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Corporate Speakers

• Bill Simon	Wal-Mart	Head - Wal-Mart-US
• Duncan Mac Naughton	Wal-Mart	Chief Merchandising & Marketing Officer - Wal-Mart-US
• Gisel Ruiz	Wal-Mart	EVP, COO - Wal-Mart-US

Participants

• Greg Melich	ISI Group	Analyst
• Paul Trussell	Deutsche Bank	Analyst
• Chris Horvers	JPMorgan	Analyst
• John Heinbockel	Guggenheim Securities	Analyst
• Matthew Fassler	Goldman Sachs	Analyst
• Bernie Sosnick;	Gilford Securities, Inc.	Analyst
• Budd Bugatch	Raymond James	Analyst
• Joe Feldman	Telsey Advisory Group	Analyst
• Mark Miller	William Blair & Co.	Analyst

PRESENTATION

Bill Simon: Thank you. Good morning, everybody. Thank you for being here. It's always great to get a chance to speak with you. I appreciate the opportunity to talk to people who really know and understand our business and our company.

Mike mentioned, despite, you know, a really tough run here, five or six years, some of the most challenging environments that any of us have ever seen, we've been able to deliver consistently for the customer.

And one of the things that I'm fascinated by is just -- and encouraged by, is just how resilient that customer is. They keep finding ways to adapt, keep finding ways to deal with the difficult circumstances. And we know that they're counting on us, kind of each and everyday to help them figure that out because we have a business model that works, and it works for them.

We're focused on operating, as Mike talked about, every single day, more and more efficiently so that we can offer low prices to our customers. In fact in the first half of the year, we were able to add an additional $1.6 billion in sales and nearly 570 million additional dollars in operating income to the business.

Now our goal is to get better each and every day, and we're working on that, we're making progress. But when all people hear about on the news is the stalled economy in a debt ceiling, well that's not helpful, and when the government shuts down, it starts furloughing government workers and Wal-Mart customers, that's not helpful either.

And we're battling through that, and it's a constant battle, one that's probably never finished, and one that we're very, very much engaged with and we're excited to talk to you about today.

Now I feel good about where we are, but even more excited about the future. And I'm looking forward to talking with you about that later in the presentation today.

We continue to grow and evolve the business to meet our customers' needs. Now we always have opportunities to get better, and today, we're going to discuss in detail, those opportunities with you.

But we've been in business for over 50 years, and each year has had its own set of unique challenges and opportunities. And as Mike talked about, it's kind of in our DNA, it's in our make up to work to get better to be maniacal about improvement every single day, and you'll see that progress, we'll talk to you about that.

Now I'm confident about the state of our business today, and I'm excited, really, really excited to give you some detail about the pathway forward.

Much of my confidence comes from the Wal-Mart leadership team that I just had up there today. They're world-class in their -- thank you -- they're world-class in their ability and capability and you'll get a chance to hear from Duncan, our Chief Merchant, Duncan Mac Naughton, and Gisel Ruiz our Chief Operating Officer today, and hopefully, you've had a chance to interact with the leadership team between last night and today.

So today, we're going to share with you how we see things, we're going to go a little deeper than we usually go so that you can get an understanding of what we're looking at, and the focus areas for yourself.

We'll look at what's happening in the business right now, and explain to you the short terms steps that we're taking to improve our sales, and then I'm going to spend a fair amount of time with you laying out the longer term vision for growth at Wal-Mart US, and much more detailed than we've done in the past.

And ultimately, the report I'd like you to write when you leave, the take away from today, is first, that the US business is strong. Now our company is evolving, it always does, but our business model is not changing. We're a mass merchant discounter, and we're proud of that.

Secondly, and I said this before, we have the best team in retail, the leadership team, and our store level teams are the best in retail. And I'm excited about the quality of the people all the way throughout the organization.

Third, I want you to take away that we're dealing effectively with the short term environment, we feel pretty good about profit, but we're not satisfied at all with our top line.

We know what the opportunities are, and we're focused on them, we're going after them. Duncan and Gisel will share more details with you on it in just a few minutes.

And finally, we have a lot of growth opportunity in the US, you know, it's really right for the business. And years down the road, you're going to look back on this day and understand that we sort of reached an inflection point in our business. And I'm going to share a few of those initiatives with you because I think they're significant not only for our customer, but for everyone.

As I said, I think we're at an inflection point and I can't wait for you to hear about it. But before I do that, I'm going to review the business, so we can cover the results.

When I last spoke to you, we went through our second quarter results, communicated, we delivered a strong profit in a challenging sales environment. The profit growth was fueled by our ability to diligently manage expense, and lever in a difficult and challenging top line environment.

Total sales grew at over 2.1% for the quarter and we gained market share across the business. However, as everybody know, comp sales didn't meet our expectations. Now if I can, I'd like to go to a little bit more detail about that, actually, it's quite a bit more detailed than you've seen before, and then they'll give you a better sense of where we're going in the coming months.

Our merchandize areas, we put focus on key categories like home and apparel, and fresh. And we've seen really, really good performance there, solid improvements across those business. I'm particularly pleased with our second quarter comps and apparel for example, up 3.6 comp. The fresh categories of produce, meet, seafood, up [3.2] comp.

And that's been led by a focus on quality and strong in-store execution. We always have opportunities to improve further, but those categories, in fact, all the categories on the top line here, have done very, very well for us.

However, in several grocery categories, we've seen -- sort of limited inflation that has to be overcome, and we're doing that with aggressive merchandizing. In dry grocery, our comps were slightly negative, at -0.4, and a really slow growing market.

Now we did gain market share in this environment, but we're focused on trying to find ways to grow sales.

And entertainment, we had second quarter comps at -7.2, and we lost shares in TV. Everybody knows about the decline in that industry, we made some decisions on way to go to market in the first half of the year, primarily with a focus on larger screens that didn't pan out the way we wanted to and we lost market share.

Duncan's going to talk to you about some more detail about that, coming up and the reaction to it. But collectively, the four categories on the bottom there, represented around 60 to 80 basis points of comp headwind for us in the second quarter.

Now, some of these categories aren't going to improve immediately. The entertainment decline is something that's kind of a longer term solution, although the fourth quarter should be better with the launch of some of the new game consoles, and the dry grocery piece of business I think is an area where -- in our consumables that we can improve kind of more in the near term. But Duncan is going to explain to you about those later and some of the actions they're taking.

From a format perspective and an operational perspective, the core of our business is strong. We're pleased with the performance of our supercenters, and very excited about our small format performance.

Our neighborhood market comps have been comping in line with the grocery leaders all across the country. Total sales are up 30%, our comp sales are up 3, in neighborhood markets.

Our express stores, double digit comps through the first half, very, very pleased with the performance there. Now on the bottom, we got an issue with our discount stores, they continue to underperform.

You just think about it for a second, you'd understand that because it's a merchandize mix issue, they're more heavily general merchandize, especially in entertainment, and I just explained to you the issues in entertainment, and they don't carry the faster growing fresh products, meet, produce, that we're gaining on. So it's an opportunity to get better there.

Now every retailer, and we're no different, has a bottom 10% of our stores. In our case, our bottom 10% is still pretty big piece of business, it's over 300 supercenters. And those 300 supercenters are down 7.5 comp.

We have plans in place to correct that action and to focus on them. And Gisel is going to take you through some of those specific and actionable opportunities to get better there.

So hopefully, you'll get to see where we have opportunities, what we're doing to focus on it, but the take away by and large, is that the business is strong with a couple of areas of opportunity that we're addressing.

Now I'm going to turn things over to Duncan to take you through the merchandizing initiatives, and then I'm going to -- and Gisel is going to come up and take you through some of the operations initiatives, and then I'll be back after that to talk to you about where we're going. Duncan?

Duncan Mac Naughton: Thank you, Bill. And good morning. As Bill mentioned, we're focused on driving comp sales and driving (technical difficulty) with you our plans to aggressively merchandize in our stores and invest in price to create a competitive advantage. I'll also walk you through our plan this holiday season, our planning to shout our holiday message, and be the number one share voice in the industry.

As Bill mentioned, we continue to look ways to improve our business performance in categories where opportunities exist.

You've heard me talk before with our focus on fresh, on home, and in apparel. I'm very proud of the improvements the team has made, and that's showing in our performance.

In meat and produce, the teams have focused on enhancing product quality and (technical difficulty) communicating with our customers through marketing campaigns. Specifically in produce, we've increased our sourcing's spec on key categories like berries, citrus, and tropicals.

We're working closely with, and buying directly from local farms so we can increase our freshness and quality which results in better value to our customers.

We've also put buyers in the fields across the country, across the world. We placed an emphasis on associate visibility and in-store execution, we also conduct weekly audits with a third party audit firm that looks at every store, every week, across fruit, and vegetable commodities.

Our improvements are resonating with the customers and we've seen it in our performance. Our Q2 market share is increased 20 basis points in meat, and 70 basis points in produce. In apparel, our team is focused on executing our assortment strategy. We balanced our assortment, 50% basic, 40% fashion basic, and 10% trend.

We've also added a number of national brands that our customers recognize, that build credibility, and improve our perception.

Brands like Nutribullet, Russell, And One, Avia, Calphalon, these brands will contribute over $500 million in sales this year.

Entertainment is a key business in our general merchandize area. Entertainment has, and continues to face significant external challenges. The proliferation of mobile, and digital purchases combined with [AUR] deflation, and the lack of innovation, has pressured our top line sales. The same time, we're not happy with our performance in this business and our team has been working very hard to stabilize it.

During the first half of the year, we lost share in certain entertainment categories. The teams reacted quickly, particularly in televisions. They expanded key brands like LG, Emerson, Vizio, Samsung, we're also executing our TV cart reel in many key divisions across the country and investing to win in key items.

Our long term plan to stabilize performance starts with a continued focus on new items, and new technology at unbeatable prices.

We're very excited about the new gaming consoles, the first major video gaming consoles released in eight years.

We win anew, and we win anew media releases, and our goal is to have a 40% share, and we have a strong line up for the back half. Movies, like Despicable Me 2, Monsters U, and Man of Steel.

Our wireless growth has been fueled by low prices on devices, and innovative plans like Wal-Mart Family Mobile, and our Straight Talk program. We're focused on converting that high volume grocery traffic that Bill talked about with consumable products like our 488 accessory bin inside the entertainment department.

Bill talked about our need to drive strong business, store traffic through our food and consumables business. Our first two quarterly results have been impacted by sizeable headwinds, however, we've been able to gain 14 basis points of market share in a competitive environment.

We continue to look ways to stay ahead of the market place, and we're focused are creating excitement through mass merchandizing, we're offering great values to our customers throughout the holiday season, starting with two very big events this month in October. October saving events runs all month long, and delivers rollbacks across all the store that our customers love.

We're lowering prices on grocery items like Velveeta, Campbell's Soup, Doritos, we're also rolling items back across electronics, soft lines, toys, consumables, with brands like Samsung, [Tuareg], and Maybelline.

Our stock up and save event is driving excitement in our stores, and highlights the value that

Wal-Mart offers our shoppers each and every day. We partner with suppliers to send full trailers to our stores packed with brands like Sharman, Bounty, Pampers, and Gatorade. We set up large displays on our parking lots and in our stores and we offer our customers unbeatable prices.

Our customers have been very excited about this event, it's about telling our story. You'll save money on the brands you love, by shopping at Wal-Mart.

We continue to invest in price across both food and consumables to drive traffic to the box, and convert that traffic into broader sales.

We're comfortable with our price position across the markets we operate in. Our price investments, they're well planned, and they're very thoughtful.

We've targeted price investments in specific categories in our grocery business, and we've invested in specific categories.

Categories like adult beverage, produce, and our paper goods business. We've invested 300 basis points in adult beverages, and enhanced our mix of private labeled brands at the same time.

As a result, our Q2 market share in adult beverage is up, 90 basis points. We've also invested in produce in items like strawberries, cherries, blueberries, and some of our favorites, Cuties.

Overall performance in our produce department Q2 was up 70 basis points. We'll continue to invest strategically in categories that deliver basket savings, as well as overall price perception to create a sustainable competitive advantage.

We've increased our focus on lowering cost of goods as an enabler to invest further in price. Global sourcing and joint business planning continue to focus on building strategic partners with our suppliers and manufacturers enabling us to drive long term growth and innovation.

We've made significant progress in our food up-streaming initiatives, and continue to explore ways to drive significant cost of good savings through these efforts.

Our US manufacturing initiative is well underway. We've had great engagement with our summits. In August, we had over 1400 [intendees] including eight governors, 530 suppliers, as well as 34 states represented, we had multiple commitments that day creating over 1,000 jobs and infusing $70 million in capital in factory growth.

We also have kicked off some key initiatives with great companies like General Electric, Kayser-Roth, Renfro and Element Electronics. I'm proud of the progress these teams have made and the impact it's having on the business.

I'm excited about the holiday season, and I expect this to be the best year ever. We put a lot of focus on making sure we have a strong holiday season, and that we're serving our customers in every occasion from Thanksgiving, Halloween, Christmas, New Year's and then in January, as our customers get back on track with their routines, we'll be there for them.

Being ready for the holiday means having the right items that customers want, at the best prices, at the right time.

To ensure that we have the right items with our customers, we developed what we call our Chosen by Kids Program. In toys, for the first time, we went straight to the experts, not our buyers, we went straight to the experts, the kids, we asked 1,000 kids aged 2 to 10, to help select our top toy list.

Toys like Big Hugs Elmo, the flying fairy doll, Barbie's Dream House, and Furby Boom. We're committed to have the low prices on these top toys, and all our toys all season long.

To give customers the confidence they could shop early, and save, we have our Ad Match guarantee. We will match the price of any local competitors' printed ad, for the identical product, right at the register, even on lay away items.

As of October 6th we're serving over a million customers through lay away, and our customers are focused on getting new tablets for themselves, and for their kids. With tablets, representing four of the top five items in lay away this year.

We launched a one hour guarantee last year to give our customers confidence that they'll get the advertised items in our ad during the first hour of Black Friday if they're in our store. We had great feedback from our customers about the one-hour guarantee. And this year, well, you're going to have to wait for it.

We're always looking for ways to connect with our customer and communicate in a way they want, in ways like with social media. Our customers are highly engaged with us through social media, sending a strong message with us, through Facebook, Twitter, Instagram, and Pinterest. We now have 34 million likes on Facebook making us the number one brand in the US among Facebook users.

In August, we launched Wal-Mart on Instagram. It's the fastest growing social network with over 150 million current users, almost 90% of those users are Millennials. So as you can see, our efforts in social media are bigger than ever, and we love the direct engagement that we have with our customers.

Now, shouting the holiday message, we will shout our holiday message to the tune of, ready for it? 25 billion impressions this year. We will have the number one share of voice this holiday season each and every week during the holiday season.

We're going to communicate with our customers via TV, print, and radio. And TV will have very high profile programming, for example, we will be number one across the whole NFL season. Customers will also see us in some of their favorite shows like Duck Dynasty, Dancing with the Stars, and The Voice. We'll also be there when customers are researching, right? We're also focused heavily on mobile search, so customers will be able to find us when they're out shopping in the stores. To that point, we're tripling, that's right, tripling, our mobile spend this season.

So as you can see, with 25 billion total impressions, customers won't be able to watch TV, search the Web, or look at their phones without seeing us at Christmas.

So now, I'd like to share three commercials with you. The first two commercials are really consistent with our price message. It's the foundation of who we are. It talks about our commitment to EDLP building trust with our customer on price, and demystifying some of the competitor gimmicks like buy one get one free and gas programs and loyalty programs.

The last commercial highlights our effort to continually build our brand equity with our customer by demonstrating the happiness and the value that we can bring during this special time of the year, during the holidays. Will you please run the commercials?

[Video Playing]

Duncan Mac Naughton: So as you could see, we're working hard on our core business and we have a very strong plan for the holidays. It is now my pleasure to introduce my partner, Gisel Ruiz.

Gisel Ruiz: Appreciate it. Good morning. You know, between the gas commercial and the holiday commercial, I'm not sure which one is my favorite, but I can tell you that they both make me smile.

Bill talked earlier about our Q2's comps and they were softer than expected. And what I'm here to talk to you about is our part in operations on what we're going to do to help drive top line sales and grow traffic into our stores. So we'll get right into it.

Bill mentioned earlier, we got two sets of stores that we've got our eyes on. In Q2, our 500 traditional discount stores experience softer comps than our supercenters. And if you think about those stores, Bill mentioned it, but I want to be a little bit more specific, entertainment and consumables make up 30% of the mix and we're going to implement exactly what Duncan talked about earlier in these categories.

We're also not always able to offer a full one-stop shop, so we're taking action on 60% of the stores in the form of relocations and expansions to supercenters and we'll continue to improve the assortment challenges through programs like site to store and pickup today.

Many of you may be familiar with our Kearney, New Jersey store, that was a discount store that was relocated to a supercenter back in March. We're very pleased with the performance of that store. That store is going to exceed $130 million this year in sales. Now while all the expansions and relocations won't perform like Kearney, we are very pleased with our expansions and relocations to supercenters, they perform extremely, extremely well.

Within our supercenter group, we're always focused on the bottom 10. Bill mentioned that earlier. He mentioned the comp sales, and I wanted to note that those comp sales include impacts as well.

But in retail, and specially in operations, as we work on the bottom 10% of the stores, some of the stores move up and out, we work on the next batch. That's just part of what we do.

Beyond working on executing the fundamentals, here's what's different of that approach on the bottom 10% is we go into the back half of the year because every store is unique and different. We've got unique action plans that are targeted against those stores and in some cases, we're addressing merchandise gaps, in some cases, it's about operational execution, maybe a combination of both but either way, we're addressing those issues with management and accountability.

In fact, our regional and divisional leadership teams are in those stores more frequently asking critical questions around pricing, assortment, routines and talent. We're also conducting monthly reviews to follow up on the progress. We know what we need to do in these two groups of stores and we're working through those issues. But we also know that in order to deliver the back half of the year, our attention has to expand beyond any subset of stores.

One of our highest priorities in operations is in-stock. Now, we're just shy of all of our regions across United States exceeding our goal of 95% on on-shelf availability. But we're not stopping there, in fact, we're drilling even further. You see, our customers think about in-stock at Wal-Mart one item at a time. It's about the item that they're looking for.

So if you separate our bottom 10% stores, the [OSA] scores in those stores are about 92%. We've got more work to do. Across all stores, we're focused on nights and weekends and where we have gaps, we've adjusted our staffing models, our strategic stocking processes and we're measuring in-stock during those key times in more detail.

We are working better and smarter in the stores. But additionally, we also have some pilots in place that are going to help simplify how we get more product to the shelf and we're ensuring that we have [modulars] that have holding capacity in order for those products to get through peak customer demand.

I hope I'll be able to talk with you more about that in the future conference. We're also leveraging the expertise of our supply chain in our stores to help improve our in-stock availability and I'll share a little bit more detail in just a few minutes.

The headline here is that we are serious about in-stock and we're making progress. The ground rules are crystal clear in operations, our job is to create leverage in order to deliver lower prices for our customers by simplifying or removing work in our stores but never at the expense of our customer experience. And in retail, for every action, there's a customer reaction. So we're heavily focus on keeping our finger on the [poles] of how our customers perceive their shopping experience in our stores.

During Q2, we saw improvements in our experience force compared to Q1 and one area where we've made most progress and also, this one is about creating leverage, is within the frontend. Over the past nine months, we've moved our taskforce to 8.19 on a scale of 1 to 10. This is the highest in the company's history. But like I said about in-stock, we're not celebrating.

This is about an individual customer shopping experience in their store whether they found what they needed, we're providing friendly customer service and we're checking them out fast. So our focus on the customer experience is important especially as we go into the holiday season and our plan is to exceed our customers' expectations.

Duncan talked with you about the exciting merchandise plans and we're very excited to roll those out in the field. Our job and operations is to help bring those plans to life in the stores. I tell our operators every week when I'm traveling out and visit these stores that I'm proud of who we are. We're a mass discount retailer. We stand for item enterprise, broadest assortment, one-stop shop.

And you'll see here, big bull displays of great items, a real mass merchant and our store teams are empowered to create promotional intensity to show our price leadership whether it's in key consumable area, basics and apparel or driving excitement around seasonal events like the mumps and pumpkins that are shown here on the slide. Best assortment, exciting presentations created by our operators, a focus on strong price points, that's what you're going to see in the stores in the back half of the year.

Now, let's talk about the fueling the productivity loop because fueling the productivity loop are operating for less. That's what gives us the ability to invest, grow and sell for less. That hasn't changed and it won't.

I'm going to share with you a couple of examples that help create efficiency and productivity. Now, last year, I spent a lot more time talking about productivity initiatives. I'm going to share two examples with you. First, the front-end, we're at nearly 2.5% in [scans] for our year-to-date and we'll ad self-checkouts to more than 600 stores this year.

The customer adoption rates for our 600 stores has exceeded expectation with more than 500 million self-checkout transactions year-to-date. So by the end of the year, we'll have self-checkout units in two-thirds of our stores. This is both a win for our customer and for Wal-Mart.

On the other side of the slide is our logistics example. This team has delivered $180 million in cost savings over the past four years and continues to generate leverage through more cases per mile delivered and more cases per hour process through our distribution centers. All of this with 99.7% accuracy and 99.1% on-time deliveries. Why is that important? Imagine replicating that level of accuracy and efficiency in our store backrooms.

By the spring of next year, logistics will test ownership of a set of backrooms in our stores. It's not just an effort to create additional leverage, but it's also about inventory accuracy and it will help improve our on-shelf availability.

Additionally, this will help us continue to build capabilities for Dotcom and small format inventory fulfillment which Bill is going to talk with you about in just a little bit.

Duncan and I are proud to lead a team that is over 1.2 million strong and represent a company that promises opportunity for those that want to work hard and have a strong desire to serve our customers. And those opportunities start with getting a job and at Wal-Mart, we're hiring. We're proud to announce our commitment to hire veterans.

Since the launch, we've hired 16,000 veterans to our stores, clubs, DCs and home office. In addition, we'll hire 55,000 seasonal workers to help serve our customers this holiday season. And that opportunity is as real for our existing workforce as well.

We promote close to 160,000 associates annually and this year, we'll convert more than 70,000 associates from seasonal to part time or part time to full time. And also, something that's very important to us is that our full time and part time associates are consistently working more hours. And I'd be remised if I didn't talk about our annual engagement survey results. This year, our annual engagement score was 71%, the best result in our history

So, from a people, operations and merchandising team perspective, we're ready for the holiday season and we look forward to serving more customers than we ever have before. The first part of the presentation like Bill said was about the here and now, what's going on today. Next, I want to invite Bill up to talk more about our plans to bill the next generation of retail.

Bill Simon: Thank you. I hope Duncan and Gisel gave you a little bit of a feel for the things that we're working on. We know where the issues are and we're focused on addressing them. Now, what gets me really excited about the business is the future that's in front of us. Retail has been evolving, it always evolves, the type of shopping trips or the customer trip, the way and the channels that they use to access brands and Wal-Mart is ready to serve our customers anytime and anywhere that they choose to interact with us.

Access is critical and we're going to provide greater access to our customers by using all of the formats in our portfolio. And to do that, we're going to first look at core markets and filling opportunities and I'll describe to you that a little bit in just a moment because [where] the opportunity to be used our smaller formats to build out our footprint in some of our existing markets.

And as we build out these markets, we're going to look to utilize the interaction and the intersection of everything that we do and something that we're calling a market ecosystem and I'm going to explain that to you in a minute and I think it's very exciting.

And what that is really rather than looking at each store as an individual entity, we look at the market in its entirety and look for ways to create leverage and share resources and serve customers more broadly and I'll get into more detail on this in a minute.

And finally, as eCommerce continues its rapid growth, we're in a unique position as Mike talked about to unite the digital and the physical world in a way that only Wal-Mart [can] because we're an active leader in both of those areas.

But as I said, it all starts with access and let me just cover a couple of things for you. Wal-Mart offers lots of formats to meet these three major shopping trips. And over 20 years ago, we, for the most part, created the stock-up trip and we continue to deliver well against that. It's the largest of the trips. It's fundamentally served by supercenters and clubs, full food and general merchandise assortments.

So whether it's a large grocery trip on the weekend or monthly shopping trip or a major holiday like Thanksgiving, customers find everything they want, fast, easy, one-stop shopping experience that the supercenters deliver well against. And we believe we do that stock-up trip very well and there's an opportunity to continue to deliver against that.

Now increasingly, we're using our smaller stores to provide a convenient access to customer so the customers can access our assortment and our everyday low prices much closer to where they live. And the neighborhood is well-positioned for that basic food trip, the traditional grocery trip as well as having the ability to compete against multiple formats and drug and dollar channels and I'll talk about that in just a second. The market size is about $260 billion. This is more of the traditional grocery trip.

And finally, there's this emerging trip that's immediate access. It used to be more of a convenient store driven trip but with the growth in dollar and drug channels and some of the hard discounters. This trip is one of the fastest growing trip size and the Wal-Mart express store is sort of uniquely found a way to participate in that and we can be larger in this segment and we're planning on doing that.

Just little bit more background on our supercenters and all of the portfolios, with more than 3,200 units today, supercenters are over 80% of our fleet and remain a very, very strong growth vehicle for us. There is substantial growth opportunities and our substantial growth opportunities that remain for the format were focused on core markets where we have a strong franchise and can improve the customers experience and access to the brands there. And moving forward, we're going to continue to build and leverage this format.

Now, we're also flexing the supercenter size to cater the market needs and we recently launched, this year, we launched 70,000 square foot supercenter which interestingly, we can build for less than $10 million depending on the land cost. And so imagine a $10 million supercenter as our ability to put that into the marketplace and how that will play in our multi-format portfolio.

And you've heard us talked about this for a couple years now, the acceleration of our neighborhood market format and this is a hybrid format. For the first time, we'll build more doors -- we'll open more doors in small format than we will in large format this year. I'll get into that in a second. Now, this is a hybrid. It's a combination of a drug store and a dollar store and a grocery store, delivers against all of those needs and the results have been very strong for us.

And so if you're looking for comparisons, the merchandise mix in neighborhood market is much more similar to a traditional grocer with a fresh and so if you want to compare, that's a good vehicle to compare to. We now have over 300 of those opened.

In the first 10 years, we launched in 1999 and took us 10 years to get to $1 billion. Over the next three years, we'll grow this format to over $12 billion and we have plans to have 400 more units and we'll be bringing the total count to well over 700 units. And we're adding convenience to the format. Increasingly, you'll see us use fuel as a major piece from a convenience perspective for the stores as we add them to the pipeline.

We're also very excited about the possibilities with Wal-Mart Express. The customer response has been very, very good. We talked last year about the density test in rural North Carolina and that test is well underway.

And once that pilot was fully operational, we were able to decrease the transportation costs to serve these express stores by over 200 basis points and that was really the rationale of the density test to make sure that we could deliver those in a cost effective way and we have been able to do that. So we're pleased with the comps. We're now able to service them in a way that fits into our system. And you're going to see how we're going to plan to use them as I talk about these market ecosystems in just a moment.

So let me give you a practical example of how that will work. We have three very strong formats that we think will grow -- we'll be able to use to grow in the future. And we're going to use them in any combination to serve our customers in many markets. Now, if you know your geography really well, you might be able to tell what market this is but you have to be really, really good. But it's very typical of almost anywhere in the US We have three existing supercenters in this market. They're all over $100 million, they average over $100 million and they're very profitable.

Now, the last one was built in 2003, so we haven't built one in 10 years. We'd been pleased with the results in the market, but there's an opportunity because since then, grocery, dollar, drug had built over 30 units between us and the customer. This is very typical for the US so which required us to rethink our market position. And like I said, we've been pleased with the performance of these stores but we're clearly not capturing all the growth, we should be able to capture in these markets.

So now you'll see us go back and fill in using all of the formats in our portfolio to be able to access this growth. Actually, in this market, two of these stores are already under construction and other two have been approved by the real estate committee and the fifth one will be presented shortly to the real estate committee. And so when this market is fully up and running, our customer will have much broader access to Wal-Mart through the use of all our formats.

And a real, real differentiator here will be the multiple access points for our eCommerce business, and I'm going to talk about that in just a second, because we'll be able to utilize these resources in a way that nobody else will. This for me is where we start to get really exciting and talk about the unlocking of growth opportunity that we have in front of us.

This concept that we're calling tethering, we've got test in place already that linked our resources in a way that only Wal-Mart can. It allows us to provide a connected experience to customers and leverage all the assets and capabilities we have and create this market ecosystem that I'm going to try to describe to you. It starts with sharing of functions like back-office functions in stores and hiring so that we can generate more leverage in the business and simplify the operation.

So we can have one hiring team for, say, a network of stores and see the savings from that. And Gisel briefly talked to you about logistics capabilities extended to the backrooms of our stores. And if we could be as good in the backroom of our stores where, by the way, there's more inventory and more warehouse square footage that there is in our distribution system, it opens up a whole new world for us, not only from an efficiency perspective, but the ability to use our supercenters as across-dock platform to serve other stores particularly smaller stores.

And then finally, using our digital platform and Neil described some of this to you to connect the whole system for the customer in a way that nobody else can from a small store to a grocery store to a supercenter to an unlimited assortment in our eCommerce business.

Yes, this ecosystem will make the supply chain more efficient. We'll continue to send those 53-foot trailers loaded with merchandise to the supercenters but we'll add to that the pallets that the smaller stores need down the line. And then we use the supercenters across-dock operation to supply the nearby small stores eliminating those unprofitable and unproductive 53-foot trailer runs with just a couple of pallets to the small stores, big saving available there.

And what's more? We give the small formats the capacity and the capability that exists in the supercenter because they'll be receiving daily deliveries from the nearby supercenter. So things like fresh merchandise or deli that might not have been available in the small store or an expanded general merchandise assortment would be available in those stores that would be far beyond what anybody else can offer in 12,000 or 40,000 square foot format and that's where it gets really exciting and that is the convergence of physical and digital.

I mean, think about for a moment the power of what we could unlock if we can connect this ecosystem with our digital platform. A new ZIP code, a small store that has gas and pharmacy and 10,000 SKUs that are perfect for your ZIP code because we have that data available from our POS system and our eCommerce platform, right there in your market next to you and it's connected with -- an expanded assortment service daily from a supercenter that allows you to get any GMI and it's available in the supercenter within hours.

And then add access to the unlimited assortment available on the digital platform that's being built out that extends our capability far beyond what it is today.

So imagine the CapEx cost of a small store with the sales of a much larger store and that's what we believe is the future of growth opportunity in the US, one that we're uniquely position to deliver against.

Now, clearly, this delivers against the financial priorities of growth leverage in returns. The tethering allows us to provide customers access to SKUs not currently available on our small formats, a small store with the sales of a much larger store and in the pilot phase of this, we've seen sales in certain categories in our small stores increased about 35%. And tethering resources through shared functions and supply chain efficiencies generate cost savings and that's not too difficult for you to calculate, but the upside is tremendous.

And, of course, that combination of sales growth and leverage coupled with that capital efficiency will drive the return. So you could see how we're excited by this and it's sort of given us a line of site to the vision. Now, this is a little bit of a spaghetti chart but it's supposed to be that because what it is a market ecosystem and maybe if your geography is good, you might recognize this, too, this will be one of our pilots.

But what it does is it brings back together -- [shift from] an individual store to be united kind of connected market place, bringing together the traditional DCs, our eCommerce business and the stores in an ecosystem in an environment where the customer has access to everything and we use all of these assets to be more efficient.

So, imagine you're at work and you decide -- you need gas on your way home and you know that Wal-Mart Express store because you go by it every single day has fuel and you decide what you want for dinner and you want a rotisserie chicken and, by the way, later that night, you decided that you'd like to play scrabble with your spouse. I mean, go on your phone, let the store know that you want a scrabble board, certainly something that's not going to be carried in a 10,000 SKU assortment, and it will be there, or a [shable] or a sewing machine or anything that's in the supercenter assortment.

Anything that's in the eCommerce assortment can be shipped to the store within a day or two or to your home, it's your choice, it's your call. What it gives us and you as a customer is the flexibility to move beyond the limited assortment that's available in the here and now and access it away that only Wal-Mart can deliver. I think this is going to be the future of our growth and it's very exciting.

The roadmap is well underway. We've been testing each and every one of these individual elements all along the way and for the first time, we're going to put three of these market ecosystems in place. The first one will be up and running by March because we have the capabilities to do it.

Now, we'll keep you updated on the progress throughout the year but we believe this is an inflection point. Now, we had several inflection points in our history. This chart I think shows that evolution very well, started with a discount stores and we hit an inflection point when we begin to launch supercenters and you could see where discount stores peaked and supercenters began to accelerate.

And we launched our small formats and our neighborhood markets and then our eCommerce business and we saw those starts to grow. And the years passed 2013 are purposely one color because the next generation of retail, we believe will be channel agnostic. And Wal-Mart is the only retailer that's positioned well to win across all of these formats and all of these channels.

Now, key to our growth will be capital efficiency and you heard Mike talked a lot about that. We've been able to reduce our CapEx spend in the US by 8% compounded on an annual basis over the last seven -- 8% compounded over the last seven years. And next year, we expect the whole capital relatively flat as we invest in eCommerce and grow our small stores more rapidly and invest in those first ecosystems.

As we go out and build new stores, we're focused on capital efficiency and Mike described to you that result. The team has been very successful and very focused and we believed that there are still significant opportunity in our capital and whether that be in location, construction processes, value engineering of the box, specs, there's no stone unturned, but we're never compromising the customer experience.

And this capital efficiency will allow us to build more stores, more small stores. As I said, you'll see the small store number, for the first time in our history, exceed the supercenters. We'll grow our supercenters steadily but we'll be accelerating our small formats delivering as many as 150 new units in the next year on top of 110 to 120 new units this year. Now, just for perspective, put this in perspective. One Wal-Mart Express stores averaging somewhere around three to five dollar stores if you want to use it for comparison and neighborhood market would have the equivalent sales of about over 10 dollar stores just so that you could sort of put that context in your head.

And as I mentioned, we estimate that we'll spend a bit more this year than we did -- that we had told you previously. We saw opportunities to invest in more small store growth because you saw the previous chart had more small stores than we had told you in an increasing investment in our eCommerce fulfillment capability. And next year, we anticipate being able to increase our square footage and store count while spending slightly less than we did this year.

So I'm excited about the opportunity of where we're going and when you add all of this, hopefully, you'll take away from today that the US business is rock solid. We're making adjustments for the current environment and -- but the core of the business is solid and sound. We're a mass merchant discounter, we're not changing that and we're driving that result.

Secondly, I think we have the best team in retail and that's what's driving the result. Third, we understand the issues that face us in the here and now and we're addressing them. Hopefully, Duncan and Gisel were able to take you through some of that. The merchandising initiatives and the operations initiatives, you heard those and hopefully, if you have some questions, they'll be up shortly.

And finally and maybe most importantly, the future of Wal-Mart US is very, very bright. I truly believe that we're at another one of those inflection points in our business. That intersection of physical and digital is the key battleground in the years ahead and I don't believe anybody else is better position than we are to win that battle.

And we've always been a company that innovates. We innovated with the first discount store and we innovated with supercenters and we're on that innovation path again with our eCommerce business and that convergence and we're unlocking a promise that will unlock an inflection point and allow us to serve more customers.

So thank you for being here and I'll ask Duncan and Gisel to join me on stage and the rest of the US teams over here in the front row should you have any questions for them as well. I appreciate it.

Unidentified Company Representative: And Bill, before we start the Q&A, I would like to mention that there was a little delay in the app, so for those of you who have app issues, first try going back into the agenda, click that on the left hand tab and then click into the presentations, that should get you to the slides coming up.

If unfortunately that doesn't work, the next thing to do would be delete the app and just reinstall it. It will take a couple of minutes. We've done that a couple of times and it is working when you do that.

If you do have further issues, there is a table in that corner, behind the 3992 EDLP sign, [John Ford] is over at that table and he will be very happy to help all of you out and if you have further questions, again, as Jeff said earlier, any of our team can help you. Michael is in the back and he will be able to help you because we do want you to be able to have access to all the slide presentations.

So that, Bill, Gisel and Duncan, we'd like to start the Q&A. As a reminder, we have people in each of these main aisles with microphones so that everyone on the Webcast can hear the questions. Please wait to have a microphone in front of you. We would appreciate if you'd say your name and your firm and go into your question and so that we can get to as many people as possible, we like to have you keep it to one question. We'll start with Greg.

+++q-and-a
Greg Melich: Hi, it's Greg Melich with ISI. Bill, you have a big initiative to bring inventory back into the stores and at the same time investing gross margin and for, I want to say, five or six quarters traffic term positive and you got a lot of momentum. The last three quarters, we've seen gross margin go up again, traffic turned south.

How much of the improvement you saw that year and a half ago do you think was from the inventory and how much of it was from the gross margin investment and how do you think about that going forward given what you're seeing now for the last two years?

Bill Simon: Great. Thanks for the question, Greg. If everything were static, you get one answer but they're not, so I'm going to give you what we believe is happening. As we added back inventory, we had a lift clearly from the business and then compounded by price investment in a market place that had some inflation in it. We saw a pretty good result.

We operate better. We don't need it. We operate better in a slight inflationary market not because we get inflation but because inflation creates a dynamic pricing situation. We're best when we can hold our prices down longer than anybody else can because of our scale whether prices are moving up or moving down, we know how to operate in that market.

But drug groceries are great example. Prices have been relatively flat to slightly declining. And in that environment, any momentum change or breaking of inertia is purely funded by a price reduction.

And what we saw in certain categories and what we had been seeing in certain categories recently is inelasticity from those price initiatives. Categories like adult beverages, clearly, there's momentum and we continue to invest in them fresh produce, clearly we continue to invest. But on those dry categories where prices are static, it'd been harder to make a move.

And so when we launched the price initiative, we told you then and I'll reiterate today, there are rationale, sane, focused price investment. We're not going to go out and spend money where we don't believe there's any elasticity or any opportunity to grow. We are going to aggressively invest in categories in markets where we do believe there's elasticity and we're continuing to do that. And I think that makes a shift.

And other thing that's affected our gross margin and if you sort of dissect the business is that the low margin television business is in a decline and we talked about that. The higher margin, apparel and soft line businesses are on an upswing for us and just the way that the business mixes out is also impacting that. Many of the supply chain successes that we've had get reflected in cost of goods and so those things are affecting the gross margin. So it's a combination of things. We're still committed to price investment where we see the opportunity to grow share and we're doing that.

Unidentified Company Representative: We'll go to Paul next and then we'll go to the other side.

Paul Trussell: Paul Trussell, Deutsche Bank. Thank you for the details on comps, it was very helpful. I'm just interested in how you're measuring cannibalization and how that might have played an impact especially to the bottom 10%. And then also, if you can just give some further details on the density test that was run on the express stores and how we should expect to continue to see those costs come down from the supply chain.

Bill Simon: What's the first question again, Paul?

Gisel Ruiz: Impacts.

Unidentified Company Representative: Impact cannibalization.

Bill Simon: Impact cannibalization. We report impacts annually and so I'm not going to get any detail on that but some of those bottom 10% stores were impacted clearly but not all of them or even the majority of them. And as Gisel said, each of them have individual unique problems, some of them are impacted by our actions, some of them have been impacted by our competitor's action whether it'd be Big Bucks or a collective impact from smaller stores.

Many of them are operation issues, some of them are merchandising issues that we don't have the right relevant mix of products in those markets. Some of them are just geographic shifts of interstate highway change. And we look of it now, we're blessed and cursed that everyone of those stores and we look at them all the time, are profitable, make money and/or cash flow positive.

So you can't look at those and say, "Well, we're going to exit them because they're just not good," and some of our competitors managed their comps very effectively by existing cash flow negative stores on a regular basis, so you add a new store that is the right, trend right and sited right and you get rid of one that loses money and has negative comps.

Our challenge stores are all still very profitable and so we're not yet in a place to consider moving them out. So they do include impacts but not as the substantial driver of that negative comp. With respect to the density test, we wanted to understand, we first started by building an express store and we build a few of them around and the customer was delighted by it. But it was exciting but it wasn't anything that we thought was terribly actionable.

What we wanted to understand was if you went to an isolated geography and built a collection of these things, how they would interact with each other, how they'd interact with competitors and how they would interact with supercenters so that we could understand first and foremost whether the collective top line was something that was interesting to us. And fundamentally, whether we could operate them in a way that would be long-term accretive to the business.

And so we built out a pretty good group of them in the eastern part of North Carolina kind of outside of Raleigh and towards the coast and have had a real good experience with them both from a customer perspective and from our ability to leverage the upgrading expense and the distribution costs. And the distribution team has been very focus on that.

200 basis points doesn't include any of the cross-docking opportunities that I just described to you where we're just on the frontend to that. That is just by becoming more effective and efficient in the way we load the trucks and deliver them to these smaller stores. So we figured out a good percentage of the distribution solution already and as we get to this cross-docking operation, we feel like we're going to get to a place that's going to be very, very good for the business.

Unidentified Company Representative: Okay. We'll go to Chris and then we'll come upfront to John on this side.

Chris Horvers: Good morning. Chris Horvers, JPMorgan. Can you talk about the logistical and cost considerations of turning the backroom of the supercenter into a mini-DC and a loading dock? And then also, on neighborhood markets, you've had I think 50% footage growth this year. You've been comping low to mid single digits. Is this is the kind of store that opens up at a very high productivity or in other words, you're surprised that the comp lift in neighborhood markets isn't larger at this point?

Bill Simon: First question again? I'm sorry I'm --

Chris Horvers: Backroom supercenter.

Bill Simon: Logistics. First of all, transforming it into a mini-DC is probably not the right term. Everything that we've talked to you about, we're already doing in one place or another. So, with our pick from store program, our eCommerce business, a good portion of that business is actually picked and shift from the store. So we already are in the stores picking [each] and now we're putting in the box and sending to a customer.

And what we would have to do from an increase load at the store would be pick an item and send it to a small store to be sold at the small store. The cross-dock operation and [you imagine them] in your mind, just a pallet wrapped in red that says deliver to, so it comes in, it gets put on the floor and it gets picked up and put on another truck. So the operational impact of the supercenter -- in the backroom of the supercenter isn't substantially impaired and fundamentally improved by extending the management of the inventory one more doors, if you will.

So today, our logistics division manages and controls the inventory to the loading dock door and when that door opens and it's unloaded, the inventory transitions from that division to the store's division. And what fundamentally we're going to try to do is to move that transfer to the double doors that go to the sales floor and that's the pilot that we're doing. So the backroom were not only served as a holding area for the sales floor, but it would also serve as a kind of a little mini-warehouse to be able to pick a cross-dock and shift to small stores. And those tests are all underway and they're very encouraging in the first phase. And...

Gisel Ruiz: Bill, the only thing that I would add is that if you think about our DCs and the backrooms of the stores, they're actually more similar than what you would think, so all the inventory in our stores is bent. We know the location of every box, the same thing in the DCs. So this is just a matter of kind of extending the ownership into the backrooms and like Bill talked about -- I mean, we've got grocery delivery that's in test.

We've got shift from stores that's currently in test right now, site to store that's all picked out of the backroom. So the logics are already been built. This is just about improving our accuracy and efficiency back there. So I think it's a lot more similar than you would think.

Bill Simon: The neighborhood market comps? The sales pattern of a neighborhood market is slightly different than a supercenter because the pharmacy portion has a higher percentage, relative higher percentage of sales than it is at the supercenter. The volume build is a little bit different and so the maturation of a neighborhood market curve is different than it is for a supercenter and I think that maybe what you're reading.

John Heinbockel: John Heinbockel, Guggenheim Securities. So, is there a greater willingness to accept greater magnitude of impact longer-term, it may not the next year or the year after, but when you think about storing out some of these markets, you think the rate of impact would go up over time? Is there a willingness to accept that?

And then secondly, have you found a high correlation aggregate market share to return on capital in a certain market or profit margin such that as you drive your aggregate share up, that's good for the business even if the comp isn't as robust?

Bill Simon: Second question first, that's what we've been working on. That was one of the fundamental purposes of the density test to understand those intersections and interactions and, yes, is the answer. With respect to the first question, what we're seeing with the small stores is -- right now, is less of an impact than you would imagine and that's probably for a couple of reasons. The trips or different trips stock-up and immediate needs and so the customer treats them a little bit differently. And then fundamentally, we've already been impacted.

That example of the market that I showed you where we've got [$300 million] stores and 30 something new units had been built in 10 years and we weren't participating in that. They have already impacted us and as we go into there, I think what we're seeing is that we're impacting them a lot more than we are us because they're a more similar trip than it is to a supercenter where it's a big weekend stock-up fill the basket, $100 plus basket and these are fill-in convenience trips. And so we can access both of those. We see a different impact at it than we would by adding five more supercenters in that market.

Unidentified Company Representative: Okay. We'll go to Matt and then we'll go back to the other side of the room.

Matt Fassler: Thanks a lot. Good morning. It's Matt Fassler from Goldman Sachs. You framed three kinds of shopping trips earlier in your presentation. Can you speak generally about what the relative growth rates are of those types of trips based on your research? And also talk about the impact of eCommerce on each one where you see the impact being the deepest. Thank you.

Bill Simon: Well, I know that there's any eCommerce impact on those immediate convenience trips so that would be the first thing. The biggest section that stock-up trip in dollars is the trips are being down slightly and that's why our trips are down slightly. That intermediate grocery trip, that middle group is roughly flat, holding its own. And then there's substantial growth in the immediate smallest but substantial growth. I think the number was 200 basis points I think, if I'm not mistaken.

Matt Fassler: And just a follow up, if you look at the two biggest buckets are the sizes of -- in addition to frequency, are the sizes of those trips changes or the biggest trips getting bigger as their frequency goes down or they stay the same coming down? What's the general movement?

Bill Simon: Baskets Duncan?

Duncan Mac Naughton no, they're not really moving, no.

Matt Fassler: Thank you.

Unidentified Company Representative: Okay. We'll go back to the other side. Faye, I think you had your hand up earlier.

Faye Landes: It was a very specific question. The CapEx number for Dotcom looks extremely small given that your building DCs. Can you just explain that?

Bill Simon: Are you going to address that Neil in detail?

Neil Ashe: (inaudible - microphone inaccessible)

Bill Simon: I beg your pardon?

Neil Ashe: There are some in the logistics number.

Bill Simon: There are some in the logistics number as well the way that it's setup just the way we -- because we showed CapEx and included logistics, so it's just the way we recorded it out.

Faye Landes: So this is -- we're going to see a separate chart that shows CapEx. In other words, is that still a capital expense or it's an operating expense? Are we going to see logistics chart?

Bill Simon: I beg your pardon?

Neil Ashe: (inaudible - microphone inaccessible

Bill Simon: Neil will break it out.

Faye Landes: Neil will break it out. Okay. Thanks.

Unidentified Company Representative: Okay. We'll go to Teresa on the end and then Dan in the middle.

Unidentified Audience Member: Returning to the near-term, the urgency around driving traffic. I heard everything in the presentation but I guess I would like to get a better sense for what the big thing is that you feel you're doing differently in the second half that you might not have done in the first.

Bill Simon: Do you want to take that?

Unidentified Company Representative: Sure.

Duncan Mac Naughton: Thanks for the question. I would tell you some of the things that you saw in the events that we're doing in October is just the first time we've had a broad base roll back program. We've been very focused on local basket savings. So you'll see more roll back campaigns. So obviously during the holiday, we'll shift our focus on gift giving holiday entertaining which will really consume a lot of the November activity. Obviously, the Black Friday, we are very excited about a big event for Black Friday.

And as you saw from a marketing perspective, number one, [share voice] throughout the month of December. So the other piece is the stock-up events. It's really about item in place, merchandising, a bit of what Bill talked about back to the roots of what Wal-Mart is and showcasing great value for our customer every day, continue to supplement that with our [picking] centers and food and also our apparel goods throughout the holiday season.

Gisel Ruiz: And for operations, it's about in-stock and I know it sounds like we always talk about in-stock, but for us, I mean, it was about a month ago or so that we just drew a line in the sand. We were hovering around 94% in-stock, our goal is 95%. Not all regions were achieving that goal. And in three weeks, we made significant progress.

So now our job is to maintain that level of in-stock through the back half of the year. We've set some additional goals in food and consumable specifically that are higher than 95%. So that's what's changed for us in operations.

Bill Simon: I would add, to be honest with you, that we're operating in a very, as Mike said, a very uncertain environment. We build a little momentum and then we get 800,000 people furloughed, which is not helpful towards you building your traffic.

If people aren't getting paid, you could probably imagine they're not shopping as much. And so, we're operating an environment -- I would tell you that Gisel and the team have in-stock at historically high rates. They have throughput in the fast metric at historically high rates. So operationally, we're doing everything we can. Duncan and the team are acting like mass merchant discounters. We're building big features, have aggressive price points where we see the opportunity to invest.

But many of these issues are going to take time to cycle through. All this is against the backdrop of a -- the 2% that's been with us the whole year, the uncertainty in healthcare cost as people still figure out how to register and what their costs are going to be, the government shutdown and I don't know whether they opened while we've been talking or not, but maybe they're still talking about it.

But there's a lot of external factors. We're focused on our business, not being victims. And the things that we're doing will benefit us in the long run and we're confident that we're headed in the right direction.

Unidentified Company Representative: Dan, you're next.

Unidentified Audience Member: Just a question on the ecosystems that you talked about that you said there was three that you were setting up for this coming year.

Bill Simon: That's right.

Unidentified Audience Member: So as you test those if there is a similar low impact from these small stores on those ecosystems and you look out a year, what's your capacity to really up this from 150 stores to 200, 300, 400 or 500? I mean, how do you think about that opportunity?

Bill Simon: I would tell you that we're limited by our imagination. There's an opportunity for us to go faster. We did some of that this year. We accelerated neighborhood markets and pulled some of them forward. We have a very, very robust pipeline of small stores.

We want to get them sited right and located right and understand their interaction and the connectivity. But if the opportunity is there to move faster, we're prepared to do that and we'll report back if we change anything.

Unidentified Audience Member: The second part of my question was related to price investment. I'm not sure if you can put a metric around it, but if you look at call it this year, here forward, October forward to end of the year type of price investment versus last year, is it 5% higher, 10% higher, can you quantify it in dollars of rollbacks as you've done in the past or anything that give us a better sense of magnitude?

Bill Simon: I think you'll see our investment when we report our sales at the end of the fourth quarter. So, it's probably the best way to describe that.

Unidentified Company Representative: Okay, we'll go to Bernie and then we'll come up front.

Bernie Sosnick: Thank you. Bernie Sosnick, Gilford Securities. What I haven't heard so far is the strategy for the development of metropolitan areas where Wal-Mart's representation is sparse and where digital retailing has a tremendous opportunity. Could you amplify on that a little bit?

Bill Simon: Well, I mean, we've been fairly aggressive over the last three or four years in urban penetration, have some success in Chicago. Finally, it looks like we'll be able to open and operate in Washington.

And we'll connect those stores with our eCommerce platform so we'll be able to access those.

The one that's still been elusive to us is New York. And right now, we're looking for different ways to serve the city. And I think some of these small stores could get there. Neil and team with our eCommerce platform, we already do couple of hundred million dollars in New York City through our eCommerce business and Site to Store at the surrounding cities.

So we believe there's a way to serve there. We had a fair amount of success in Washington, in Chicago, and in some of the West Coast cities. So, I think we're headed in that direction.

The question for us is, where is the immediate opportunity, where is the fastest areas for growth, and where is the best CapEx productivity for us. In some of these big urban supercenters that we have cited are very, very expensive. And the returns from them, while they're above hurdle, are not nearly what they are for a 70,000 square foot supercenter built in a rural area for under $10 million.

And so, as we try to balance the efficiency and the effectiveness of business, the prioritization it's moving. And Neil and the eCommerce team can get to the urban areas much faster, much more quickly, and much more cost-effectively than we can by going and building a very, very expensive supercenter. So a combination of small stores and eCommerce plus the platforms that we have in place already.

Gisel Ruiz: I would just add that I think it's important to note that the capital efficiency work gives us the ability too because all of you know these territories are very expensive to build in. So, we're not stepping away from those metro areas, but this capital efficiency work that we have right now gives us the ability to do that and get better returns. But it is about prioritization.

Unidentified Company Representative: Okay, Budd next.

Budd Bugatch: Thank you. Budd Bugatch with Raymond James. As you move to this tethering concept, what kind of changes does it make in the in-store disciplines and the incentives you need in the store to between the interaction of the major store of the supercenter and the smaller stores, and how have you tested that and how will you judge that?

Bill Simon: Well, we're just beginning to build that aspect of it, the people side of it. We've had local hiring centers up in piloting so we know what that interaction is and that intersection is. And the result of that has been a better screened, better prepared associate who shows up at the store.

I think the incentives will likely be built on the entire ecosystem and not so much on the individual unit. And it's very possible and in fact likely that you could have an associate that does two shifts at a supercenter and one shift at an express store on their preference, of course. And so, the opportunity might be that we could move people around and so allow them to have more hours more suited to their schedules and closer to their homes if that's what they would like.

And so, as we build it all out, those are the things that are being put in place, more of looking at it as a unit which will maybe even require us to at least add another measure of how we report some things. So if we report comp sales of the supercenter, it may be that it's down 5% or 3% or 1%, but the ecosystems up 20%. And so, it would be a shame to report -- try to explain to you a flat comp in a supercenter when the market is just really, really doing well.

And so we're going to just try to talk to you about -- we'll report in a traditional way and not try to change or hide anything. But we're going to probably try to report these a little bit differently.

Gisel Ruiz: But if I may, let me just add a few examples. And if you haven't done so, I hope that time permits that you'll be able to visit the Gentry Express store. It's not that far away from here and it's definitely worth the visit.

A couple of examples where we're tethering to a supercenter right now, Rotisserie Chickens, Bill mentioned that earlier; some of the prepared meals -- salads, sandwiches, those types of things. So you'll be able to see that. That is all prepared at the supercenter and brought over to the Gentry Neighborhood Market.

If you've been to the U of A, the campus store is also tethered to a supercenter in Fayetteville. The majority of the inventory there is replenished through the supercenter. So those are few examples, and I hope you get a chance to visit both of those stores.

Budd Bugatch: Thank you. And my second question now is on the October Savings Event and the increased rollbacks. Is there any difference in the rollbacks, are they normal type of 90-day rollbacks or is there any change in your rollback description?

Duncan Mac Naughton: Most of them would be 90 throughout the season, but you'll see in the store there are some 30-day rollbacks. And then we also saw the Stock and Save Up Event which is -- were weekend events where those truckload sales --

Bill Simon: There were special buys.

Duncan Mac Naughton: We had special buys for opportunities for the weekend. So that would be a variance.

Unidentified Company Representative: Okay, we'll go to Joe next and then after Joe we'll have one more question from Mark and that'll probably be the wrap on this session.

Joe Feldman: Thanks. It's Joe Feldman from Telsey Advisory Group. How are you guys?

Bill Simon: Hey.

Joe Feldman: One question, two parts to it though. Sort of with the new government programs, and I know there's lots of influx right now in Washington, but SNAP is going to be reduced soon, and with the Affordable Care Act coming and you have 1.2 million employees in the US, can you just address each of those and what impact you're expecting on your business maybe in the near term and then for 2014?

Bill Simon: Oh gosh, with respect to SNAP, I would say we're cautious but modestly optimistic, which you would say how do you get there based on a reduction in the benefit. When the benefits expanded, our market share actually went down.

And so, our view is that as price becomes more important, in other words, everybody's benefit is going to get cut, price will become more important. And when price is more important, we're more relevant. And so, we're preparing for that and planning for that. How it turns out, we'll keep you advised.

I think the Affordable Care Act first from an internal perspective, we're prepared for it. From our costs perspective, we've had a couple of years to prepare for it and were built into the system. And our benefits already exceeded those required by the act. And so, the impact for us is already in our numbers and there's some substantial.

But I would tell you that the confusion in the customer base about what it's going to cost them and whether they have to sign up or not is complicating the sales side of it. And hopefully, as that -- hopefully it will clear up in Washington and hopefully some of those questions will be answered. And then I think people can get back to normal.

But right now, I think customers are a little bit afraid of what's in front of them and what that cost might be. And the more it's in the news, the more cautious they seem to be.

Unidentified Company Representative: Okay, and Bill will take one more question. This one from Mark.

Mark Miller: Hi, Bill. Mark Miller from William Blair. Can you share with us your thoughts on the future of home delivery for grocery and consumables? And I'm sure you read the journal article on Amazon and P&G today and so just a comment broadly on that. And then specifically in your grocery delivery test, what have you learned thus far and what are you seeing as the key differences in the US versus UK which is more advanced in this regard?

Bill Simon: Neil will address some of this when he gets up. We stood up grocery delivery a couple of years ago in the Bay Area. The initial test was fundamentally just to see if we could operationalize it and do it and we can. And we're going to watch another market in the US just to make sure that we have the ability to do this.

And I would tell you and I think Neil would agree that we could do grocery delivery in the US if the customer demand was there. I think it may be in certain dense areas. It may be where the density and the penetration is right.

But for the most part, the difference between the US and the UK is population density and automobile culture. Every one of our cities, other than a few, were built based on the automobile from Mesquite on the east to Fort Worth on the west. That metroplex is 100 miles wide. People jump in their cars everyday to go to work. And on their way to work, they pass dozens, if not more, places where they can buy food.

And so, the habit exists of getting in your car and go and what we believe will happen is that there'll be some continuation. Now, that's not to say that digital and physical won't converge. And the drive formats that are evolving in Europe we think could play a big role in the US People will be in their cars. That's one of the reasons we believe fuel is so important, particularly for our small stores.

So if you're going somewhere, we'll provide a point for you to get your fuel and pick up anything that you might want. So, I think we believe that we are going to be a leader in this convergence.

With respect to the Amazon, P&G thing, I think it's obviously an interesting development. It sort of kind of frames a lot of the issues that both big companies like Procter and our very worthy competitor are trying to deal with. Hard to imagine that you could set up that operation in a million locations and replicate that anywhere.

So, I think they may benefit from it. But suffice to say, there'll be some interesting conversations in Cincinnati soon.

Unidentified Company Representative: And with that, Bill, Gisel, Duncan, thank you for a great Wal-Mart US presentation. We now have a 25-minute break. There are refreshments set up outside the doors in the hallway out here. Please also feel free to walk around and check out some of the merchandise. Please be back here in 25 minutes. We will start on time with Sam's Club. Thank you.