GE this year. If you could just update on the thoughts on how it's been going for you and should we expect a renewal and what's the process from where we are today?

**Liz Kirkwood** - *Sam's Club - SVP Finance*

Sure, so what I'll do is comment briefly and then pass this on to Jane Thompson for US financial services. We actually have separate agreements for Sam's Club and US financial services and our Sam's Club agreement would not be up for renewal this year. Jane, let me pass it to you.

**Jane Thompson** - *Wal-Mart Financial Services - President*

She --

**Tom Schoewe** - *Wal-Mart Stores, Inc. - EVP, CFO*

I feel like a department store.

**Jane Thompson** - *Wal-Mart Financial Services - President*

-- she took the easy one. We do have our contract up now. We're in the middle of negotiations. I probably shouldn't say more. But we hope to quickly have -- it's expiring within weeks and months, and so we are again did an RFP, are in negotiations, hope to come through with a card that will be better than ever.

**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

Dan?

**Daniel Binder** - *Jefferies & Co. - Analyst*

Hi, Dan Binder from Jefferies. In recent conversations with Wall Street, Eduardo has talked about the size of the white spaces that are available in terms of store growth in the US. And he's also talked about how the communities that perhaps were at one time less friendly to Wal-Mart have become more friendly.

Taking that into consideration, and the fact that your -- you've done a great job of fixing what you have if you will, how do you view the opportunity for square footage growth going forward? Do -- would it be fair to say that that could present opportunities to take it back up at some point, or do you think sort of keeping it stable at around 5% or (inaudible) more likely?

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**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

I think that we have expressed in the past that we are prioritizing the opportunities and it starts with the fact that we've got discount stores that we believe can be converted into supercenters. That's the best use of our existing assets and that is priority number one. In many cases that gives us access with food to markets where we don't have our presence with food -- the northeast would be an example of that.

Secondly, we're building smaller stores so even though we might expand the number of stores that we -- new stores that we build every year, most likely on the square footage spaces you're not going to see the same growth relative to the base simply because you've got fairly large supercenters that weigh very heavily on the existing base.

So we do see opportunities to continue to grow that are very consistent with the fact that we have said that if you take the fifteen opportunity markets in the United States, and you take the market share that we have in those markets and project the market shares that we have in other markets and establish how much is that worth, it's worth a lot more than many opportunities outside of the US.

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**Daniel Binder** - *Jefferies & Co. - Analyst*

So the growth rate will stay roughly stable, is that --?

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**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

No, I think that there's a lot of opportunity out there -- a lot of opportunity.

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**Daniel Binder** - *Jefferies & Co. - Analyst*

Great, thanks.

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**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

Let's go over here.

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**Tom Schoewe** - *Wal-Mart Stores, Inc. - EVP, CFO*

Okay, great.

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**Unidentified Audience Member**

Tom, the question relates to perhaps an update on the five financial metrics. Perhaps a year ago we saw an inflection point where on the list there were more positives than negatives. Now it seems like that might be flipping --

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**Tom Schoewe** - *Wal-Mart Stores, Inc. - EVP, CFO*

Yes.

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**Unidentified Audience Member**

-- perhaps more negative. Give us an update on that what that means for ROI. You had talked about flat ROI at the analyst meeting after Q1. We saw that dip negatively even after the DNS acquisition, if you can update us.

**Tom Schoewe** - *Wal-Mart Stores, Inc. - EVP, CFO*

Right. Let's go through them one at a time and Charles will help me - help remind me on the one's that I forget. But the first one would be to have profits growing faster than sales and we would not have met that objective as a corporation during the first quarter and one of the main reasons for that is what was going on, Charles, in that other segment. We've had that conversation and I think you can expect some different things going forward.

The second would be to have operating income growing faster than property, plant and equipment. The same kind of pressures that we describe and metric number one apply on that second one.

The next would be to have inventory growing at half the rate of sales. What I'd like to do is take the next five minutes and 26 seconds and talk about inventory, but seriously the guys are doing such a great job in inventory, especially here in the United States. I think, Doug, we've got a real focus in terms of payables growing faster than inventory. And they all do just an exceptional job there so that would be a green light as well.

The last one I think is home office expenses growing at a slower rate than sales and we've already had that conversation. So having said all of that, what I would tell you is on an apples to apples basis the same kinds of things that we said before about improving ROI continue today, but there are things that have happened. We just did an acquisition in Chile and that's had a pretty significant impact on ROI in the short term.

We have the Chilean assets in the denominator and only a quarter, Doug, of their operation in the numerator so that's going to push the overall corporation down. But the emphasis at all levels in the organization, every business segment or here in the home office is dedicated to managing (inaudible) the best way we possibly can.

That's exemplified finally in how we pay our people. I'd remind you that the most important component - a disproportionate piece of what we call our performance share plan, Susan, our long term incentive plan, is dedicated to hitting our objectives in return on investment.

**Unidentified Audience Member**

(Inaudible) moving towards improving -- appreciating that you're trying to improve ROI, but would you still expect ROI to be flat this year?

**Tom Schoewe** - *Wal-Mart Stores, Inc. - EVP, CFO*

Flat I think is a good assumption. In fact, if we could remain flat with the acquisition that would be a pretty stellar performance.

**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

[Duane]?

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**Unidentified Audience Member**

Yes, I just wanted to come back to the IT transformation a second. I mean companies the first thing they do is usually the financial systems which is what you're undertaking now -- and that's usually the simpler -- I want to say simpler, but one of the more easier things to do.

**Tom Schoewe** - *Wal-Mart Stores, Inc. - EVP, CFO*

Robin, this is simple.

**Unidentified Audience Member**

Well, the next move to that is the merchandizing platform and I'm just wondering when does that come on and how do you manage transformation and implementation risk with that as it relates to cost accounting versus retail accounting? And how you're applying cost accounting versus retail accounting around the world and what are you bringing it to to collectively look at the business in total?

**Tom Schoewe** - *Wal-Mart Stores, Inc. - EVP, CFO*

Well, I'll let Robin and John chat about this more, but what you've heard is where we're doing both at the same time. There's a lot of investment to merchandizing systems primarily here for Wal-Mart US, but the benefit of that hasn't necessarily been borne across the entire enterprise yet. But that's going on at the same time -- Robin, how many months are we into the finance system transformation?

**Robin Forbis** - *Wal-Mart Stores, Inc. - SVP, Finance*

(Inaudible-microphone inaccessible)

**Tom Schoewe** - *Wal-Mart Stores, Inc. - EVP, CFO*

Thirty months. We've been at this for almost three years. What's going on in the merchandizing, what's going on in operations that's all happening at once. Maybe [Roland] you could comment about the integration of those across the enterprise?

**Unidentified Audience Member**

And I guess if you could speak to the issue that company's typically have and that is you know moving from retail accounting to cost accounting and the inventory alignment issues where you end up with differences as you kind of make that transformation. Thanks.

**Unidentified Company Representative**

I'm going to let Tom talk about the accounting changes. I'll talk about the integration just briefly. One of the biggest things that we have to deal with with the integration is the data. Making sure that the data is clean as you purge from one legacy system and you start into SAP for example, and that's where we're putting our efforts. We're pleased with what we're seeing so far. Is it heavy lifting? Is it complex? You bet it is.

Now on the cost accounting and the accounts, I won't cover that.

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**Tom Schoewe** - *Wal-Mart Stores, Inc. - EVP, CFO*

I'm going to let Robin cover that. We'll he's kind of -- what you need to know on the issue that Roland just mentioned on that data integrity kind of stuff, as we've prioritized that what's important to us and the implementation, especially on the finance side, while you'd expect costs to be item number one, it's not. It's quality. We're ensuring that while going to do this we're going to do it right the first time. That's why we're a little bit later than we would have liked in the UK, Andy, but the team in the UK has just done a spectacular job keeping quality item number one.

Robin, let's talk about accounts.

**Robin Forbis** - *Wal-Mart Stores, Inc. - SVP, Finance*

In terms of accounting, we have both cost accounting and retail accounting around the world -- even within the US we have both. And at this point in time we're not changing those accounting methods.

**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

We maybe have time, Charles, for one more question.

**Tom Schoewe** - *Wal-Mart Stores, Inc. - EVP, CFO*

One more.

**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

The fellow right here in the middle. He's been very patient.

**Scott Mushkin** - *Jefferies & Co. - Analyst*

Thank you. Scott Mushkin at Jefferies. A couple of follow up questions for Eduardo actually. When you're looking at the US grocery business, some of your traditional competitors look like they're starting to panic a little bit as far as pricing goes. Do you have a stated goal where you want to be as far as distance from them? You know most of our surveys show 15 to 25 is where you've traditional been, but that seems to be eroding.

**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

Appears to be.

**Scott Mushkin** - *Jefferies & Co. - Analyst*

Appears to be eroding with our pricing surveys in some markets. The second question is you have made acquisitions in the grocery business outside the US. Would you ever consider one inside the US?

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**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

I'll start with the second one. We don't comment on acquisitions. But the first one on pricing, the fact is that we believe that we are expanding the gap, not -- the gap with grocery -- all the grocery stores are closing in to. We clearly have very good third party information that doesn't take just a couple of stores in a couple of cities but across a broad geography that indicate that our price differentials are expanding not contracting.

So, we continue to invest in price and it is without any doubt the most important and top of mind initiative that this organization has. Now John or Jack? Jack, do you want to --?

**Jack Sinclair** - *Wal-Mart US - EVP, Grocery Merchandise*

Just to reiterate what -- and why it's the single biggest thing we focus in on price. We're looking at markets right across the country. We've got 72 markets where we look at, what/who/where are grocery competitors are on a broad range of products and we're looking at that. We are seeing one or two pockets where there's one or two things happening in individual categories, but across the board we're seeing a growth in our price separation not a contraction.

**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

Okay, thanks Tom Schoewe.

And for our final agenda item, we have Mike Duke back, our CEO, to wrap it all up. Mike?

## PRESENTATION

**Mike Duke** - *Wal-Mart Stores, Inc. - President, CEO*

Okay. Some great questions, so I'm sure you don't have any more because you've pretty well covered the whole field I think -- so, really outstanding. And I've already given my opening comments so I'm not going to say much more except that you know there might be one question in your mind where you have to kind of create your own answer.

You know from this visit you might say how does it feel now a number of months after the transition from Lee Scott to Mike Duke. And so, let me go ahead and help you with the answer. I'd say if it's -- and this is what I'd want you to feel -- is seamless continuity with a foot on the accelerator because if you kind of get a sense of Eduardo and the leadership team, all of this is not related to who the CEO of the corporation is.

This is -- this would be leadership teams that they understand their customer and Sam's understands their member and there's new perspectives with the Sam's team that's just going to make change even faster to really meet the needs of the member. There are country presidents around the world, Doug, that are the most talented leaders in those markets and this is not related to who the CEO of the corporation is.

I think what you see is (inaudible) been on is the path (inaudible) and I think then we want to go faster. We want to have a greater sense of urgency. So if you look back over the last 12/18 months, there are a lot more things that we like, there are more positive things happening. So if anything that's why we use the word accelerate even more and I think that's kind of the tone of the Company right now.

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But I would -- you might have another question or two and I would certainly open it up if you have for me or something in general we'll see. I will tell you, you know Charles and I were talking and Carol -- I know we don't have the dinner tonight and you don't have the flow trip tomorrow.

But I do have my -- I was checking last night because I'm going to eat at home tonight -- I've got some great value pizza in the new bright box, Jack, that looks fantastic. We've got a couple of extra if any of you don't have plans for dinner, we can still offer that. And we don't have a flow trip, but maybe we can work out something if someone just misses the river so much that they just can't get away from it.

So any questions that we've got?

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## QUESTIONS AND ANSWERS

### Unidentified Audience Member

I've got two of them I'm dying to ask. So one, we didn't hear much about the Wal-Mart smart network and if we could get an update there. And then also has there been another opportunity with Global Sourcing?

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**Mike Duke** - *Wal-Mart Stores, Inc. - President, CEO*

So the smart network is all about people, so I'd say this is the smart network up here, but I'll leave it up to the smart leader of the US to answer that.

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**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

And I'll leave it to the smart market guy --

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**Mike Duke** - *Wal-Mart Stores, Inc. - President, CEO*

Smart marketing guy.

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### Unidentified Company Representative

I didn't quite get the connection between the smart network and Global Sourcing. What?

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### Unidentified Speaker

(Inaudible- microphone inaccessible)

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### Unidentified Company Representative

Oh, okay, good. I really don't want to talk about Global Sourcing. We are in the roll out of the smart network and it's in several hundred stores right now. We're tracking it very closely. One of the parts of it that's really impressive is that we have the best customer metrics we've ever had for something like that, so we're reading it very closely in terms of how our customer is reacting.

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I can tell you it's very positive and our expansion plans will continue right along the lines of project impact where it's going. And so, we're really excited about what it offers us for the future. Thanks for the question. And then Global Sourcing?

**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

On Global Sourcing, for the past few months we've been working on redefining what Global Sourcing looks like. We have advanced quite significantly in establishing so where are the opportunities for leverage.

And we have defined jointly with the presidents of every country a path forward that basically has us first developing a supplier matrix that's going to be a global supplier matrix that will help us in many fronts, including the fact that it will help us leverage scale across multiple geographies. But very importantly also it will help us manage our responsible sourcing in ways that if you have a broad supplier base it's more difficult to do. So, that's the first one.

We have also, under the leadership of Linda Hefner from home, we're using the home business as the first one where we are establishing what we've called a global merchandizing center where we are testing some concepts in terms of product development that should again help us leverage scale across multiple geographies. It's very early on in the process to have more than that, but that's directionally where we are at right now.

**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

How about Greg?

**Unidentified Audience Member**

Hi, Mike, you've talked a lot about hitting the accelerator. So, what's the constraint on the accelerator? Is there a speed limit? Will that require more CapEx? Does it require more people? And is it more about improving the execution and the assets you have or is it getting into new areas?

**Mike Duke** - *Wal-Mart Stores, Inc. - President, CEO*

That's right. It depends. You know every strategy has its own set of variables. So, whether it's project impact in the US it really may be about evaluating the results and then determining what the next steps are and how to capitalize at the appropriate speed. Sometimes it could be capital. Sometimes it's human resource constraints.

So you know what you'd like to do is just go all out, but obviously that's not always the best business practice. So you have to accelerate, but you have to do it in the intelligent way with looking at what those constraints [are]. I would hate to avoid giving you a specific answer, but every strategy has its own set of variables.

The savings that come from sustainability with packaging and a lot of those initiatives -- there's very little constraint. That's really about human energy. It's about the merchandizing areas around the world. The buyers working together to say with suppliers how do we really do even a better job of accelerating some of the efficiency that comes from sustainability initiatives.

Store productivity -- I love the Rick Webb not just because I'm an engineer, but I love the fact that Rick Webb's -- the award this morning that he received on the stage and I think that's a case where those strategies, Bill, you're already accelerating, but you'll even turn it up a notch based on you start to taste success.

So then Doug starts to have members of the international team working and kind of embedded with Rick Webb's team so that he can accelerate the benefit from there to the international markets. And that's the kind of thing that sometimes you reallocate

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human resources. You put people -- where you know something's winning, you put some additional people there to move faster across more markets, more countries, to leverage the benefit even more.

What Eduardo was talking about with global procurement I think is a real good one about I love the passion that Eduardo has taken on that initiative of say how do we leverage our purchasing world wide. What I think is outstanding, as the US merchandizing areas really -- like Linda's program in the home area that Eduardo mentioned -- that'll start to create great product. Look - just look here in the auditorium.

The international markets then have an opportunity, I think, then to tie in even greater at a faster pace of how to leverage purchases, so --. And again I hate to avoid, but every situation you look at, you say what are the constraints, what are the particular areas and then how do you accelerate that strategy.

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**Unidentified Audience Member**

So if I was to put it in a process, it sounds like you want to take what you have and try to sweat it as much as you can and then maybe put some more capital into it, but that's not the first step. It's more about systems and processes and getting that.

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**Mike Duke** - Wal-Mart Stores, Inc. - President, CEO

You know actually I would tell you most of the things we're working on it's not a capital issue. If you think about capital like the store labor kind of things where we're getting more efficiency, global procurement, leveraging purchasing, the leveraging purchases from multi-national suppliers -- we're really not talking capital. Sometimes we talk about human capital, but that's really not necessarily the constraint. Tom?

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**Tom Schoewe** - Wal-Mart Stores, Inc. - EVP, CFO

And Greg, if there was an opportunity to update our capital thinking, today would have been the time and you didn't hear us update those capital guidance for you.

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**Unidentified Audience Member**

(Inaudible-microphone inaccessible)

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**Mike Duke** - Wal-Mart Stores, Inc. - President, CEO

You know I actually think it's more about the leadership and our associates getting more from human capital that it is we'll get more results from. I love even what Eduardo said about associate engagement in the US. I frankly when those - we measure that.

You know that we measure everything, so we even measure how do our associates feel about working for the Company. The significant increase of how the hourly associates feel in the United States this measurement this year was a dramatic step and then you just got the leadership -- how the store management -- I think -- is that 40,000 management associates in that range -- across the United States.

What that does it says that the management and the associates feel better about working for Wal-Mart and then one of the -- how do they treat customers. We all know that retail it's a fact that associates will treat customers based on how they feel about working for the Company. Well leaders -- the same thing. You generate greater leadership productivity if you feel better about

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working for the Company that you're working for so this is a lot of the kind of things about accelerating is because of the energy level of the associates that make up our company.

**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

Let's go to the left -- [Bob]?

**Unidentified Audience Member**

Hi, Mike. Two questions. The first one is with all the movement going on in Washington today, can you just give us an update on your involvement in the discussions around the labor issues and the discussions around healthcare and how Wal-Mart is involved in those discussions today?

And the second question is you know more macro related. But when you look at gas prices up 75% in the beginning of the year, you look at unemployment hitting 9.5%. Why wouldn't this be more of a headwind for your consumer for Wal-Mart as we consider the rest of the year?

**Mike Duke** - *Wal-Mart Stores, Inc. - President, CEO*

First Washington, I think I'm headed back next week for my fourth visit to Washington. So it certainly -- as someone in my job it is important to be engaged in Washington or in other capitals around the world. I've been in a couple other country capitals in other markets recently and so it's not just Washington, but it could be other places around the world.

And I'll tell you what I am finding that's really pleasing, and I'll back up a little bit. When I was in Doug's job - when I had international -- I'd fly out of Bentonville, I'd go somewhere to a capital city in South America or in Europe or in Asia and I would always feel very, very welcome. And people excited about Wal-Mart -- they talked about the good jobs and wanting to help us build more stores and how to grow the business in their country. And it was always exciting.

I didn't always feel that way in Washington you know in the past. I remember back a number of years ago and I thought it was kind of a contrast when I'd go to Washington and then I'd go off to Brazil and Brazil said what we can we do to help you grow? How do we get you to build more stores and create more great jobs? You've got the best jobs in the country. How do we help you do more?

I'll tell you on the visits I've had to Washington, we have really made a significant change over the last few years with the way that elected officials feel about our company. I do believe sustainability is one of the most positive things in that area.

When I think -- when I met with Speaker Pelosi or Harry Reid, others, you know that now they would often start off the conversation with they appreciate what Wal-Mart is doing to help in some of these areas. They appreciate the fact that we want to be engaged in the healthcare discussion. And so, we start off actually with the new administration and with officials -- whether Republican or Democrat, that I think have a better feel about our company that we should -- that they want us to be in conversation and being engaged.

And I think this is true in other countries. One other capital city I was in just recently I was frankly amazed that this is of another country of still that positive attitude the way Wal-Mart's viewed. So we have moved a needle in recent years I think in the way that elected officials view us here in the US, but also around the world.

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Now I would say on the topic of the - you mentioned whether it's the card check bill as you call -- it does seem that that momentum is dissipating. You know there's just less energy now about wanting to push that forward. We've really been very, very clear about how that would be damaging long term to the health of the United States economy.

This is not the time when jobs are what they are that the country would want to implement something like that and I do believe that more elected officials in Washington - more of our leaders in Congress are seeing that. It doesn't mean that we wouldn't quit still getting our point of view out there which I'll do again next week.

The second part of your question about where are the headwinds and other things, it's interest because I do believe in the US - there are still lots and lots of customers that still shop somewhere other than Wal-Mart. And so -- but if David Glass were here, many of you would have seen David and he'd hold his hand up and he'd say well the pie may get a little bit smaller and then we'd just get a little bigger share of the pie. And I think that's the case.

All those customers that are not today shopping at Wal-Mart, the real opportunity I think even with some headwind of jobs, potentially some rise in fuel price, that does create headwind there's no doubt about it. But I think it's still the opportunity that's happening in the US where we can get more customers in our store, more traffic, and we can still come back in the winning position.

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**Charles Holley** - Wal-Mart Stores, Inc. - EVP, Finance and Treasurer

Okay, [Mark]? In the center.

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**Unidentified Audience Member**

Yes. There's been a fair amount of discussion here around various expense headwinds, but it seems like there's not been as much discussion about gross margins. So, I'd be interested to know how optimistic you are that you can offset some of these pressures with margin improvement and maybe if you can just across the organization of rank, order, opportunities in that regard and address the merchandise systems.

Also with lessening inflation -- disinflation and deflation in some categories -- does that get competed away or do you keep some of that? And then the other mix changes -- opening price going etc.

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**Mike Duke** - Wal-Mart Stores, Inc. - President, CEO

I will tell you we don't try to manage gross margin across the whole company. I think if you did it'd be a mistake because this is a business by business that we run, and so again I'm not trying to deflect it, but what we really want is we do want to put in systems that help the merchandizing organization to manage their margins and manage their inventories.

That's why what Eduardo said about managing inventory and doing it really efficiently, that is a corporate-wide initiative. That's why you heard Eduardo talking about it and you hear Doug taking it to a new focus and that does provide because it provides the kind of strength savings and mark down benefit. Those become elements of margin and those we do try to do across the whole company. But the actual management of margin is a business by business kind of situation, so I want to answer it.

I can let Eduardo or John -- do you want to say anything about margin in the US or Eduardo?

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**Eduardo Castro-Wright** - *Wal-Mart US - Vice Chairman*

In the US I think it's very simple. We address the before and that has to do with the fact that we have much lower inventories and lower inventories means lower mark downs and lower shrink. So, gross margin expansion it's a reflection of just managing inventories more efficiently.

We also have -- I expressed in the past -- that we've got a very specific focus against buying (inaudible) products, including the discussions I have before in terms of global procurement. So, there are different elements of how we purchase products, how we flow products to the stores that in conjunction should result in very healthy margins.

**Mike Duke** - *Wal-Mart Stores, Inc. - President, CEO*

I will tell you one thing I think that does apply across all of the Wal-Mart businesses is I've mentioned our relationships with elected officials. I also feel that way with suppliers, too. It is because of Wal-Mart's balance sheet, our strength, our payment, and the fact that we've got customers, we've got traffic.

We've got over 200 million people a week that are going through our check out lines, so our suppliers look to us as a source of distribution. And I really believe that our relationships with suppliers, frankly, it's the best that I've seen.

Does that lead to margin and lower cost? You know not necessarily always, but I think that is a step because I do think that we certainly challenge, we're out looking to buy product at the most efficient cost that we can every where in the world. We are working with suppliers on taking cost out. We don't mind challenging -- sometimes people say you're using clout. I say we use collaboration and we're using more collaboration than ever I think to work with suppliers to lower cost and then our savings.

**Charles Holley** - *Wal-Mart Stores, Inc. - EVP, Finance and Treasurer*

Let's take one more question if we could. Maybe over here to the far left, Mike.

**Mike Duke** - *Wal-Mart Stores, Inc. - President, CEO*

Okay.

**Ron White** - *Wells Fargo - Analyst*

Ron White with Wells Fargo. There's been quite a bit of talk about talent development and these matters and maybe some constraints in some growth areas where you may not have those talents. Could you kind of elaborate a little bit on what we're doing in talent development? Where we're going and those things?

**Mike Duke** - *Wal-Mart Stores, Inc. - President, CEO*

I would say that again back to the what I'll use Eduardo's example of the positive energy level of the way people feel about the Company. That's the starting point is developing the talent that's inside the Company today. So the quality of talent that we have has never been at the level that it is today and I think that's true whether it's store manager level.

And this is true in the United States, it's true at Asda and it's true in Mexico and other countries. So, I do think that we are even more committed to developing the talent that we have because that's really where you want to start and that's where we've got such tremendous talent.

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On the other hand, I love to always refer back to Sam Walton. Sam, as many of you know, would have said and you always should be looking outside and bringing in new ideals and new talent and I think we'll continue to look for those opportunities because we're going to grow around the world. I told Enrique the acquisition in Chile, when we went to the Board of Directors -- I guess at that time, Doug, I did because that was still back when I was in the international job.

One of the big features about the acquisition of D&S was the talent accretive -- it was people accretive. It really added value in terms of the quality of leadership of the acquisition from Chile. So sometimes it comes through individual recruiting like Brian Cornell.

Sometimes it comes from an acquisition like D&S in Chile, but the majority would come from right here within our own associates that are already wearing Wal-Mart badges that were even more committed (inaudible) and you'll hear more and more about some of things Eduardo talked about today in the meeting, some of the things I mentioned about training and development, and that's really related to a lot (inaudible) and growing our people inside.

So with that Charles, I'll turn it back to you for wrap up.

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**Charles Holley** - Wal-Mart Stores, Inc. - EVP, Finance and Treasurer

Thank you, Mike. We really do appreciate everyone for joining us today. This will conclude our webcast. As a reminder, we're going to be having our analyst meeting this fall, October 21st and 22nd. Please mark your calendars. Thank you again.

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