Wal-Mart Stores, Inc.
Third Quarter Earnings Call – FY 10
11/12/09
Final Transcript

Welcome to the Walmart earnings call for the third quarter of fiscal year 2010. The date of this call is November 12, 2009.

You may navigate through this call as follows:

- Press 1 to rewind 10 seconds.
- Press 2 to pause and press 8 to resume playing.
- Press 3 to fast forward 10 seconds.

This call will contain statements that Walmart believes are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, and intended to enjoy the protection of the safe harbor for forward-looking statements provided by that Act. These forward-looking statements generally are identified by the use of the words or phrases "anticipate," "expect," "expectation," "expected," "forecasting," "guidance," "plan," "plans," "to expect," "what you will see," "will be," "will continue," "will affect," "will find," "will grow," "will improve," "will take" or a variation of one of those words or phrases in those statements or by the use of words and phrases of similar import. Similarly, descriptions of our objectives, plans, goals, targets, or expectations are forward-looking statements. These statements discuss, among other things, the anticipated comparable store sales for our Walmart U.S. segment and for our Sam's Club segment for the current 13-week period, our anticipated diluted earnings per share from continuing operations for the current fiscal quarter and fiscal year 2010 as a whole, that such guidance is based on the assumption that currency exchange rates will remain constant at current levels, our anticipated tax rate for fiscal year 2010 and the factors that will affect that tax rate, the amount of the company's expected capital expenditures for fiscal year 2010, Walmart improving its SG&A leverage and SG&A growing less than sales, customers finding value at Walmart U.S., Sam's Club, and the other Walmart stores around the world, Walmart's management not anticipating headwinds from currency exchange rates in the fourth quarter of fiscal year 2010 if all currencies remain constant against the U.S. dollar, management's expectations that Walmart will continue to make headway in effectively managing certain expenses, our Walmart U.S. segment's expense headwind from group health insurance not continuing in fiscal year 2011, Walmart U.S. continuing to be aggressive in reinforcing its price leadership message, Walmart U.S. management's expectation that, with its scheduling system now in place, it will be ready for increased customer traffic in the holiday season of 2009, Walmart U.S. management's expectation for food deflation to abate by the end of the first quarter of fiscal year 2011, Walmart U.S. management's anticipation of strong Site-to-Store demand from customers of walmart.com during the holiday season, Walmart U.S. management's expectation that our Walmart U.S. segment will continue to optimize its price leadership, our Walmart U.S. segment's plans to leverage its supply chain advantages and significantly improved customer experience to continue to gain market share in the 2009 holiday season and beyond, our International segment's operations in Brazil and China taking time to meet inventory objectives, our International segment's plans for the number of existing supercentres in Canada by the end of fiscal year 2010, our International segment's expectation that the rollout of Every Day Low Price in its Japanese operations will be completed by June 2010, our Sam's Club segment's expectation that the negative fuel sales effect on its comparable club sales will reverse course in the fourth quarter of fiscal year 2010 as fuel prices that were down significantly in the prior year period are cycled, our Sam's Club segment's expectation of making progress in leveraging expenses over the next few quarters, our Sam's Club segment's expectation that its membership, operations and merchandising initiatives will continue to positively affect its member experience in the fourth quarter of fiscal year 2010 and keep members choosing Sam's Club, and our Sam's Club segment's expectation that it will likely continue to face a challenging economic environment, as well as continued deflation in some key categories, and the anticipation and expectations of Walmart and its management as to other future occurrences, trends and results. These forward-looking statements are subject to risks, uncertainties and other factors, domestically and internationally, including, general economic conditions, geopolitical events and conditions, the cost of goods, competitive pressures, levels of unemployment, levels of consumer disposable income, changes in laws and regulations, consumer credit availability, inflation, deflation, consumer spending patterns and debt levels, currency exchange rate fluctuations, trade restrictions, changes in tariff and freight rates, changes in costs of gasoline, diesel fuel, other energy, transportation, utilities, labor and health care, accident costs, casualty and other insurance costs, interest rate fluctuations, financial and capital market conditions, developments in litigation to which Walmart is a party, weather conditions, damage to our facilities resulting from natural disasters, regulatory matters, and other risks. We discuss certain of these matters more fully in our filings with the SEC, including our most recent Annual Report on Form 10-K, and the information on this call should be read in conjunction with that Annual Report on Form 10-K, and together with all our other filings, including Current Reports on Form 8-K, which we have made with the SEC through the date of this call. We urge you to consider all of these risks, uncertainties and other factors carefully in evaluating the forward-looking statements we make in this call. As a result of these factors, changes in facts, assumptions not being realized or other circumstances, our actual results may differ materially from anticipated results expressed or implied in these forward-looking statements. The forward-looking statements made in this call are made on and as of the date of this call, and we undertake no obligation to update these forward-looking statements to reflect subsequent events or circumstances.

The comp stores sales for our total U.S. operations and for our Sam's Club's segment discussed on this call exclude the impact of fuel sales at our Sam's Club segment. That measure, our return on investment, free cash flow and cash flow from operations to average debt and amounts stated on a constant currency basis as discussed in this call may be considered non-GAAP financial measures. Reconciliations of those non-GAAP financial measures to the most directly comparable GAAP measures are available for review on the Investor Relations portion of our corporate Web site at www.walmartstores.com/investors or in the information included in our Current Report on Form 8-K that we furnished to the SEC on November 12, 2009.

Carol Schumacher: Introduction

Hi, this is Carol Schumacher, vice president of investor relations. Thanks for joining us today for the Wal-Mart Stores, Inc. third quarter earnings call for fiscal year 2010.

A replay of this call and related materials about the quarter are available on our Web site. We'll also post the full transcript of this call approximately one hour after the call is live.

Store counts, square footage updates, information on our financial metrics and our future earnings release dates, through fiscal year 2011 – which is next fiscal year -- are available on our Web site – www.walmartstores.com/investors.

Just one reminder for this call… After adoption of a new accounting standard for this fiscal year, our company has made minor modifications to our financial statement presentation for minority interest in our majority-owned subsidiaries. These changes are reflected in our quarterly financial statements. As a result of these presentation changes, during this call, all references to "income from continuing operations" or "earnings per share from continuing operations" refer to income from continuing operations attributable to Walmart, or, diluted income per share from continuing operations attributable to Walmart, respectively. Also, "diluted net income per share from continuing operations" refers to diluted income per share from continuing operations attributable to Walmart.

Our executive team is ready for our third quarter report. Here's today's lineup:

- First up will be Mike Duke, president and CEO of Wal-Mart Stores, Inc.
- Charles Holley, executive vice president of finance and treasurer, will cover our consolidated financial results.

Then, it's on to our operating segments. First will be

- Eduardo Castro-Wright, vice chairman, responsible for Walmart U.S.
- Second, Doug McMillon, president and CEO of Walmart International
- And third, Brian Cornell, president and CEO of Sam's Club
- Tom Schoewe, our executive vice president and CFO, will finish up the call with our analysis on financial metrics, as well as our earnings guidance.

Now, let's get started. Mike.

Mike Duke: CEO Overview

Thank you, Carol. And thank you, everyone, for joining us.

We are pleased with our third quarter performance. Our record earnings of 84 cents per share exceeded our guidance and were well above First Call consensus. Increased store productivity and improved inventory management led to a better customer experience, and contributed to our strong financial performance. We really like the way our management teams are leading the business and responding to our customers around the world.

Because of our progress so far this year, and our goals for continued strong financial performance in the fourth quarter, we are increasing our EPS guidance for the full year.

Let me cover the key numbers for the third quarter. Total net sales during the third quarter were $98.7 billion. This would have actually been more than $2.6 billion more on a constant currency basis. We also continued to experience ongoing deflation across our businesses.

While the economy remains challenging for our customers, and therefore, for Walmart's sales, I continue to be encouraged by both our traffic and our market share gains across the operating segments.

Here in Northwest Arkansas last month, we hosted our annual meeting for the investment community. We discussed three priorities for improving shareholder value -- growth, leverage and returns. These priorities are *already* driving our results. I'm happy that all of our operating segments are so focused on these three priorities.

All over the world, we're gaining market share. We continue to open many new stores. In fact, we added more than 13 million square feet this quarter – more than some companies open over several years. More than half of the growth is in the United States. But I'm particularly pleased about the role that Walmart International plays in our growth strategy.

I just returned from Asia, and I've never been more impressed with our stores in China. What I saw in China just magnified the opportunity we have in this fast-growing economy. And, in Japan, we continue to make progress on our EDLP strategy, which positions us for long-term success in the market.

We can and we will improve our SG&A leverage. SG&A will grow less than sales. As I said last month, the productivity loop is back at Walmart. We're pleased with the progress we're making, and I believe we're only at the beginning of the curve. We are proud to see that Sam's Club leveraged expenses, without fuel, in October -- and that we also reduced corporate overhead expenses during the quarter. You'll continue to hear us discuss our progress in improving expense leverage.

We are committed to higher returns. We continue to employ our assets efficiently. Walmart's high returns over the last decade are unique among many retailers and many other companies. It is the result of our focus on managing the business well and on our ability to generate very strong free cash flow.

Few companies – retailers or otherwise – have the momentum or opportunity that Walmart has around the world. During the recession of the last two years, Walmart has gained customers, strengthened its balance sheet and delivered year-over-year sales and EPS growth on a constant currency basis.

In the Walmart U.S. business, Eduardo Castro-Wright and his team have done an excellent job of further improving productivity and driving efficiencies throughout the system. The stores are running better than at any time in our history. Our surveys continue to show customer satisfactions at record highs. And, even more impressive is the nearly 7 percent increase in income from continuing operations for Walmart, on a sales increase of just over one percent. They delivered strong operating performance, despite top line and comp sales that were below expectations.

International remains our fastest-growing division. Under Doug McMillon's leadership, the International segment continued to have a strong performance. Without the effects of currency rate fluctuations, they were able to grow sales by more than 12.1 percent, and underlying operating performance was outstanding as well. We had great performances by the U.K., Mexico and Brazil. Just as every country is focused on delivering low prices for customers, the teams are also re-energizing the productivity loop in their organizations.

Under Brian Cornell, Sam's Club continued to grow in the competitive warehouse club sector. Sam's is building on the momentum we saw last quarter -- upgrading and adding memberships, expanding margins through better mix, and improving operating profits and expense management.

We are becoming a better company, making a difference in the community and in the lives of our customers and associates. We're making progress as we take a leadership role on issues like health care and sustainability.

Today we are holding another in our series of sustainability milestone meetings, where we will discuss our innovations in energy efficiency, waste reduction, sustainable products and improving the communities that we serve. We're very proud of this work, because of the positive impact it has on the environment, as well as on our business.

When the recession is behind us, we believe people will continue to shop with a new instinct for value, and they will find it at Walmart, Sam's Club, and the many other retail banners that we operate worldwide.

We are pleased with where we have come over the last two years and with our year-over-year sales and EPS growth. But let me be direct on another point. We are redoubling our efforts to leverage expenses and to widen the gap with our competitors on price leadership and customer experience. Our associates are inspired to do an even better job for our customers and are energized for the fourth quarter, despite some tough holiday sales comparisons.

Before I hand it over to Charles, on behalf of the entire Walmart family, we offer our very best wishes for a happy holiday season and a safe and prosperous New Year.

Now, Charles will review our consolidated results in detail. Charles…

Charles Holley: Consolidated Financial Results

Thanks, Mike.

Diluted net income per share for Walmart was $0.84 cents. This is above our guidance of $0.78 to $0.82 per share. We want to credit our operators for managing the business extremely well in an environment that remains challenging.

Total net sales for the company were almost $98.7 billion, which is up 1.1 percent compared to last year. On a constant currency basis, net sales would have increased 3.8 percent to approximately $101.3 billion. Currency exchange rates reduced sales by $2.6 billion for the quarter.

Consolidated operating income was $5.6 billion, up 5.7 percent from last year. On a constant currency basis, our consolidated operating income would have grown 8.9 percent. As Mike mentioned, we are very pleased with this performance in spite of a very difficult economic environment.

As a reminder, we have now cycled through the toughest comparisons for the rise in the U.S. dollar against other currencies. We cannot forecast the value of the U.S. dollar going forward, but if all currencies were to remain constant vis-à-vis the dollar, we would not anticipate any significant headwinds from currency for the fourth quarter.

Consolidated income from continuing operations for Walmart increased to $3.2 billion, up from $3.0 billion or 7.0 percent from the third quarter last year.

Consolidated gross margin was up 62 basis points, driven primarily by the performance of Walmart U.S., which Eduardo will cover later.

We had another great quarter of inventory management. Consolidated inventory was down 4.1 percent, when compared to the same period last year. This decrease in inventory compares to a decrease of approximately 30 basis points in net sales year-to-date on a consolidated basis. Credit especially goes to the Walmart U.S. and Sam's Club teams, as they continue to drive strong productivity gains in inventory.

Payables as a percentage of inventories for the company were almost 80 percent at the end of the third quarter, which is up 358 basis points from last year. Our operating segments continue to do an excellent job of managing working capital.

On a consolidated basis, membership and other income was up 2.5 percent, or $18 million this quarter, compared to last year.

Consolidated operating expenses as a percentage of net sales were up 37 basis points over this period last year. Expenses were up in the three operating segments and details will be covered in each segment's discussion.

Total unallocated corporate overhead, also called corporate or "other", were down $50 million, or 10.1 percent for the quarter. We are continuing with our planned investments in technology and systems, which include the transformational projects we've discussed in the past. While these expenses are running higher than last year, we are seeing these expenses plateau and are beginning to realize the benefits of these investments. In addition, we also benefited this quarter from significantly lower legal expenses compared to last year, primarily because of the settlement of certain class action lawsuits during last year's fourth quarter. We do not anticipate as significant a reduction in legal expenses in the fourth quarter of this year. So, while we still have some near-term expense challenges in corporate, we believe we will continue to make progress in effectively managing these expenses.

Now, let's move on to interest expense, debt levels and our tax rate.

Net interest expense was up 4.2 percent – or $19 million -- over last year's third quarter. Our interest expense was actually down, primarily due to replacing high-rate maturing debt with lower-rate debt. However, our decrease in interest income more than offset these savings, as our average invested cash balance during the quarter was less than last year. Our debt levels are roughly flat to last year.

The effective tax rate for the third quarter was 34.3 percent. We expect the tax rate for fiscal year 2010 to be between 34.0 and 35.0 percent, although we will see some quarterly fluctuations. Factors which will affect our tax rate include completion of certain discrete tax matters, changes in our assessment of certain tax matters and the mix of domestic and international income.

Our balance sheet is strong and we continue to have good access to the credit markets. Our debt to total capitalization ratio was 41.2 percent, down from the 41.8 percent we reported at this time last year. We continue to target a debt to cap ratio of approximately 40 percent.

Free cash flow generation continues to be a success story for Walmart. As you may recall, we define free cash flow as cash provided by operating activities, less capex. Through the combination of our solid operating management, as well as strong capital efficiency, we are pleased to report that the company ended the first nine months of this fiscal year with free cash flow of $3.6 billion.

Our capex spend for the third quarter was $3.1 billion, bringing our total year-to-date capex spend to $8.9 billion. As we discussed during our analyst meeting a few weeks ago, we expect our capital expenditures for the year to be within the range of $12.5 to $13.1 billion.

We repurchased approximately $2.4 billion of our stock during the quarter, which represents about 46.8 million shares. We have approximately $11.3 billion remaining on our $15 billion share repurchase program. In addition, we paid almost $1.1 billion in dividends to our shareholders during the quarter. Through nine months of this year, we have returned almost $8.3 billion to our shareholders in the form of dividends and share repurchases.

Overall, we are pleased with Walmart's financial results for the third quarter and the company's financial position continues to be strong.

Now, let's move on to a discussion of our operating segments. We'll start with Walmart U.S. Eduardo …

Eduardo Castro-Wright: Walmart U.S.

Thank you Charles.

Our Walmart U.S. top line sales performance for the third quarter was below our expectations and below our comp guidance. But, our operating performance was outstanding, even in an economy that remains challenging.

We continue to build on the momentum of the business to attract even more customers, improve their experience, and strengthen our price leadership position across the country. Our underlying business remains strong and we continue to gain market share across multiple categories.

The Project Impact investments helped us drive an impressive 6.9 percent increase in operating profit on a 1.2 percent sales increase during the third quarter. Operating income increased to $4.5 billion, versus $4.2 billion last year. For the quarter, operating income increased to 7.3 percent from 6.9 percent as a percentage of sales. Inventory was reduced by 6.2 percent, resulting in improved gross margin, better expense control and continued strength in return on investment. Few retailers can claim this kind of operating performance.

Overall sales for Walmart U.S. for the quarter were $61.8 billion, up 1.2 percent for the quarter over last year. This is more revenue than many U.S. retailers generate annually.

Comp store sales for the 13-week period ending October 30 were down 0.5 percent. Customer traffic in comp stores is up 1.5 percent for the 4-5-4 reporting period. Our continued increase in comp customer traffic indicates the strength of our underlying business.

However, comp ticket was down for the period, driven by price deflation that was well beyond what we had expected, across many food categories, as well as electronics. Deflation was the sole contributor to the comp ticket decline and that resulted in comps below our guidance. The year-over-year difference in grocery inflation was more than 600 basis points less than last year, and as a result, comp sales for this period were impacted by more than 300 basis points, when compared to last year.

So, why does our business continue to generate positive traffic? Our customer experience has gotten even better, and customers trust the Walmart brand for our price leadership. Customers are very price focused today and rely on us more than ever to provide the lowest price on quality products.

The investments we have made in systems continue to drive gross margin improvement. Gross margin increased by 78 basis points, when compared to the third quarter of fiscal 2009. Approximately one-third of this increase came from increased supply chain productivity, including lower fuel costs. Shrink and markdowns combined were essentially flat. An increase in vendor-funded co-op advertising versus last year also increased gross margin, and correspondingly, increased advertising expenses by approximately the same amount.

One of the significant drivers of our strong financial performance during the quarter is inventory management. Walmart U.S. reduced inventory by 6.2 percent – on a sales increase of 1.2 percent year-over-year. This means that we actually **reduced total inventor**y by $1.8 billion in our stores and distribution centers in the last 12 months. Inventory reduction was even more impressive at comp stores, and was down 9.0 percent. Having the right level of inventory in the stores and throughout our logistics system is a key factor in our strong operating expense management. It is also critical to providing a clear merchandise presentation and improving the customer experience.

Overall, our expenses as a percentage of sales increased 37 basis points, when compared to last year's third quarter. On a sequential basis, this is 34 basis points better than the 71-basis points increase in expenses that we discussed in the second quarter call. Store associate wages grew at half the rate of sales, and sales per labor hour were up significantly when compared to last quarter.

The bulk of the expense headwind came from group health insurance, which is not expected to continue with the new fiscal year. Recycling was another factor and additionally, advertising expenses grew faster than the rate of sales, as we stepped up our communications across all media. We continue to be aggressive in reinforcing our price leadership message.

Please remember that earlier, while discussing gross margin, I mentioned that our co-op advertising increased. Nearly two-thirds of our advertising expense growth is from vendor-funded co-op advertising. Net of these three expense lines – group health insurance, vendor-funded advertising and recycling – SG&A grew at about the rate of sales year-over-year.

Expense control continues to be a major focus for us and we're working on improving our expense position in the fourth quarter and into next year.

Last quarter, we shared with you that our customer experience scores had reached record levels. They remain slightly above last quarter's results. With our scheduling system now in place, we will be ready for increased customer traffic during the holiday season.

We shared the details with you on the customer response to the remodels under our Project Impact strategy. The scores from the remodeled stores are growing at twice the rate of the rest of the chain.

Customers love the open aisles, the ability to find what is on their list because we have fewer inventories, and the speed at which they can move through the store.

Let's move on now to the highlights of our various merchandising units.

First, our grocery business. Our grocery business produced a comp sales increase in the low single digits for the 13-week period. As I mentioned previously, although grocery was significantly impacted by deflation in fresh categories, primarily in meat, produce and dairy, overall unit sales were up. Grocery experienced price deflation of 15 basis points for the quarter. This is the first time that total grocery prices actually declined when compared to last year. This is more than a 600-basis point difference to last year's inflation rate and creates a considerable headwind to our grocery business. We expect food deflation to abate by the end of the first quarter next year.

Next, our health and wellness business turned in a strong comp sales increase -- up in the mid single digits for the 13-week period. Our customer is really taking advantage of Walmart's low price on prescriptions and over-the-counter products.

Our comp sales in home were essentially flat, compared to last year. Seasonal events were strong throughout the period. Dine at home categories, such as cooking and food preparation, continue to perform well, while sales in discretionary departments, such as home décor, furniture and luggage remain softer than last year. Customers have responded well to new brand and category launches, such as GE and Rival small appliances, and bedding from Better Homes & Gardens and Canopy. We continue to gain market share in the home category.

Deflation and discretionary spending pressures have led to negative comp sales in entertainment, especially consumer electronics. Let me use flat panel TV sales as an example. During the quarter, we sold more than 25 percent more units than last year, but total revenue for flat panel TVs was down in the low single digits. The average unit price for flat panel TVs is down more than 20 percent this year versus the same time a year ago. In addition, there has been little new technology and fewer movie releases this year compared to the last. On the other hand, lower price points in digital hardware and software are attractive to many of our customers, which should drive sales for the holidays. Cellular sales were positive, led by the launch of our new cellular service, marketed under the Straight Talk brand.

In apparel, while comps were negative for the period, our sales trend improved over last quarter, though, we still face weak demand in discretionary categories. Essential categories such as sleepwear, socks and underwear were our best sales performers. Sales were softer in ladies, shoes and jewelry. While much of our basics are working, we are not satisfied with the overall performance in apparel.

Our Financial Services division continues to provide customers with low price alternatives and this has led to double-digit comps during the quarter. All of our products are priced for today's tough economy. The division turned in a more than 20 percent increase in income, when compared to last year's third quarter.

The walmart.com business continues to grow at 20+ percent rates year-over-year, a faster pace than the reported online industry growth rate. This growth reflects the response from customers to many improvements we have made to the site, as well as our vibrant Site-to-Store business. We anticipate strong Site-to-Store demand from customers during the holidays. During the quarter, Marketplace was added to the site, which increased the selection by 1 million products. Customers are buying furniture, domestics, appliances and fitness items.

While we feel good about the progress we have made this year, our customers remain concerned about the economy. Unemployment hit double digits last week, the highest in more than 26 years. Customers continue to tell us they are concerned about their own finances and unemployment. We recognize that some customers may be more cautious in their holiday spending.

We had very strong sales during the holidays and throughout the fourth quarter last year. As a reminder, our 13-week comp for the fourth quarter last year was 2.4 percent. Given the factors that we have discussed today, we are forecasting a flat comp – plus or minus one percent – for the 13-week period from October 31, 2009 through January 29, 2010.

We will continue to optimize our price leadership, as this remains a competitive advantage. We also plan to leverage our supply chain advantages and our significantly improved customer experience to continue to gain market share in this holiday season and beyond.

Now, I will turn it over to Doug for the International news. Doug …

Doug McMillon: Walmart International

Thanks, Eduardo.

Our International segment associates delivered a strong quarter and we're proud of their accomplishments so far this year. In fact, in all of our major markets, we are growing faster than the market in every single instance.

On a strong constant currency sales increase of 12.1 percent, we're delivering solid underlying operating income performance. Before the impact of our recent acquisition in Chile, our constant currency operating income grew faster than sales. We also had strong underlying expense leverage in all our country operations.

I admire the way our associates are serving our customers as the economic climate in many of our countries continues to be challenging and our customers remain very focused on value. Our price focus is benefitting our business, especially in some of the most difficult economies.

We're capitalizing on this shift in price consciousness by managing costs, being diligent on price management and strengthening our ability to communicate price to customers inside our stores. I've recently returned from visits to Japan, China and the United Kingdom, where I saw some of the best price communication I've ever seen. In an environment where price is top of mind for our customers, we are communicating value.

Strategically speaking, we're committed to re-energizing the productivity loop. We spoke about this at last month's meeting with the investment community. This loop starts with a focus on leveraging expenses. It creates value for our customers and increases shareholder value by delivering revenue growth and increasing returns.

As we move to the specific results for the third quarter, I want to remind you of the impact of currency exchange rates. Currency exchange rate fluctuations continued to affect reported results during the third quarter.

We hold country management accountable for their results on a local currency basis, without the impact of potential swings in exchange rates. With the exception of our total segment results, this discussion of Walmart International **excludes** the impact of currency.

Now, let's move on to the third quarter results.

International net sales for the third quarter were $25.3 billion, an increase of 1.6 percent from last year's U.S. dollar sales. This includes a $2.6 billion adverse impact from currency rate fluctuations. On a constant currency basis -- without the impact of exchange rate fluctuations -- sales would have been up 12.1 percent over last year's third quarter results to $27.9 billion.

The increase in sales calculated on a constant currency basis is due primarily to strong performances in the United Kingdom, Mexico, and Brazil, as well as the addition of sales from our acquisition of D&S in Chile. The sales from Chile are included this year, but were not in last year's third quarter results.

International segment operating income was $1.1 billion, down 5.3 percent from last year. However, that figure does not reflect our true underlying operating results.

Let's work through the noise. First, currency had an adverse effect of $172 million on International's operating income in the third quarter. Second, the consolidation of our recent acquisition in Chile diluted our operating income as a percentage of net sales due to $40 million of charges at D&S, primarily from additional reserves for credit card receivables.

Without these items – on a constant currency basis and before the consolidation of D&S – our operating income grew faster than sales. This was driven by strong underlying improvements in leveraging expenses, a flat margin rate and flat other income as a percentage of sales. We achieved this result, despite the additional pressure from a $46 million charge related to a previous sale-leaseback transaction. Now, that's solid performance . . .

Before we move on to the country results, let's discuss inventory. Managing tight inventory positions continues to be a top priority for the segment and for our leaders because we know it contributes to better operating results. Most of our countries are making good progress, and overall I am encouraged about the work in improving inventory. We already have strong inventory management from the U.K., Mexico and Canada.

To continue this progress, we are focused heavily on two countries where progress has been more difficult -- Brazil and China. In both countries, we've identified the issues that are causing inventories to be higher than we would like, and are aligning plans and resources to improve inventory. It will take some time to reach our inventory objectives in these two countries, but we're confident that we will be successful in the future.

With our focus on inventory management and continuing our solid operating performance, we remain committed to continuing our expense leverage and increasing our returns.

Now let's get into the results for several of our markets.

In the United Kingdom, ASDA continues its momentum and is performing extremely well, gaining market share and growing profits faster than sales. I'm not surprised by the U.K. team's performance. In an environment where price is top of mind for our customers, we are showing our values better than ever. As we focus on leveraging this expertise across countries, ASDA is sharing their price communication process and tools with other markets.

ASDA's comp sales growth without fuel was 5.6 percent. The majority of the growth is due to an increase in customer traffic. Average ticket also increased, despite flattening food price inflation. According to TNS, ASDA's total market share in the U.K. during this reporting period increased to 17.2 percent, an increase of 30 basis points from the same quarter last year.

ASDA continues to have strong volume growth — the result of widening price communication, record price gaps with competitors, and improvements in merchandise quality.

In food, the strongest performance came from fresh meat and chilled counter items. In general merchandise, the strongest performances were in cleaning and baby categories. George apparel also had an excellent quarter. In fact, for the 12 weeks ended September 13th, TNS reported that George became the No. 1 clothing retailer in the U.K. by volume.

ASDA’s gross margin was down slightly year-on–year, while expense control significantly improved. Expenses increased at about half the rate of non-fuel sales as the ASDA "we operate for less" program continues to deliver efficiencies in stores, distribution centers and the home office. These efficiency gains were made possible by having the most experienced and longest serving colleagues in U.K. retail, enabling ASDA to provide its customers with excellent service.

The fragile U.K. economy continues to exhibit mixed signals. Consumers are concerned about rising unemployment, recently announced public sector spending cuts and the upcoming reversal of the sales tax or VAT reduction. ASDA is well positioned to continue its strong performance and market share growth in this environment.

Although Mexico’s economic challenges are not over, Walmex continues to outperform in this environment. They’ve delivered sales growth, gained market share and customer loyalty, delivered value, and created operational efficiency. In fact, Walmex continues to outpace self-service market growth by more than 50 percent and gain market share from both formal and informal markets.

At Walmex, third quarter sales increased 11.9 percent over last year, while comparable store sales grew 4.7 percent. Growth was driven by aggressive price campaigns in back-to-school, electronics, and apparel, all driving a 5.3 percent increase in traffic in comparable stores. Average ticket at Walmex was down slightly with a 0.4 percent decrease.

As ANTAD has reported, total Walmex self-service sales for the third quarter grew 12.6 percent, compared with industry growth of 2.1 percent excluding Walmex. Comparable store sales for Walmex self-service formats grew 5.1 percent, while ANTAD’s data shows that self-service formats excluding Walmex declined 3.0 percent in the third quarter.

Third quarter gross margin was relatively flat to last year. Operating expenses were down as a percentage of sales. Walmex continues to be an outstanding example of how our people find sustainable ways to improve our position as **the** lowest cost operator. After taking a fresh look at logistics, the Walmex distribution centers have successfully reduced the number of truckload trips, while increasing volume per trailer. Reductions in utility rates and usage, as well as headcount management also provided expense savings. This solid expense performance drove operating income growth faster than sales.

Moving north to Canada . . .Walmart Canada's third quarter sales grew 5.2 percent over last year, primarily due to the supercentre expansion program. We now operate 69 supercentres in Canada, with plans to have 83 by the end of this fiscal year. Despite continuing pressures from a weak economy, Walmart Canada delivered a 1.2 percent comparable store sales increase, on an average ticket increase of 0.9 percent and a traffic increase of 0.3 percent. Sales of food and consumables continue to lead growth, partially offset by softer sales in apparel and general merchandise items.

The third quarter gross margin rate was flat to last year, despite a shift towards food and consumables. Ongoing cost productivity efficiencies in logistics and store operations resulted in expenses growing slower than sales. These savings resulted in operating income growing faster than sales in our Canadian operations.

In Brazil, we gained market share in the third quarter on a real comparable store sales increase of 3.3 percent. This performance was underpinned by increases in customer traffic of 6.1 percent and average ticket of 11.6 percent. The best performances came from food and consumables.

Although slight pressure on gross margin came from competitive pricing actions and additional pressure on operating income came from the costs to open 21 new stores this quarter, our expense controls led operating income to grow faster than sales. Sixteen of the new Brazilian stores are smaller-format, low-priced Todo Dias. Now, moving to Asia . . .

In Japan, both customer traffic and overall sales growth at Seiyu continued to increase in the third quarter. Sales increased 1.9 percent over last year, on a comparable store sales increase of 1.3 percent. This performance was despite deflationary pressures, which negatively affected average ticket. Seiyu's sales continue to benefit from the launch of EDLP and aggressive price communication, driving Seiyu's continued significant outperformance of the market.

The shift to EDLP drove an increase in food sales of 3.6 percent. Sales of general merchandise were relatively flat and apparel was down because of the overall economic slowdown.

As Seiyu continues the EDLP rollout, we are seeing expected declines in gross margin. In support of EDLP, our Every Day Low Cost initiatives in Japan have delivered a significant reduction in expenses as a percentage of sales. EDLC efforts include higher labor productivity in the stores from initiatives such as “multi-tasking,” improved logistics efficiency and lower advertising costs as Seiyu adopts EDLP. We expect to have the EDLP rollout completed by June of next year.

In the third quarter, the expense savings were not enough to offset the margin decline. As a result, Seiyu had a slight operating loss that was essentially flat to last year.

In China, we continue a rapid pace of opening stores, with 10 new stores in the third quarter. We now have a total store count of 266, including TrustMart stores. Our China operations delivered a 0.7 percent positive comp sales growth over the third quarter of last year, despite continued deflation in core food categories, such as pork and seafood. Our price leadership initiatives in China led to a growth in units sold.

Productivity and sustainability initiatives are helping to lower operating expenses. With the improved sales performance, this is allowing our China operations to exceed last year’s operating income.

As the fourth quarter is under way, we continue to focus on our productivity loop, delivering low prices to our customers who need us now more than ever. This price leadership is driving share growth in each of our major markets. I’m also pleased with our solid underlying expense control and the innovative ways we’re finding to be more productive. I believe we are well positioned to continue our strong performance and market share growth in this economic environment.

Now, I’ll turn it over to Brian for the update on Sam’s Club. Brian…

Brian Cornell: Sam’s Club

Thank you, Doug.

We are very excited about the momentum of the Sam’s Club business. We are seeing:

- Better expense management in the club and club support
- Improved gross margin from improved margin mix, as well as reduced shrink, and
- Improved membership sign up and upgrades to our Plus memberships, driven by our new eValues platform.

If you attended our recent investor meeting, you heard a great deal about our focus on “fewer, bigger and better” initiatives. You would have seen or heard examples of:

- A new club layout we are currently testing in 10 clubs;
- An insight-led focus on improved offerings in fresh, health and beauty aids and other categories designed to improve sales and margin productivity;
- New efficiency initiatives aimed at improving club productivity; and
- Our new eValues membership platform as an improved method of communicating and providing value to our Plus members.

Now, let’s turn to the results for the third quarter. Sales for Sam’s Club, excluding fuel, increased 1.3 percent versus last year to $10.7 billion. Including fuel, third quarter sales were $11.6 billion, which is a decline of 70 basis points, primarily due to lower fuel sales related to lower fuel prices.

Comp club sales, excluding fuel, for the 13-week period were up 10 basis points. Including fuel, comp club sales declined 1.9 percent, primarily due to the average retail fuel price per gallon decreasing 28 percent for the third quarter compared to last year. We expect the negative fuel sales effect to reverse course in the fourth quarter, as we cycle fuel prices that were down significantly in this period last year.

Sales during the third quarter continued to be impacted by deflation in a few key categories, such as dairy, produce, meat and electronics. We also continue to see strong unit growth in many of these categories.

During the quarter, categories with strong sales included fresh foods, consumables, pharmacy, OTC and baby products. We also saw improved performance in apparel as the quarter progressed, due to a strong inventory position and the seasonal relevance of our merchandise. Tobacco also positively affected sales versus last year, due primarily to price increases.

We continue to see strong unit growth in consumer electronics, offset somewhat by double-digit deflationary pressure.

Additionally, we saw very strong sell-through for Halloween, including candy and seasonal items. Sales of higher ticket discretionary categories, such as furniture and jewelry, remain soft. Business member spending continued to be stressed during the quarter due to the current economic environment and reduced credit availability.

Inventory management continues to be very positive. During the quarter, we reduced inventory by 10.2 percent versus last year, although a portion of the decrease is due to a calendar shift. We have actively managed our seasonal transition and, as mentioned, had excellent sell-through for the Halloween season. We are entering the fourth quarter in a strong inventory position.

Advantage comp traffic, excluding fuel, was positive for the 13-week period, while business traffic was basically flat. Both Advantage and Business average ticket, also excluding fuel, declined slightly for the 13-week period, but were up for the October four-week period.

Gross margin, both including and excluding the impact of fuel, increased, primarily driven by the continued shift in Sam's merchandise mix, as well as improved shrink performance.

Operating expenses increased 3.8 percent, or 46 basis points as a percentage of sales year-over-year, due in part to higher group health costs and increased club remodels. Excluding fuel, operating expenses as a percentage of sales were up 28 basis points. While we are still working toward expense leverage, I am pleased to see the momentum moving clearly in that direction. In fact, for the month of October, excluding fuel, we did leverage expenses versus last year. As Mike said, we're committed to leveraging expenses and expect to continue to make progress over the next few quarters.

For the quarter, sales per labor hour increased 4.0 percent and our club wages were roughly flat versus last year, while continuing to improve our in-club experience. I am very proud of this result and appreciate the hard work of many of our associates toward these initiatives.

Overall, membership and other income increased 5.4 percent versus prior year. However, during the quarter, we recognized an accounting adjustment to our membership and other income line. Without this adjustment, membership and other income would have been about flat versus last year.

We continue to be very encouraged by the strong trends in our Plus membership upgrades, driven by the eValues platform launched in the third quarter. eValues drove positive results for the quarter on a cash basis despite having to comp strong results from last year's 10-week membership for $10 program. On a comparable basis, excluding last year's fractional membership program, sign ups remained relatively stable. Add-on Business memberships continue to face some headwinds given the challenges that many small business owners continue to face. Renewal rates across the membership categories continue to be relatively flat.

For the third quarter of fiscal 2010, operating income increased to $395 million, versus $374 million last year. This represents an increase in operating margin from 3.2 percent last year to 3.4 percent this year.

The fourth quarter is under way and we expect both our Advantage and Business members to remain focused on value. We expect that our membership, operations and merchandising initiatives will continue to positively affect our member experience in the coming quarter and keep them choosing Sam's Club. However, we will likely continue to face a challenging economic environment, as well as continued deflation in some key categories.

Based on these considerations, our expectation for comp club sales for the current 13-week period running from October 31, 2009 through January 29, 2010, is approximately flat, plus or minus one percent.

I remain excited about the momentum we see at Sam's Club. Now it's on to Tom for the financial review and guidance. Tom …

Tom Schoewe: Financial Metrics and Guidance

Thanks a lot Brian.

Three weeks ago at our meeting for the investment community, we talked about the format of our quarterly financial report card. I'm sure you remember our themes, all integrated toward increasing shareholder value through:

- Growth
- Leverage, and finally
- Returns

It should be no surprise then that our new report card focuses on these three key areas. These now replace the five metrics that we have shared with you in the past. So let's review our third quarter performance.

First, sales and square footage growth. As Charles discussed, consolidated net sales grew 1.1 percent for the quarter. This rate of growth is consistent with the annual estimate that we provided of 1.0 to 2.0 percent. On a constant currency basis, sales would have grown 3.8 percent. Square footage grew by 4.9 percent since the end of the third quarter last year to a total square footage of more than 945 million square feet around the world. This growth rate is in line with our expected annual growth rate of approximately 4.0 percent that we provided at the meeting.

In terms of leverage, our goal is to grow consolidated SG&A at a slower rate than sales and operating income faster than sales. Total consolidated expenses did not grow slower than sales for the third quarter. Expenses were up 3.0 percent, compared to sales growth of 1.1 percent.

It's important to point out two successes. First, we did reduce corporate expenses this quarter compared to last year … that's right, a year-on-year **decline**, and second, Sam's Club leveraged expenses during the month of October. While we still have much more opportunity, we see both of these as good positive steps. Let me repeat a key message that Mike covered -- we are focused on leveraging consolidated SG&A and are confident that we will make progress toward achieving this goal over the next few quarters.

We are pleased with our operating income performance, which grew significantly faster than sales, both with and without the impact of currency exchange rates. This operating performance, coupled with our focus on capital efficiency, allowed us to generate $3.6 billion of free cash flow in the first nine months of the year.

Now, let's move on to our final metric – returns. Our goal is to provide stable ROI and strong free cash flow. Return on investment from continuing operations for the trailing 12 months ended October 31 was 18.3 percent. This is down approximately 100 basis points compared to the 19.3 percent that we reported at the same time last year. As you may recall, there is some noise to consider when comparing ROI to last year. Remember, the calculation is impacted by currency exchange rates, the legal accrual from the fourth quarter of last year and the impact from our acquisition of D&S in Chile. Even though these factors negatively affected ROI, the take away is our return of our underlying business remains **strong.**

Now, let's cover guidance. Based on our view of the business, we expect diluted earnings per share from continuing operations for the fourth quarter of fiscal 2010 to be between $1.08 and $1.12 cents per share. When we announced our results for the second quarter, we provided a diluted earnings guidance range for fiscal 2010 of $3.50 to $3.60 per share from continuing operations. As a result, we are raising the range of our guidance for diluted earnings per share from continuing operations for fiscal 2010 to $3.57 to $3.61 per share.

When looking forward to the fourth quarter, you should recall that we are cycling a negative impact of six cents per share during the fourth quarter of last year because of currency exchange rates. We are also cycling the negative impact of seven cents per share related to a legal settlement accrual during the fourth quarter. Our guidance assumes that we will see currency exchange rates remain where they are today.

In closing, I'd like to summarize a few key points:

- We are really proud of our third quarter performance. Total sales and earnings **grew** compared to the same period a year ago. We believe that few other companies can make this statement.

- In fact, on a constant currency basis, we consistently delivered year-over-year sales and EPS growth this year.

- Free cash flow generation continues to be a very positive story for Walmart, reflecting the solid working capital management, fixed capital discipline and continued operational excellence.

- Expense management, at all levels of the organization, is a priority and we are committed to achieving expense leverage during the next few quarters.

- We continue to operate in a very difficult economic environment, which is why our price position is so important to all of our retail banners, and more importantly, to our customers. We believe that no other retailer is better positioned to succeed this holiday season than Walmart.

- And remember, Walmart is focused on growth, leverage and returns – all to drive shareholder value.

That concludes the news for Walmart's third quarter of fiscal year 2010. We wish you a very happy holiday season and hope to see all of you in our stores.