Wal-Mart Stores Inc. Analyst Meeting Part 2, Day 2 - Transcript Only - Final

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CHARLES HOLLEY, EVP AND FINANCIAL TREASURER, WAL-MART STORES INC.: [I'm Charles Holley] I'm the Executive Vice President and Financial Treasurer, and welcome to our final session of our 15th Analyst and Investor Conference. And we're going to finish up this afternoon. We'll be hearing from Tom Schoewe, our Chief Financial Officer, give us a financial update and then right after Tom and [to take] the Q&A, we'll go to **Lee Scott**, our CEO, for closing remarks.

With that, I'd like to hand it over to Tom Schoewe.

TOM SCHOEWE, EVP AND CFO, WAL-MART STORES INC.: Thank you, Charles. Well, everybody, we're in the home stretch. I'll tell you what I'd like to cover today. First of all, just kind of step back and talk a little bit about what our customer is facing. After that, talk about our performance and rather than recast what we did through the second quarter, I thought what I'd do is pretty a little bit of relative performance versus some of retail peers.

Each and every time we get together we have a little report card, a format that we use. And we'll be using the same format that we use in all of our quarterly calls, I'll update that for you, talk about how we plan to invest in the future and then wrap things up with a little bit of a summary on capital spending. I'll try to do some of the math for you.

Over the last couple of days, you've seen and heard a fairly consistent message from the management team. You've heard from **Lee** on how variable the economic environment is, you've heard from Eduardo and Doug and Mike about what they're doing in their business, but there's one aspect of every single presentation that is the same.

It was the same for Leslie Dach when he was talking about how we're trying to manage the way the outside world views us and our reputation. At the center of everything that we do, I use the same picture that Leslie Dach did last night, is the customer. We're doing everything we can to meet the needs of our customer, to save them money so that they can live better. It's important in these very difficult times.

We've collected any number of pictures from operations from around the world getting ready for today's meeting but, Andy Bond, I think this is one of my favorites. You talk about taking care of the customer, making sure that we have value. You have an assortment of pictures here from ASDA -- great operation. You heard how Andy and his team are winning in that market. How is that? They always have and they always will provide a wonderful value for the customers in the United Kingdom.

So, how are we doing? Well, what we've done on this next set of slides is to compare our performance to the S&P retail index. And you don't have to take down a lot of notes, we're going to give you a copy of this presentation and provide all the details behind what's going on here. But what you can see here for the last 12 months, for those 28 retailers, obviously all public companies, this is publicly filed information, you can see that the operating income growth for that group of companies for the last 12 months is a negative number. They've lost ground as a group over the last 12 months.

How might Wal-Mart compare to that, you can see that we've had almost a $2 billion increase in operating income even in the face of the environment that we see externally today. Pretty impressive results. Likewise, if you look at operating cash flow, this isn't free cash flow, we'll talk about that in a minute, but cash from operations you can see the improvement in the last 12 months, the cash flow growth, not cash flow absolute, the cash flow growth is $5.2 billion, compared to a modest increase for all 28 companies during that same time period of cash flow of

$1.3 billion. This is another way to say what Eduardo did about how we're placing some distance between us and our competition.

Pretty consistent message across each one of the three segments. Good strong financial results. And I am so proud of what's going on in the operations in terms of the working capital management. We're blessed with a wonderful, wonderful balance sheet. It's very strong. We have a AA credit. That's not something that happens over night. But during lunch, Charles Holley and I were chatting and we were saying to one another, how many companies could stand before you today and say that their balance sheet is stronger today than it was a year ago? We're proud of those results. Good cash position. Good access to credit.

Lee mentioned to you yesterday, despite the credit turmoil that you read about each and every day, good access to commercial paper at incredible rates. Good strong liquidity. And I really need to mention Charles Holley and Brett Biggs and the Treasury team that we have here. They're taking all the hard work that our operations have presented and managing it extremely, extremely well and it's not going to surprise you, we are conservative.

Before I leave this, probably ought to anticipate one of the questions that will come up a little bit later on and that is Tom, you've been in the market buying your own shares back, what's going on in the face of what's going on? What's not going to surprise you at all, as things got a little difficult we decided kind of in the middle of October, a little bit before that, to step back on share repurchase, let things settle down just a little bit before we re-enter the market. It's not that we don't have confidence in our stock, and in fact I like the value today, better today, than I did a month ago, but we just thought to be consistent, to be conservative as **Lee** mentioned yesterday, we did step back. So just answer that question before we get there.

Now the template, the report card that we use to report to you each and every time we get together, whether it's a meeting like this or our quarterly conference call. We told you the importance of free cash flow at this meeting last year. Three major components to that free cash flow obviously operating income is key over the long-term to generating cash. In addition to that, you've heard messages on capital spending from each one of the segments, I'll roll those up, and working capital, payables, inventory, receivables, managing all those well.

We have five rules of thumb that we use consistently across these key metrics. First of all, we like for operating income to grow faster than sales. We'd like for operating income to grow faster than property, plant and equipment. We'd like for payables to grow faster than inventory. We'd like inventory to grow at half of the sales growth rate. So, if sales are growing at 10%, we would like for inventory to grow at approximately 5% or less. And finally, when it comes to corporate expenses, we'd like for those expenses to grow at a slower rate than sales, said another way, we'd like to see some leverage there.

So let's just say that it was a year ago and we were going to report to you on that report card -- on that template. What you can see here is red means that we haven't met the objective, green means that we have. At this time a year ago, one out of five metrics we were able to achieve. That was payables growing faster than inventories. Fast forward, let's look at our results today and go through them one at a time.

Operating income growing faster than sales. What you can see here is kind of confusing. There's green and red in the same box. Well, Tom, what does that mean? What it means is on a reported basis we did not grow our operating income as fast as sales. You've got to get behind those numbers and understand that during the second quarter of last year we had $0.05 worth of good news, some one-time items that were not recurring in nature that were included in last year's second quarter results. When you back those out and you look at the underlying operations what you see is operating income growing at a faster rate than sales.

I'm proud to tell you that a first time in a long time operating income is growing faster than property, plant and equipment. This is through the July time period. Payables. Great story on payables and this is a global good story. US, Sam's and International, all three -- call them in, there's good news. Payables is going across -- doing a really good job in operations.

Inventory, what I would tell you here, three very good stories. Doug McMillan and the Sam's team have a done good job over a very long period of time of managing inventory. Over the last two years, Wal-Mart US has really made some incredible progress. What Bill Simon showed you yesterday was an indication that inventory was basically flat while the enterprise was growing at a reasonably rapid rate, outstanding performance. Mike Duke in International, the last couple of quarters we've actually reported that International has grown its inventory at half the rate of sales and that's good solid progress there.

Finally, the last metric, whether or not we're growing our corporate spending faster than sales. And you can see whether it was last year or this year those expenses are growing at a faster rate than sales. More than all of that increase relates to the systems initiatives that I would have shared with you last year. What's going on in

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merchandising, John Fleming talked about that. What's going on in finance and HR, we'll talk about all of those here in just a minute. Because of the spending -- and it's important, it's strategic spending that we're making in those areas, that is the reason why corporate spending is growing faster than sales.

One of the things that I am proud of is that we had visibility into that a fair amount of time ago. In the spring of 2007, not 2008, 2007, **Lee Scott** challenged the corporate team and said I think we can do an even better job of managing corporate expenses. We know we're going to have these systems investments, let's see what we can do to moderate the spending. The corporate team has done a good job to help offset the headwind that's been created by the systems initiatives.

Now, the cornerstone of everything that we talk about is return on invested capital. And what you can see here for the last three quarters is not only the absolute rate of returns, these are pre-tax returns, how are we doing and how are we doing versus last year. The bar on the left would be last year and the bar on the right, the darker bar, would be the current year performance.

Couple of takeaways here. What you can see is yes, year-over-year we're seeing some declines. But before you focus too much on that I would remind you that as we exited -- or at the end of the first quarter, the 19% that you see in pre-tax returns, those are very high returns. Many would really, really love to have those kinds of results. So while we don't like to see declines, we're still proud of the good high returns that the business earns.

It would have been at this meeting last year that I said, we're dedicated to turning that trend, the decline that you see here, we're dedicated to turning that around. Our goal was to flatten ROI by the end of fiscal 2009. Here we are in fiscal 2009 at the end of the second quarter, our return on invested capital was 19.3% and that was exactly the same as the prior year. So we have reversed the trend, we've flattened ROI and we did ahead of the schedule that we promised to you all.

Quickly before we get into some of the numbers -- the capital numbers, is the evolution of the message. If you go back a couple of years into the fall of 2006, this would have been the investor meeting where we sat down with you and we talked about kind of a new message that was evolving at Wal-Mart where we wanted to balance returns and growth.

And in fact, as we motor forward to the spring of 2007, we told you how committed we were to returns and started to put even more meat on the bones. And then in the fall of 2007, that's when we shared with you the plan to slow down store growth, the one that we've talked about for the last day or so. That could be this meeting last year, and that's where we put all the focus on free cash flow.

So, let's see how well we're doing. Once again if you look at a trailing 12 months -- we're using this so that we can compare ourselves to others. For the last 12 months our free cash flow, this would be operating cash flow from the business, subtract capital spending, and you get free cash flow. For the last 12 months -- the last four quarters, a little over $11 billion in free cash flow. That's go back to that same 28 companies that would be in the retail index.

How well did the best company in the retail index -- the best of the 28, how well did they do in that same four quarters? They generated $2 billion. Okay, let's go to the top five companies in that retail index. You can see that they generated a little of $7 billion in free cash flow. And finally, -- let's take the top ten. We're going to spend a lot of time on this slide. What you can see is the free cash flow that Wal-Mart has generated is roughly equal to the cash that was generated, the free cash flow, from the top ten of those 28 retailers in the S&P retail index.

So, what does this mean? Well, it means that we can continue to take very good care of that installed base. You heard a very consistent message across each of the three businesses of the importance, Eduardo, of remodels. We're going to continue to do that. We'll do that at Sam's and International as well. And what it means is we can make the investments in infrastructure -- the merchandising systems, the finance and HR systems, we can make those investments to ensure that the enterprise can continue to prosper.

So as I mentioned, you'll see us investing in the installed base in Wal-Mart US, you'll see it in Sam's and, Mike, you'll see it across the globe, a very comprehensive strategy to ensure we're taking good care of that customer and that they have a good customer experience each and every time they come in to our store or club.

Yesterday -- kind of transition now, talk about some of the major systems initiatives that we have underway, the areas that are creating some of that headwind in the corporate, general and administrative spending. Yesterday, John Fleming would have shared this very same slide with you to talk about what's going on in merchandising. What we're doing from a systems standpoint to complement strategically what's going on with win, play and show inside of the Wal-Mart US business.

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In addition to that, we have a lot going on in finance. As you're aware, we're involved in a very major SAP implementation inside Wal-Mart. The UK will be the first of the countries that we have that will implement SAP, they're actually testing it as we speak. Mexico will next, Mike. And then sometime after that we'll be entering into with all the knowledge we have from the UK and Mexico implementing here in the United States.

But there's some important words -- all the words in this slide are important, but the ones that I really wanted to highlight for you here and why these systems are important to us is that they're integrated, strategically integrated in supporting the business, they're flexible, and most important I think is that they're scaleable. So that when we add the next country, acquisition, format, whatever, our expenses can be leveraged to a certain extent. We haven't experienced that in the past. In HR -- we don't have a separate slide for it here, the message is much the same as finance. Building the infrastructure that we need to run the business going forward.

So now, let's kind of summarize what the numbers look like. If you'll recall at this meeting last year we would have provided you some guidance on capital spending, on sales growth, operating income etcetera. We actually provided two years worth of visibility. We would have talked about fiscal '09 and fiscal 2010. Well, today I'm going to stick my neck and I'm going to talk about one year coming up. We'll go beyond that next year when we get together. But before we do that, let's talk about what our actual results were for fiscal 2008 in each of the key areas we talked about.

Sales grew at about 8.6%. Operating income did not grow as fast as sales at 7.3%. We had a little under 6% growth in the square footage. Capital expenditures just under $15 billion, and you can see the gross PP&E, payables, inventory, corporate spending and finally ROI closing the year at 19.5. It won't surprise you that we have an internal goal here to make sure that we meet or exceed 19.5 for the current year.

So now, those were the actuals for '08. For '09 and '10, we provided a collective guidance. We said we want to see sales grow at kind of 5% to 8%, somewhere in that zone. And that we wanted operating income to grow at the same rate etcetera. You can see how we moderated your expectations. A key set of numbers here would be capital spending. Last year, we guided you from $13.5 billion to $15.2 billion per year for fiscal '09 and fiscal 2010. So now, let's see where we stand in the current year, and after that we'll provide a glimpse into 2010.

What I can tell you is, before we get into the details, we're basically very much on track with what we told you last year. On the 5% to 8% in sales growth, it looks like it will be about 8% in the current year. Square footage growth is at the low end of the range that we talked about. Fortunately, our comps have helped to offset that. Operating income we would hope to grow at roughly the same rate as sales. Capital spending, we started out at that $13.5 billion to $15.2 billion this time last year.

About halfway through the year we would have moderated that a little bit. We talked about $13 billion to $14 billion. After that, we said it would probably be closer to the low end of that range. Today -- mentioned it yesterday, we think it'll be around $13 billion in the current fiscal year. You can see that the gross PP&E, property, plant and equipment, growing at about eight to 9%.

And I'm very proud, again on working capital both in payables and in inventory we're doing exactly what we said we would do. Payables growing faster than inventory, and inventory growing at less than half of the sales growth rate. For the reasons that I indicated, we will not meet the goal of having corporate expenses grow at a slower rate than total sales. And ROI, we're just very hopeful that we can see that getting to flat -- staying flat between now and the end of the year.

Now, let's talk about next fiscal year, fiscal 2010. Once again, what you're going to see here is a summary of what Eduardo, Doug and Mike would have talked about in their presentations. But again, we'd like to see the sales growth in the 5% to 7% range, supported by 4%r to 5% growth in the footprint. We'll talk about that in detail by business and in total coming up a little bit less than we would have guided last year.

Capital spending. What you're seeing here are numbers that are a little bit less than we would have guided last year and the range a little tighter than we would have provided last year. What was $13.5 billion to $15.2 billion, we're now saying $13 billion to $14.5 billion. It's not going to surprise you that on PP&E, inventory and payables, we'd like to continue to see the same good work along with ROI that we've seen in the current fiscal year.

So now, to summarize again what each of the businesses indicated during their presentations, this is the same, Eduardo, that you would have presented for Wal-Mart US. Key takeaways here, a moderation of growth in new stores, migrating to a smaller footprint for the stores that we're adding, more efficient smaller stores. An important investment in remodels. I think you had a good visit to the store yesterday to see why we're doing that. And then, investments in distribution and infrastructure that's basically the same as you've seen historically.

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Before I leave this one, Eduardo, the other thing that I'd like to remind everybody is that if they were to take the dollars spent and the square feet that were added in the '08 and the '09 time period, it gets to be a little confusing. And, why is that? It's because there were several stores that we had initially planned to open in the '08 time period, Eduardo, that were pushed back.

Most of the money was spent in '08, in fact almost all of the money was spent in '08, but the stores were opened in '09. Probably between 80 and 100 stores would fall into that category. A little bit unusual. So that influences obviously the store count and the capital investment during those two time periods. More of a normalized situation when you get into fiscal 2010.

Moving on to Sam's. This morning Doug would have shared with you the capital plan that calls for roughly 15 to 20 new clubs and importantly the same emphasis on remodeling and keeping the club experience as exciting as we talked about for Wal-Mart US. And finally, in International, Mike shared with you this morning the plan that really is just a continuation, Mike, of what we've seen over the last couple of years. Again, an emphasis on remodels, but this time the message would be not so much spending in the mature markets, a little better balance between those mature markets that Mike talked about and the emerging markets. Very exciting markets with high returns. An important part of that presentation.

So, how does it all add up? Well, when you go to the bottom line here you see in the bottom right hand corner the $13 billion to the $14.5 billion in capital spending that I talked about on one of the first slides. And you can also see on the very bottom line, how much the retail footprint is growing each and every year. That would be the 46 million square feet, the 42 million to 43 million square feet this year. And then as all of the headlines would indicate, we're slowing our growth all the way down to 34 million to 36 million square feet a year. Slowing our growth.

Well I did some homework, **Lee**. And that -- if you just take the midpoint of that range, the 35 million square feet, that means that we would be adding roughly one Bed, Bath & Beyond, their entire enterprise or one Gap, all in one year. So we've really slowed this thing down. Okay, seriously, if you look at free cash flow a couple of stories here. If you take the blue bars, the operating cash flow generated by the business and the yellow bars standing next to it which would be the capital spending that that allowed, the difference between those two bars would be the free cash flow generated by the business.

2006 we told you we were starting to change that strategy, you can see 2007 and 2008, you can see how the CapEx has flattened, the spread between the two bars has expanded and the plans that we've talked about today, assuming that we can continue to build on the operating cash flow in the enterprise, we think we have an opportunity to generate significant free cash flow with the strategy that we've shared with you here today.

So if you step back and you say, what have we talked about? What have you seen for the last couple of days? First and foremost, I'm really proud of how aligned everybody that stood up here was for the last day or so. We don't have to remind people to talk about return on invested capital, about inventory efficiency, capital efficiency. It's built into the plans, it's the way the businesses are running their business out there today. So proud of that.

Stepped over and I shouldn't have -- we have clear objectives. That template that you see is the way we evaluate ourselves internally each and every month. There's good consistency across the businesses. Everybody understands what our objectives are. You heard from each presenter, each business, how well we are positioned right now. Times are tough, our customers and our members need us now more than ever. Feel good about that. I mentioned early on how focused we are on the customers. Our customers, Doug, our members, we need to be taking care of them right now and you've heard the plans to focus on that.

And finally, something that's started a couple years ago, we started with a message of balancing returns and growth. **Lee**, I think that's going to serve us well as we motor forward for the next several years. With that, the last thing that I'd say is extremely consistent across all the messages is the over-riding message of our desire to save people money so that they can live better.

Now before we go into Q&A, Charles, if it would be okay, a couple of people I'd like to thank. Pulling together a meeting like this is like really hard work and Carol Schumacher and her team of Mike Beckstead and Mary and Marsha and others, we just need to thank you all very much for all your hard work. It's been very well-organized.

TOM SCHOEWE: I guess we can answer questions now.

CHARLES HOLLEY: Yes, let's go to Q&A. I guess there's no questions, Tom. No, I see one at the back there.

TOM SCHOEWE: This is going to be easier than last year.

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CHARLES HOLLEY: State your name please and your firm.

GREG MELICH, ANALYST, MORGAN STANLEY: Thanks, it's Greg Melich with Morgan Stanley. Tom, could you give us some more insight on the CapEx? If we look at it, you're expecting sales to grow less than they have this year, yet you're expecting CapEx to, if anything, move up a little bit. If you were to think about a bigger picture, how do you ultimately get ROI to improve if that's the way we're thinking about things going forward? I mean, margins have to go up right? Or, am I missing something?

TOM SCHOEWE: Well, you're not missing much. What I would tell you is there are operations especially inside of our International business where margins do have to expand. There are obviously businesses -- pick on Ed Kolodzieski. Ed, is there a chance that your margins might expand next year? Okay. Being a little bit silly there but some of the businesses, not necessarily the real mature business, the ASDAs or the Mexico's and those kinds of things, but others do need to expand.

The second thing that I'd remind you in the template that we use to evaluate the performance, there's also working capital. And what you've seen there is our desire to continue with solid progress in inventories, solid progress in accounts payable, and that needs to more than offset what's going on in that capital line.

GREG MELICH: And in the International, what currency rate are we assuming? Is it fair to say that you're still going to fund international growth through international cash flow? And in what currency rate --?

TOM SCHOEWE: Yes, as Mike indicated this morning, the way we evaluate ourselves and the way we plan our operation is what we call a peg rate basis. And what we do is we just select a rate -- a current rate and we use that for all periods. We have something a long range financial plan that we look at for each one of our businesses, it goes back five years, we look at it on the current year, and it looks forward five years.

We use the same rate as we roll up each one of the international operations, we use one rate for all of that ten or 11 years in mention. We're not smart enough to know what's going to happen with the currency next year so we would just use say, today's rate to peg the currency at. Now obviously, we report on a different basis. You have to report on a average rate basis so what that means is as you roll up all the numbers, you'll come up with a peg rate total, you'll have an adjustment for currency and then you get '02 the reported results. You'd have that adjustment for our historical results. We're just using the peg rate going forward. That's how we run the business.

CHARLES HOLLEY: All right, Tom. Over here, I think.

UNIDENTIFIED AUDIENCE MEMBER: Well, I think that was pretty much my question, but just a follow-on on that. So if you have forecast and provided us guidance on the basis of a pegged rate, there is a chance that if the currency goes in the strengthening direction we've seen relative to some of the operations in a few key countries, that you might not be able to deliver that, the top line and depending on your cost structure, maybe on the bottom line.

TOM SCHOEWE: That's certainly a possibility. I'd remind you to look back at the transcript of any one of our quarterly calls, our annual call. Every single quarter, Charles, we go out of our way to quantify that translation impact on sales and operating income. Now having said that, we all know that generally speaking the dollar up until recently has been weakening, has been providing a tailwind to our international operations on a reported dollar basis. That tailwind, Charles, I think in operating income in the second quarter was less than a penny a share.

CHARLES HOLLEY: It was.

TOM SCHOEWE: At $40 million-ish. So could it have an impact? Yes. Will it likely have an impact on the fourth quarter of this year? Yes. The way we evaluate the performance is, what's going on in that underlying business? How well is Andy Bond doing in pounds sterling? That's the way we look at it..

CHARLES HOLLEY: I guess this is a quiet crowd.

TOM SCHOEWE: They want **Lee**.

CHARLES HOLLEY: We have one here in the middle. Let's get a mic so they can hear on the webcast please.

ROBBIE OHMES, ANALYST, MERRILL LYNCH: Sorry, Robbie Ohmes from Merrill Lynch. Just the comp assumption behind the revenue guidance that you're giving for next year.

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TOM SCHOEWE: We haven't provided a detailed comp assumption, I don't think, Eduardo. I think what you should assume is it's something very similar to what we're experiencing in the current environment. Low singles would be what I would be assuming as we go into next year. Eduardo, do you disagree? Or Doug, wherever Doug is?

CHARLES HOLLEY: Okay. Deb?

DEBORAH WEINSWIG, ANALYST, CITIGROUP: Deborah Weinswig from Citigroup. Tom, can you go back through your philosophy with regards to dividends versus share repurchases, especially in this environment?

TOM SCHOEWE: Sure. It's pretty easy to determine what our dividend will look like going forward. Assuming that we do what we say in growing our earnings, our pay-out in dividends has been a fairly consistent percentage of the prior year's earnings per share, Charles, so that will continue. When it comes to share repurchase I think the best way to evaluate our approach is just to look at what has happened historically.

Up until the mid-October time period that I mentioned earlier, we were in the market this year. We were in the market a little bit less than we were last year. And, why was that? Obviously, last year we saw what we thought was a very, very good value and spent almost $8 billion in share repurchase, and ended averaging out some reasonably nice numbers during the course of the last year.

All of that needs to be placed in the context of our AA credit, something that we value now possibly more than ever. It's doing very good. And, Charles, I think, not only do we think that the balance sheet that we have right now is in reasonably good shape, the communication that we have with our rating agencies, I think they're reasonably comfortable as well.

CHARLES HOLLEY: Yes.

TOM SCHOEWE: That's a long-winded way of saying it's more of the same going forward.

UNIDENTIFIED AUDIENCE MEMBER: Thanks. Tom, must on accounts payable, how do you plan to continue growing accounts payable faster than inventory?

TOM SCHOEWE: If you wouldn't mind, I'd love for Eduardo Castro-Wright to just chat about a little bit about the way that we're working with our partners in the supplier base right now and -- in not only payables, but inventory as well because I think they might be related, Eduardo.

EDUARDO CASTRO-WRIGHT, PRESIDENT & CEO, WAL-MART STORES US: So the question was --?

TOM SCHOEWE: How can you continue this great job you've done on payables? How can it continue to get even better?

EDUARDO CASTRO-WRIGHT: You have to go back to what we stand for. And we said yesterday that our value proposition of save money, live better is broadly understood not only inside the Company, but also outside the Company. And our, the understanding by the supplier community of what that means if very clear. And what it means is to save money, live better starts with us being able to offer price differentiation. That obviously has implications in terms of the expectations we have from suppliers.

That program -- that's started this year and is now being expanded to a larger group of suppliers; has us providing suppliers with opportunities within the framework that you saw yesterday in the store in terms of product presentation and -- particularly in terms of product presentation and placement. That also has us reviewing all the terms that we have with suppliers. And basically, the notion is that we will not carry inventory. We will not carry inventory that we -- that suppliers -- we will not have more inventory than what we --.

TOM SCHOEWE: Have in the way of terms. So it's not just a one-way. It's not just a one consideration in payables, Adrian, I think it's an inventory discussion and it's a payable discussion, and we have those in tandem not just one in isolation. So if you want to have the inventory and if it's really important for the supplier to have even more inventory there well, then maybe there's an opportunity for there to be even more payables.

EDUARDO CASTRO-WRIGHT: But then -- the terms will then be modified. That's basically what it means.

TOM SCHOEWE: A true partnership.

CHARLES HOLLEY: Let's get somebody else. Who else?

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UNIDENTIFIED AUDIENCE MEMBER: I had a question related to Smart Network. I wondered -- I had heard that vendors are expected to not just provide tailored commercials for the in-store network, but also financially contribute paying for airtime. I wonder if you could give us a little bit more insight into the economics? How that exactly works? And, how much to the SG&I line or to the bottom line that might contribute?

EDUARDO CASTRO-WRIGHT: Steven is here, but let me address it briefly. First of all, yes. You're absolutely right. There's -- like you would expect from any television or media vehicle the -- much like it is today by the way, that's not different than what we have today. The suppliers that want their commercials presented would pay for the use of time. Like any television channel.

The difference, I think, and what I believe that Steven tried yesterday to reinforce is the fact that because it's a Smart Network, we have the ability to tailor the offering and with the presentation of the commercial. And because of that and because of the rating system that it's being created, that creates incremental value for suppliers, therefore allows us to capture more value for the time than what we would today with the current system that we have.

UNIDENTIFIED AUDIENCE MEMBER: (Inaudible question - microphone inaccessible)

EDUARDO CASTRO-WRIGHT: Order of magnitude in terms of what?

UNIDENTIFIED AUDIENCE MEMBER: (Inaudible question - microphone inaccessible)

EDUARDO CASTRO-WRIGHT: First of all, we haven't rolled out the system, right? We tested system in about 40 stores. We will have about 400 stores by the end of the next year. By the time we have the entire system in place it's going to be actually 24 months. Once we have everything in place, you will see the income drop to other income. So it won't be offsetting expenses, at least that's not the way that it is right now.

CHARLES HOLLEY: Okay.

CHARLES GROM, ANALYST, JPMORGAN: Thanks. Charles Grom, JPMorgan. Operating margins next year flat for the total company. Could you go and delve into each of the three divisions? Division one, Sam's, and International for us?

TOM SCHOEWE: I think we kind of did that a little bit earlier. I think if you were to look back over some period of time and you were to lump the two US operations together, I think whether it's Wal-Mart, Eduardo, or Sam's, Doug, those don't move a lot. I think you should expect to see some improvement in International for the reason that we cited earlier, and you'll also notice that we used the word approximately up here to preserve Tom's conservative nature.

CHARLES HOLLEY: Let's go in the back.

BOB DRBUL, ANALYST, BARCLAYS CAPITAL: Tom, it's Bob Drbul from Barclays Capital. If returns start to pick up over the next few years is there a scenario that could evolve that you would revisit or reaccelerate the square footage growth any point in time in the next few years?

TOM SCHOEWE: The short answer would be absolutely, yes. It's a function of returns and our ability to effectively execute the growth. As long as we could do both of those things -- maintain an operation that was in control, the answer is yes. But got to wait until we get there before we start making that kind of a commitment.

MICHELLE RHODESBROWN, ANALYST, PROFIT INVESTMENT MANAGEMENT: Michelle RhodesBrown from Profit Investment Management. Could you talk some more about the plans with respect to margin leverage? I'm looking at the slide here and it says approximately -- that operating income will be approximate to sales on FY and F9 but then the combined, it's above sales. So I'm just -- could you just talk some more about, are you expecting it to grow, or how that's going to work?

TOM SCHOEWE: Well, again, I think we covered a little bit before where Wal-Mart and Sam's have some modest opportunity for upside. I think in the International businesses would be where we would see hopefully a continuation of the trends that you've seen in the last couple of years. So I think it needs to be led, Mike Duke, by International.

BERNIE SOSNICK, ANALYST, GILFORD SECURITIES: Bernie Sosnick, Gilford Securities. With regard to the investment in information systems, you spelled out that it's a big capital outlay, but I'm not really clear on what the impact is going to be on the P&L. You certainly mentioned it with regard to corporate overhead. And since you

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quantify everything internally you have a pretty good idea with respect with what you intend to get out of this investment in terms of P&L contribution. Could you clarify for us the costs and expected returns and time table?

TOM SCHOEWE: Sure. In terms of the cost, I'd look at in two ways. If you think about it in return on invested capital in terms of a numerator and a denominator, you can see in the other segment, the vast majority of the year-over-year increases that we're reporting would result, Charles, from what's going on in the systems initiative. So that dealt with the vast majority of that increase is a function of the systems initiatives.

One of the things that I didn't cover and I should have on that final slide on capital, included in the other segment -- now I've transitioned from P&L to capital now. From a capital spending standpoint and the corporate/other that was added in after each of the last three segments, you would have seen that that has ramped up fairly dramatically over the last couple of years. That's a combination of number one, capitalized software development that we have. And, Rollin Ford, the equipment -- the actual IT equipment that's going to be needed to run from an infrastructure standpoint.

Now what we're going to see in the way of paybacks would be very different for each one of the three initiatives. Maybe I could cover finance. We could get John Fleming to talk about merchandising and Susan could talk about HR. In finance what we're talking about -- well, Charles, it would provide some benefit to us in terms of better aligning our information so that we can evaluate, as an example, supplier performance not just by segment, but globally so that we can have some good robust information on a global basis.

In addition to that, there are tax benefits that I can't get into in this meeting that will accrue to us from better systems. And then finally, I think one of the most important things, one of the most important paybacks, Bernie, has to do with the scalability of the infrastructure. I'm starting to sound like a consultant and I hate this.

If you look back over time, as we've added -- our sales have grown very respectively. Unfortunately, our home office spending has grown right along with that sales. So when we add a significant operation like ASDA, rather than leveraging a fixed installation that we had, we've had to add incrementally, almost dollar for dollar. So it's been a variable expense. Hopefully, with the implementation of these systems, they'll be more of a fixed nature when we add the next operation, the next format, the next country, we can get some leverage.

To me, that scalability is one of the most important savings that we'll get from this. That's going to happen next quarter or next year, that's something that's out on the time horizon. John Fleming, are you still in the meeting?

CHARLES HOLLEY: Yes, he's in the back.

TOM SCHOEWE: There's John. Maybe you could just touch briefly on those five or six planks that you talked about in your slide yesterday?

JOHN FLEMING, EVP AND CHIEF MARKETING OFFICER, WAL-MART STORES US: Yes, I would say if you take the example of space management that in the past our space allocations have been pretty static. It's been pretty similar in all stores and hasn't changed much from season to season or year to year -- maybe does as there's a new iteration of stores that are rolled out. And I think from the example that Andy Bond used in the UK that there's a lot of money to be had by managing the space much more dynamically and really building that into the plans.

And especially as you look at -- in the context of the win, play and show is that as we reduce space in a show category and consolidate suppliers and reduce SKUs, these kinds of systems will give us the visibility to ensure that we capture the value there. So between space allocation, pricing tools, there's a lot of just business improvement we think that we'll get out of these systems as they roll out in the next year or so.

TOM SCHOEWE: Susan Chambers, do you want to --?

SUSAN CHAMBERS, EXECUTIVE VICE PRESIDENT, PEOPLE DIVISION, WAL-MART STORES INC.: From an HR perspective the investment is going towards, I'll call it good basic infrastructure. We're going to take better care of our associates more efficiently. There's also a management development aspect to it. We have great scheduling tools today for our associates in the stores and clubs, but those tools aren't always as easy for the associates to access as we'd like.

So one of the tools in particular ties in to new time clocks; will allow us to provide better schedules and better customization, if you will, communication with our associates so that as they're coming to work in the store we're optimizing what's best for them and best for that schedule. So I think it will show up as productivity. But it's a host

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of things. But I'd put most of what we're doing, particularly in the next 18 months under the heading of blocking and tackling, just good basic HR infrastructure.

TOM SCHOEWE: I think we're done.

CHARLES HOLLEY: Anybody else? [Dan's] got one.

UNIDENTIFIED AUDIENCE MEMBER: As we think about the offset to rising corporate expenses the next year, you said gross margins would have to move up. What are the main drivers of that? And then also if you could touch a little bit on where global sourcing, direct sourcing plays in. We didn't really cover that as in depth this meeting as we have in prior meetings.

TOM SCHOEWE: Mike, maybe you'd want to touch on global procurement and sourcing? Can we get Mike a microphone?

MIKE DUKE, VICE CHAIRMAN, INTERNATIONAL DIVISION, WAL-MART STORES INC.: I think we would reluctant to, let's say, put a quantitative number to global sourcing or global procurement impact because it really gets to buyers decision of making the best purchase for the particular item and in some cases that means buying from a branded manufacturer or others. So we wouldn't build in a specific number for GP. As I said earlier though, it's a huge opportunity.

One of those real upsides I think of just how to be more competitive, how to give customers savings is really through the leveraging of purchasing products. So it's not something, Tom, that I think you could go say there's a certain margin that we would attribute to that, but it's really part of the improvement in running our business like we talked about in other areas.

TOM SCHOEWE: Clearly there are dollar opportunities but, Dan, in addition to that there are any number of ways that you could provide the value to the customer or to the member. And, Mike, it might be at a lower price, but it also could be, as Andy Bond mentioned, the great value in that black overcoat that he summarized today. You could take that quality up and charge the same or a lower price and that's another way to get value into the hands of the customer.

CHARLES HOLLEY: All right, Tom. Thank you very much. And our final presenter is actually **Lee Scott**, our CEO, and he's going to provide some closing remarks and then we'll have a Q&A.

LEE SCOTT, CEO, WAL-MART STORES INC.: Thank you, Charles. As they say, everything that needs to be said has been said, but that won't stop me. I'm going to speak for a few minutes and then we will have all of my direct report team up front to answer the questions rather than me, which gives the legal department a great deal of comfort.

But I want to start -- I have the approved legal comments for you too, but I want to start by saying and I want to be careful how I say this, I don't want to seem solicitous. Some of you recommend Wal-Mart and have over the years, some of you do not recommend Wal-Mart and have been consistent over the years. But I would like for you to know that we as a group, as a team, understand and have empathy for what you all are going through right now. Having been through several years of being under fire ourselves, it is not without experience that we say that.

I mean, these certainly are challenging times and we as a management team would like to do our best to help stabilize and to play a role in being a part of the solution to what is going on, not just in the United States, but around this world. And I hope that your visit here you have seen a reasonable level of confidence about how our company is positioned, but certainly nowhere near arrogance. Because there's nobody who has visibility into this market. We're all living through something that we have never lived through before, nor have the markets gone through anything like this before. So it is certainly an extraordinary time to have all of you here and for us to be able to share our story.

There are seven things that I have been told to share with you, and so I want to make sure that I share those seven things. First of all, is that this Wal-Mart philosophy that Sam Walton started works and it works around the world. We continue to invest in price leadership because in all of our markets our brands are synonymous with saving money. In an economy where customers need us more than ever, our people, our associates, are executing to our mission of saving people money so they can live better.

The second thing I want to make sure that you take away from here is that we are running a better business today than we did in the past. We have a strong management team. You saw many of those people over the last two

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days but you didn't see DeDe Priest or Pam Kohn, you didn't see Gary Severson, you didn't see John Westling, you didn't see John Aden, [Steve Dacus], you didn't see Tim Yatsko, you didn't see Craig Herkert. I don't believe that I saw Craig.

Most of those we stay hidden so that they won't be recruited by competition, but this team is deep. And it is deep not just with young people who have potential, but with people who are at either the start of their mature years, or is -- in John's case, well into them. They have experience and they can weather the challenges that exist today. What you saw in the presentations is the way that they manage and the interaction, Eduardo, that you and I have with them on a daily basis.

Also, though, hope that you saw in our store and in our club that we are strengthening the customer experience through continuous improvements in merchandising and in store and club operations. We're focused on executing our business plans and diligently managing our expenses in this uncertain global economy. The third thing is that the Company's focus on capital efficiency has allowed us to improve our return on investment trend from declining to flat which is a significant improvement, and we're maintaining our pre-tax ROI within relatively the same range this next year.

Number four is that the investments the Company is making in merchandising, finance and people systems will improve the efficiency and the scalability of our global infrastructure. Five, we're helping our customers, the communities and our associates by focusing on sustainability, on responsible sourcing and associate responsibility. And each of those is consistent with our mission of saving people money so they can live better.

In sustainability, we have continued to take waste out of the system which is driving either better profits or lower retails. When it comes to responsible sourcing and global procurement, Mike, the answer I would give is that one of the great opportunities in this Company is to think about the life cycle of the product and to have GP, global procurement, participate wholly in providing our customers with better quality merchandise at extraordinarily low prices. That is our goal for this next year.

I think it can make a meaningful difference not just in the margin that we have on the merchandise, but in the trust the customer has for us or the member has for us, and the member and the customer's willingness to shop the entirety of the club and of the store. I think it's very important. In a time of great economic uncertainty, this Company is well-positioned to succeed in the future and in the short-term. And we believe and have strong belief that we as a company will emerge from this time a tougher competitor for our competitive.

And seventh, and the thing I'd like for you to make sure that you really do understand is that this isn't something that we created 90 days ago because we saw what was happening in this economy. This process started in 2005. It was planned, it was thoughtful, it was built upon as we learned and it has positioned us extraordinarily well to serve our customers and to serve our shareholders in what clearly is a challenging time. We have positioned ourselves during these last three years for just this kind of time.

I think it's an interesting time, a time when I think maturity of management and experience has great value. The experience that you saw last night with Leslie Dach speaking to you about what this Company is doing that has changed our position in the political spectrum, in the social spectrum that has caused more people to be able to embrace us, for us to be able to participate more fully, for us to no longer -- using a technical term, be the whipping post for what is happening out there, but to take a leadership role.

You'll see it in our legal department with Tom Hyde. I think you'll see it with what we have done in Systems under Rollin Ford's leadership, Susan Chambers in the People Group and what we've accomplished with our people and that attraction and the retention of this qualified staff, as well as lower turnover with our hourly associates.

Tom Shoewe already has been able to present, and you understand and know, the value to this Company of having someone of Tom's experience with us during the period of time, and for him to have created the team that he did, which he has been working on for a number of years through development processes and programs and changing jobs and getting people a broad level of experience, which has allowed them to take the appropriate actions in the middle of this difficult time that have positioned us financially so well.

And then, of course, the operating leaders that we have, that you're familiar with, who have extraordinary leadership skills. They have great personal values and they represent us well. They are aggressive. But at the same time that they're aggressive, they are thoughtful and understand the exposures that you as shareholders and people who advise people on our company would be willing to risk during these kinds of times.

We will -- and I promise you this, we will continue even in these difficult times to be thoughtfully aggressive. We are not defensive, nor are we going to be passive. It is quite possible the next year will provide extraordinary

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opportunities for this Company as the retail landscape changes. And we are positioned to take advantage of those opportunities.

So with that and those seven points, Leslie, which I delivered I think exactly as you and Carol told me, Charles, why don't we have questions? And why don't we get my team up here, so I don't really have to answer any? And, Bernie, would you like to start with Japan and why we're continuing to invest and be in Japan? I thought I'd save you that.

I like our chances. It is a huge market, it is a fragmented market and we have shown, as we have reduced prices and reduced expenses, that we can take market share. And I believe, I have 100% confidence that either Ed or the person who follows him will translate that into profitability, and that three years from now you will be sitting here saying, I am glad I recommended that, **Lee**, that you guys stay in Japan.

If it was a market like Germany, I think we have already showed you we are willing to say that we made a mistake and we're going to get out. But I would tell you at this point, not only did I not feel that Japan was a mistake when we started, I went this summer, I toured the stores in Japan, I talked to Ed's team, Mike was just there last week. I am not comfortable, but I am very much positive about the direction that we are going.

And I would hope that -- Ed, are you still here? And I would hope that Ed is not comfortable, because we have work to do. But it is worth winning in Japan and we can win. And we have shown, when we sell for less and provide good service and have great associates in the store, that we can win. And we can be profitable and get the returns you want. And that's we're staying Japan today, we're not going to leave Japan today.

CHARLES HOLLEY: Okay, if there are no more questions?

GREG MELICH: Great thanks. **Lee**, to follow on -- it's Greg Melich from Morgan Stanley, the thoughtfully aggressive comment that you ended with, I think that's what you said, thoughtfully aggressive. I'm going to ask you to look a little bit ahead. What would potentially make you want to get aggressive? Would it be having a unique retail brand or supplier brands or part of the world of retail partner that you never could have acquired that you might be able to get a sense on the dollar? Just give us an idea of --.

LEE SCOTT: Well, I think that - Schoewe's is going to have a heart attack, and Hyde -- is Hyde up here too? Normally Hyde hides. In this environment there probably are things that the government might allow you to do that they would not have allowed you to do in the past. And if that occurred, we would take an appropriate look at those things.

But there are people who have gone out of business who, historically, it would have been a real estate play, another real estate play, but now stores are just closing. Well, are some of those stores things that Eduardo's going to want to look at, or that Doug is going to want to look at? And just because times are difficult, since we have the strength in our balance sheet, maybe there's some of those that we're going to be maybe in the driver's seat to be able to participate in and to negotiate very good rents.

So those are the kinds of things I think you're going to -- when I say thoughtfully aggressive, I'm talking about like John Fleming. You know he gets up in the morning and he says he decides he wants to buy $100 million worth of something and it's in the core of where that customer is going. That's what I mean.

And we're going to be thoughtful, we're going to go where that customer is going and we're going to invest deeply where the customer is going. But on the fringe, we're going to be thoughtful about the fringe because right now the fringe is just irrelevant to a customer. And so, you're thoughtful about that. Fleming, is that a fair characterization of your approach? Or, did he leave? Is that fair? All right.

GREG MELICH: As a follow up, could that actually be outside of retail? Could it be just helping your customers save money and live better maybe doing something that's not pure retail or traditionally so?

LEE SCOTT: It would have to be aligned. We have looked -- what do we call that, outside the fence?

UNIDENTIFIED COMPANY REPRESENTATIVE: Expanding the fence.

LEE SCOTT: Expanding the fence, which really was way outside. And I think what we've proven over the years is we're a pretty good retailer. But we have to remember that that's what we are is a pretty good retailer. And so, Jane Thompson and her team have taught us that building on to that and doing financial services in an appropriate way is a great opportunity for us. And so, there may be other things. I think the 1-800-contact, do we even talk about that? It's not secret is it?

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UNIDENTIFIED COMPANY REPRESENTATIVE: No, it's not.

LEE SCOTT: Because I can never remember what they tell me to say and not. But the 1-800-contact is one where we took a step out. And some of the other things that we're doing like that, I think those are significant opportunities for Wal-Mart. And we have enough capacity in our balance sheet to be thoughtful about it.

I wouldn't want anybody to walk out of here and think these guys are going to be nutty, we're not. But there are going to -- maybe there are going to be things we would never have been able to do in the past that make sense for our customer and for this Company and give you the returns you're looking for that we would look at.

GREG MELICH: In the past you've tried to get a bank charter, you've gone after that, things have changed out there at this point. Do those conversations change at all with government? Is there an opportunity here? I mean, there's probably some capital that [could be] used in the industry.

LEE SCOTT: You know, I just don't know. I'm in some ways kind of glad. We were getting ready to do mortgages like a week before one of them went away and that's going to be our partner. And so, we're glad --.

UNIDENTIFIED COMPANY REPRESENTATIVE: What he meant to say was --.

LEE SCOTT: But I just don't know that the political climate has changed and I don't know about our appetite, Eduardo, to really own a bank. Some of the things have changed in the background that eliminate some of the savings that we would have had. Is that okay to --? So you just have to be careful. I'm not that wound up about a bank, personally.

GREG MELICH: And I guess, you talked a little bit about going down in retail. Is there any part of retail right now that you think you're not serving that you could that makes sense? I mean, you're starting with the smaller market, the marketside and so on.

LEE SCOTT: Eduardo can answer that after I -- he can rebut my statement. It appears that as this population ages and as energy prices increase -- and I think all of us -- I just went down and fueled up at lunch and saved about $20, I only fuel about once every six or eight weeks, and I saved about $20 from when I last did.

My view is that over the long term, regardless of what fuel prices are today, over the long term they only go up. And that makes me think that Eduardo and his team that are working on smaller stores and smaller formats, and what Mike is doing in leading the way internationally, it causes me to believe that there's probably a different way you'll end up serving your customer. You'll be pleased you have the Supercenters forever. Do you agree with that?

EDUARDO CASTRO-WRIGHT: I would. Starting with the fact that there's something that maybe we didn't communicate well yesterday, **Lee**, and that is, if you were to take our market share today in the 15 largest -- because you're discounting the US right now and that really puts my job in jeopardy so I have to clarify.

If you think about the 15 what we call largest markets in the US, and you take the market share that we have in those and compare that to the average market share that we have across the nation, the difference -- the available market, if we have the right vehicle --. And I'm not talking about the 15 necessarily, it's the 15 what we call opportunity markets, not necessarily just the most urban or less urban. It's the largest 15 opportunity markets, we take that market share.

The available market is bigger than the entire retail market of Russia and India combined. Larger than the China market. So don't discount the US as a growth vehicle, because there's plenty of market share to be had in just the 15. I'm not going wild here, I'm not saying we're going to double our market share. I'm just saying, if we had the same market share in those 15 opportunity markets that we have across the nation, that would represent an opportunity larger than the entire retail business of India and Russia combined. So there you have it.

LEE SCOTT: This is the conversation we have when we're allocating capital between Mike and Eduardo.

EDUARDO CASTRO-WRIGHT: Sorry, Mike. See, I didn't include it in the presentation because Michael made me take it out.

LEE SCOTT: But it could be a different size store, Eduardo?

EDUARDO CASTRO-WRIGHT: Absolutely. That's a big one, because there's one that would be right in our space. So it's one that we understand how to do it, we have the infrastructure to serve it, the distribution network to do it. But it would require a different format.

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And one thing that you didn't see yesterday also is that if you think about plan, our plan is not a three-year plan, it goes beyond that. And while we are focused in the near future, we're focused on what you saw that we're doing with the current stores and new stores that we shared with you that are going to be smaller, the second platform of our future growth is what we call the high-efficiency store.

And that store is going to be a lot smaller. It's going to a very large component of site to store. And you're going to be then serving the market, **Lee**, with a very different vehicle. That also would combine something that is the second largest growth opportunity for the US and that is retail, but it's a different type of retail. It is very small stores, actually almost no stores because it would be the online opportunity. Online is, without any doubt, a very significant opportunity for us and one that you will see us invest much more in the future.

LEE SCOTT: Yes.

CHARLES HOLLEY: Back there. Adrianne?

ADRIANNE SHAPIRA, ANALYST, GOLDMAN SACHS: Thanks, Adrianne Shapira, Goldman Sachs. **Lee**, it sounds as if you might be getting another fiscal stimulus program. Could you share with us what you learned from the last one? What perhaps you would do differently to capitalize on the next?

LEE SCOTT: That is -- from a business standpoint, you could see it with our customers. It is clearly something that is needed with our customers. And when our customers got those checks, I think, John, you may want to help me, or Bill, that in a lot of cases it wasn't the people who were running out and buying a flat screen TV. They were coming out and buying the necessities of life, true?

We saw big increases in things like diapers and formula and the things people need. So you could tell that it wasn't just a windfall, it was for a whole of people something that meant something to how they were getting by in their everyday life. As it was particularly then -- I'm going to go back to our customer, which I don't want to under sell because we serve the whole spectrum, but we have an awful lot of customers who live paycheck to paycheck.

And when you had the price of fuel at over $4 a gallon and utilities at home going up, it really pressed that group of people hard. And so, the stimulus check really did matter. And at the same time, there were people who got those checks who did buy the TVs. Gary Severson and that group have done a wonderful job of positioning themselves to be able to take care of that, Jane Thompson and her team to be able to cash the checks, and Bill and the stores in being ready to handle them.

I think the learning we would do would then be to be able to translate the efficiency of those things and then to get the merchandise out there that the customers want, within the price points they want, analyzing what did sell, what didn't sell. The thing that will be different though is, if fuel -- I used premium because the price is down this time, but I paid $2.50 a gallon and it's been $4.38 or something like that.

The one thing that will be different is that, if people are paying less for fuel, what is the impact that has on them and will this -- if they do a stimulus, will it be as much towards basics or will it be more towards holiday? That would be the difference. But my understanding is they'd like to gear it up and do it quickly. It certainly, from us, is something that has a meaningful impact on the business we do. And I can't speak to whether or not it's needed and justified in the impact on the overall budget.

Bernie, you had one too?

BERNIE SOSNICK: Bernie Sosnick, Gilford. Firstly, I'd like to thank you for allowing me to ask a question myself. You've made tremendous progress in positioning Wal-Mart as part of the solution for sustainability, and certainly with health and wellness, with the reduction in generic pricing -- introduction of low generic pricing. How can you build on that to be the solution for health and wellness issues that certainly will part of the next administration? And could you help us out a little bit in understanding the arrangement that Wal-Mart has with Caterpillar?

LEE SCOTT: Who would want to handle the Caterpillar, because there are -- Dr. John? Also known as Admiral, he was the Admiral of the US Health Services.

DR. JOHN AGWUNOBI, SVP AND PRESIDENT FOR THE PROFESSIONAL SERVICES DIVISION, WAL-MART STORES US: It was a privilege to serve. On the Caterpillar -- the Caterpillar as you know is an innovative company that has always committed to trying to find new ways to offer health benefits to its employees. Great leadership in that company. We have worked directly with them in such a way that we have negotiated prices on

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our pharmaceuticals that allow Caterpillar to save money -- the employer, in such a way that it can now incent its employees to fill their prescriptions at Wal-Mart. That's basically how it works.

That's the arrangement. It's a pilot. I will emphasize that we are monitoring the impact of the arrangement. And if it works for Caterpillar and for Wal-Mart and, importantly, for the employees -- the customer that utilize this arrangement, then possibly we might look at expanding it as we go forward.

BERNIE SOSNICK: Is there a PBM involved?

DR. JOHN AGWUNOBI: So Caterpillar has a PBM that manages all of the administrative functions associated with this arrangement, but in this arrangement it's basically about us selling pharmaceuticals at retail prices directly to the employer, rather than going through a third party.

EDUARDO CASTRO-WRIGHT: And John, what you might want to clarify is, so what's the benefit for the Caterpillar employee?

DR. JOHN AGWUNOBI: Ah yes. So we saved money for Caterpillar in their employee benefits program as a result of their working directly with us, avoiding a middle man. They elected to incent their employees by giving them a differential co-pay, meaning if a Caterpillar employee fills their prescription at Wal-Mart, they pay much less out of pocket than if they had gone to another site to fill their prescription. In actual fact, I think most of their Caterpillar employees pay $0.00 if they fill their prescription at Wal-Mart.

LEE SCOTT: As far as the overall issue of healthcare in the United States, I think the role that we have to play, first of all, in representing you our shareholders, is to ensure that what we end up with is a level playing field. That's the first thing that we want.

And today it is not a level playing field, because you have 45 million to 48 million uninsured Americans who are getting healthcare. And so, it is those of us who provide healthcare who are subsidizing that payment. And so, we have to play in a way that protects the shareholder and protects the Company and make sure that this is what we think of as a level playing field.

And then secondarily, because we have a model -- Linda Dillman has just done a wonderful job in healthcare, and we have a model that is extraordinarily efficient. It provides good healthcare, but it is really efficient. And one of the things we want to do is make sure that you don't end up with something that, if you manage it well and you manage your cost well, you end up having to somehow pay a percentage penalty because everybody needs to pay the same percentage.

So how do you incent companies to have health programs for their people, wellness programs and those kinds of things? And then, how do you work with government to ensure that you are incenting the right kind of behavior among companies and not creating a bureaucracy which simply transfers total cost?

We think, through portable healthcare records, which we've offered to our associates this fall, that that is one of the things we can do. We think by working with the group that we're working with to get healthcare records out there for everyone, to eliminate this, I think the number's $500 billion of administrative cost in the US just on healthcare. I think that's what it is -- $500 billion or $650 billion.

That we can participate in those kind of things and that because we have been able to do this with the Communications Workers, Service Employees Union and other companies, General Mills and others, we've been able to show that we can bring a coalition of people who are not naturally partners into this and deal with it in a way that is straightforward and not self serving on anybody's part. So I think, like Leslie talked about, if we can get at the table, we can make a contribution in this.

And then beyond that, do clinics ever amount to what we would all hope they could be? Those kinds of things, I just don't know. Eduardo might have a better answer. I just don't know at this point, I think the jury is still out. In some places they work and work well, other places they just don't seem to be very effective.

EDUARDO CASTRO-WRIGHT: I think that the business model that most companies that operate in that space -- that business model they are using is one that has not proven yet to work. Now the one that we have just recently started, which is slightly different because it leverages the brand equity of the local hospital, as well as the expertise of the local hospital to provide the nurse practitioners for the clinic, that is one that we feel that has a lot more potential.

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Because we both have the trust of the customer in terms of the brand of the hospital, and at the same time you have the professional management of the nurse practitioners, which some private equity firms that have entered this space might not have.

LEE SCOTT: Other questions? If there are no more questions then --.

CHARLES HOLLEY: We have one.

LEE SCOTT: Deborah.

CHARLES HOLLEY: Deb.

DEBORAH WEINSWIG: Deborah Weinswig at Citigroup. **Lee**, kind of adding onto Bernie's question with regards to sustainability, obviously Wal-Mart has really taken the lead here in the competitive landscape, not only domestically, but really in the world. Can you talk about what you're really doing in the store and outside of the store to communicate that to your customers?

LEE SCOTT: No I can't, but somebody will be able to. What I've been involved in is just the day-to-day nuts and bolts of the sustainability thing. And it just is awesome. I mean, you get people who come in and they'll show -- I had a person come in with a new cereal box, which is a secret until January, and it's going to save like 20% of the packaging.

And you just think about it. If you take 20% of the packaging out of cereal and you did that worldwide, how much package that is. And they reconfigured the box so that it has less of the dead space in it as it settles. And we just get supplier after supplier coming in about packaging.

And what we did last week in China is -- we're behind, we should have done it earlier, but it is so cool. What we did with our group and Matt Kistler and the group that's heading that, and Leslie, is that we had suppliers there who might have been scared to death, because we actually laid out a commitment on their part. And we laid it out firmly.

But we had NGOs there, we had people with expertise there and we had a show outside the hotel where people were able to go and see how they could do the clean water and how they could this and how they could do that, how they could save energy in their factory. And so, it wasn't just a matter of saying you're going to do this, it was a matter of saying, we're partners in this, we expect this. And here are people who have, either companies or NGOs, who have the expertise to be able to do it.

We are going to make an extraordinary difference. I think, I'm going to come back to quality because here's what I say, and I just believe it. If you're dealing with a factory that hires under age workers, who does not pay over time, who does not pay taxes and who dumps their residue and chemicals in the river, what in God's name makes you think they're not cheating you? Because they've cheated everybody else they've dealt with so far.

And ultimately, I believe they'll cheat the customer in the quality of the product. And I think sustainability -- through the lens of sustainability, you can reform how you think of quality and you can enhance the image of this Company dramatically while still having great prices. Because what we're finding is through the lens of sustainability you take waste out of the process and it doesn't cost us much more, if any, than what you thought it was going to.

And so, I'm excited about it. I'm excited about what our merchants are doing in organics. My wife was in a store in Florida on Saturday and this woman said, you need to go to this other retailer -- you need to go to this retailer and buy this CD or something. I don't know what they were talking about. She forms relationships in short periods of time at these places. And -- is this being webcast?

But anyway. And my wife said, I'm not allowed to shop there. And the woman said, you're not. And she said, no, I only shop at Wal-Mart. And the woman said, you know, I never shopped at Wal-Mart until three weeks ago my mother told me I have to go to Wal-Mart. And she said, I've been there every week now for three weeks, I've spent over $100 every time. Their prices on their organics are unbelievable. Because she was shopping organics at a well known, more expensive store that is known for organics. And it cost a whole lot more.

But anyway. So, I think this all comes around. And I know that are what we would refer to at Wal-Mart, and I call myself this so I'm not, Maggie, talking about it, but old timers who look at that new store and say, are you still over reaching? And I say that, first of all, times are different. And if you looked at the price points on the end cap in that store, it was made for average working people; they weren't $80, $100, $120 end caps.

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And in today's environment, it is not just people who have money who want organics, not just people who have money who want less packaging. What we're finding is that people care about the environment when they can afford to do something about it. And I think the lens of sustainability pulls all that together, whether it be organics, packaging, the elimination of waste out of the back of the store, the elimination of utility costs by being more efficient at how we use utilities, it makes us a better company.

And so, I'm obviously excited about it. And quite honestly, when I gave that speech in 2005, I had no idea that it would be -- it just felt right, but I had no idea it would be as transforming as it is, nor did I know that so many young people at Wal-Mart were waiting for this older generation to take action. I did not know that.

Do we have time for another one?

CHARLES HOLLEY: One more.

NEIL CURRIE, ANALYST, UBS: Thanks. Neil Currie from UBS. Leslie commented last night a little bit on the Freedom of Choice Act and I wonder whether -- I know you don't like it, but if it was to go through, is this something which could cause you to have less sleep at night? And is it something which could cause you to change the plans that you've outlined in the last few days?

LEE SCOTT: No. No and no. I thought it was titled the Forced Choice Act. Here's the way I look at it, and then Leslie can give you the actual Wal-Mart position. At my age -- I'll be 60 in a few months, at my age I think it's irrelevant.

Sam's Club, associate opinion surveys -- our people feel good about the leadership they have at Sam's. Wal-Mart Stores, opinion surveys I don't think have ever been higher. They feel good about what's going on, the bonus payments are very good, our wages are very competitive with what we see in the new union contracts. We're very competitive and the leadership that Bill and his team have given to the field, and you don't get to see Hank and everybody else, they've done a really nice job, Don and others, in building that relationship with Associates.

As an American, as a US citizen, I worry about it. As long as it's done and it's a level playing field, it's not that it's going to be so harmful to Wal-Mart. But as a US citizen in a globalized economy, making this country less competitive, bringing coercion and force into the workplace and having people go to people's homes and coerce them in a way that causes them to be uncomfortable in the workplace when they go back to work, how do you justify doing those kinds of things at the very time when this country needs to be its most competitive? That's what bothers me.

It'll be generations in the impact it has on this country. And it won't be positive, I guarantee you that. It will not positive. But for Wal-Mart, in the short term and in the long term on a relative basis with our peers, we're going to run this business.

Our associates are going to be productive, we're going to reach out, we're going to have relationships with our associates, we're going to care about them and we're going to serve customers. We like driving the car and we're not going to give the **steering wheel** to anybody but us.

Now you can give the actual answer, Leslie.

LESLIE DACH, EVP CORPORATE AFFAIRS AND GOVERNMENT RELATIONS, WAL-MART STORES INC.: If I've learned anything in politics it's always to let your supervisor have the last word.

LEE SCOTT: And -- you know in Leslie's career in politics, he was on the Dukakis campaign, the Gore campaign, the Kerry campaign --.

LESLIE DACH: Come on.

LEE SCOTT: And just missed the Johnson campaign, which was successful. We appreciate all of you. We will continue to do our best to take care of customers so that they can save money and live better. Thank you, all.

CHARLES HOLLEY: Thank you. This will conclude our webcast for the Analyst Conference.

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