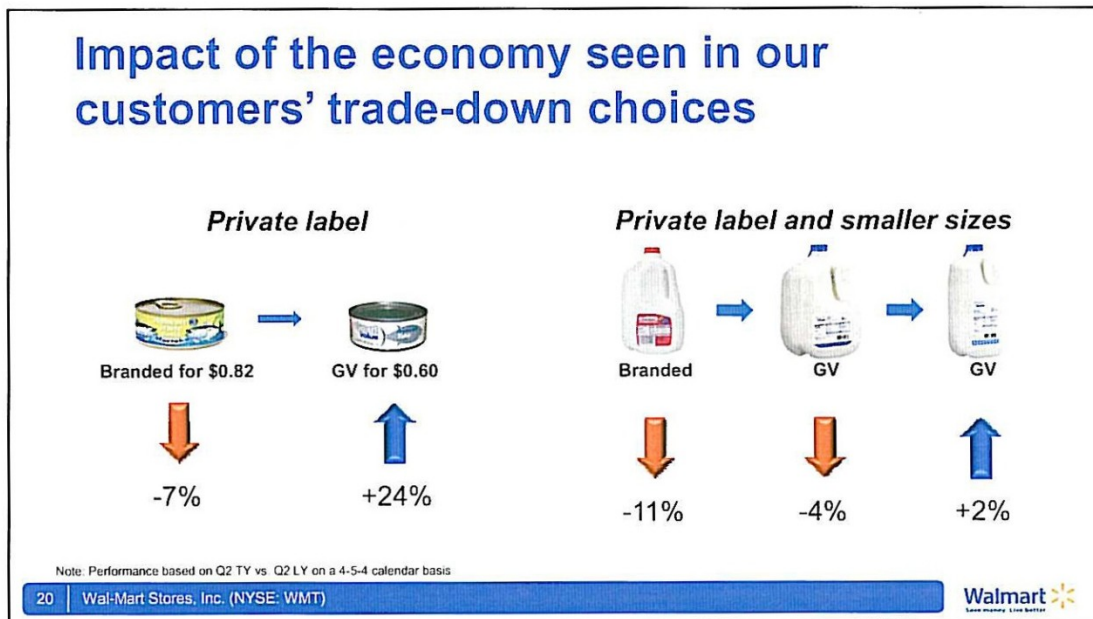


Wal-mart Analyst Conference Takeaways

I recently attended the Wal-mart analyst conference held in Roger's, Arkansas, on October 13-14th. This was a good opportunity to meet Wal-mart executives and hear from the world's largest retailers what initiatives they are planning and what headwinds they see.

Key takeaways.

- Strong Leadership. Wal-mart has strong leadership in all divisions both as Presidents and key reports. My favorites:
 - Doug McMillon - President of Wal-mart International. Very smart and quick on his feet. He is a good communicator. My bet is that he will be Wal-mart CEO one day. A great grasp of the business.
 - Duncan MacNaughton—Chief Merchandise Officer—US. Duncan joined Wal-mart 8 months ago as head merchant at Albertson's and a top merchant at HEB. He is in charge of adding 10,000 SKU's to the assortment. Impressive and aggressive.
 - Cathy Smith—CFO of Wal-mart International.
 - Linda Hefner—Chief Merchandise Officer-Sam's Club.
- **Huge Increase in Assortment.** Wal-mart is adding 10,000 SKU's to its assortment in a rapid fashion. This is a tectonic shift in the US retailing landscape, and has a major impact on market share and category growth. Food and hardlines have been completed, while home and entertainment are in the works. (see Simon slides 21 and 23). This will produce increased traffic within Wal-mart stores even though there will be a one-time increase in dollars allocated to inventory. After this one time increase, Wal-mart's goal for inventory growth is that inventory will grow at most 50% of the pace of sale's growth.



Wal-mart Analyst Conference Takeaways

Apparel basics showing positive results

Underwear +6% comp



Socks +8% comp



Jeans +5% comp



Note: September comps on 4-5-4 calendar basis

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- Store Growth and Market Share Growth is Back.** In 2007/2008, Wal-mart halted US store growth as they felt that cannibalization was negatively impacting new store ROI. While Wal-mart was correct in their observation that ROI was falling, their competitors did not halt construction. So Wal-mart has decided that market share growth and self-cannibalization is better than having competitors take away market share. Mike Duke, Wal-mart CEO, told me that in Dallas, Wal-mart's competitors have opened up 300 stores since 2007. The era of remodels is over, and Wal-mart is shifting capex to new stores. See slide 41 Simon.

Walmart U.S. capital expenditure

(\$ in billions)

CapEx Detail	FY11 Actual	FY12 Estimate	FY13 Projection
New Stores	\$2.7	\$3.8 - \$3.9	\$4.8 - \$5.0
Remodels	\$3.0	\$1.3 - \$1.5	\$0.5 - \$0.6
Logistics	\$0.7	\$0.6 - \$0.7	\$0.3 - \$0.4
Other	\$0.9	\$0.8 - \$0.9	\$0.4 - \$0.5
Total Walmart U.S.	\$7.3	\$6.5 - \$7.0	\$6.0 - \$6.5
Additional Walmart U.S. Sq. Ft.	11M	10M - 11M	14M - 15M
Total Walmart U.S. Unit Growth	153	142 - 150	210 - 235

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Wal-mart Analyst Conference Takeaways

- **International is Where the Action is At.** Doug McMillon said that between 2011 and 2020, 179MM new households will enter the middle class in China and 53MM will enter into the middle class in India. Both of these markets have the potential to be larger markets than the US for Wal-mart.