WAL-MART STORES, INC. (NYSE: WMT)
First Quarter Fiscal Year 2013 Earnings Call
May 17, 2012
Management Call as recorded

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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 that are 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,” “are expected,” “are forecasting,” “expect,” “focused on improving,” “forecast,” “goal,” “guidance,” “may be impacted,” “may fluctuate,” “plan,” “projected,” “scheduled,” “target,” “we’ll be,” “we’ll still open,” “will also manage,” “will continue,” “will create,” “will … drive,” “will enhance,” “will focus,” “will gradually reduce,” “will mark,” “will pressure,” “will … review,” “will see,” and “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 Walmart’s objectives, plans, goals, targets, or expectations are forward-looking statements. The forward-looking statements made in this call discuss, among other matters, management’s forecasts of: Walmart’s diluted earnings per share from continuing operations attributable to Walmart for the three months ending July 31, 2012 (and assumptions underlying such forecasts regarding Walmart’s current trend in performance, seasonal impacts and the current economic and sales environment); and the comparable store sales of

Walmart's Walmart U.S. operating segment and the comparable club sales, without fuel, of Walmart's Sam's Club operating segment for the 13-week period from Apr. 28, 2012 through Jul. 27, 2012. The forward-looking statements include statements discussing management's expectations regarding: Walmart's consolidated capital expenditures during fiscal year 2013; Walmart's target and plan for its consolidated net sales growth in fiscal 2013 over fiscal 2012 consolidated net sales; Walmart's projected increase in square footage in fiscal 2013 and its goal for such increase; and Walmart's goal for reducing consolidated operating expenses as a percentage of consolidated net sales over the next five years. The forward-looking statements discuss management's plans and expectations that the Walmart U.S. operating segment: will add square footage within a certain range during fiscal 2013 and the range of the number of the units that expansion is expected to include, as well as the formats of the units to be added; will open a certain number of new units in the second quarter of fiscal 2013; will have the second quarter of fiscal 2013 mark the beginning of the acceleration of Neighborhood Market openings and that such trend will continue for the balance of fiscal 2013; will continue to have price as a key message for the remainder of fiscal 2013; will reinvest its expense savings in prices for its customers; will have its gross profit rate continue to trend downward for the remainder of fiscal 2013; will have its field incentive payments be strong for the remainder of fiscal 2013; will continue to make strategic investments in areas that drive sales growth; will continue to focus on a balanced inventory approach; will leverage increased traffic in the food and consumable categories to propel sales in general merchandise departments; will see an increase in the impact of brand to generic conversions in the pharmacy category in the second and third quarters of fiscal 2013; will focus on four key areas, including workforce management, inventory management, on-shelf availability and emerging innovation; will continue to focus on warehouse productivity and driving efficiencies throughout its transportation fleet; will manage specific challenges to its business, including the impact of the brand to generic conversions, as well as grocery price disinflation; will see its price investment strategy gradually reduce what its customers pay and thus also see its gross margin rate reduced; and will focus on productivity initiatives and expense management, which will continue to drive results. The forward-looking statements discuss management's plans and expectations with respect to Walmart's Walmart International operating segment, including: that the shift in the Easter season will pressure sales in the second quarter of fiscal 2013; that the synergies from the new relationship with GAAT will enhance

Walmart International's global sourcing capabilities; that 73 new store projects are scheduled to open in Canada in fiscal 2013; that new store growth will slow down in Brazil; that the focus in the Chinese operations will be on the basics and improving processes, productivity and operational execution and the review of new store growth, although new stores will continue to be opened in China; that Walmart International will complete its purchase of the remaining ownership in Trustmart in China in fiscal 2013; that operations in China will take longer to improve than the operations in Brazil; and that Walmart International will open a number of new units of certain formats in Japan in fiscal 2013. The forward-looking statements also discuss management's expectation that the Sam's Club operating segment's plans for summer events will create excitement and drive traffic to the operating segment's clubs. The forward-looking statements also discuss the anticipation and expectations of Walmart and its management as to other future occurrences, trends, and results. All of these forward-looking statements are subject to risks, uncertainties and other factors, domestically and internationally, including: general economic conditions; economic conditions affecting specific markets in which we operate; competitive pressures; inflation and deflation; consumer confidence, disposable income, credit availability, spending patterns and debt levels; the seasonality of Walmart's business and seasonal buying patterns in the United States and other markets; geo-political conditions and events; weather conditions and events and their effects; catastrophic events and natural disasters and their effects on Walmart's business; public health emergencies; civil unrest and disturbances and terrorist attacks; commodity prices; the cost of goods Walmart sells; transportation costs; the cost of diesel fuel, gasoline, natural gas and electricity; the selling prices of gasoline; disruption of Walmart's supply chain, including transport of goods from foreign suppliers; information security costs; trade restrictions; changes in tariff and freight rates; labor costs; the availability of qualified labor pools in Walmart's markets; changes in employment laws and regulations; the cost of healthcare and other benefits; casualty and other insurance costs; accident-related costs; the cost of construction materials; the availability of acceptable building sites for new stores, clubs and facilities; zoning, land use and other regulatory restrictions; adoption of or changes in tax and other laws and regulations that affect Walmart's business, including changes in corporate tax rates; developments in and the outcome of legal and regulatory proceedings to which Walmart is a party or is subject; currency exchange rate fluctuations; changes in market interest rates; conditions and events affecting domestic and global financial and capital markets; the unanticipated need to change Walmart's objectives and plans; and other risks. Walmart discusses certain of these matters more fully in its filings with the SEC, including its 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 of Walmart's other filings made with the SEC through the date of this call, including its Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. We urge you to consider all of these risks, uncertainties and other factors carefully in evaluating the forward-looking statements made in this call. Because of these factors, changes in facts, assumptions not being realized or other circumstances, Walmart's 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 Walmart undertakes no obligation to update these forward-looking statements to reflect subsequent events or circumstances.

The comparable store sales for our total U.S. operations and comparable club sales for our Sam's Club's segment and certain other financial measures relating to our Sam's Club segment discussed on this call exclude the impact of fuel sales of our Sam's Club segment. Those measures, as well as our return on investment, free cash flow, and amounts stated on a constant currency basis, which are also adjusted to exclude the effect of acquisitions, as discussed in this call may be considered non-GAAP financial measures. Reconciliations of certain non-GAAP financial measures to the most directly comparable GAAP measures are available for review on the Investor Relations portion of our corporate website at www.walmartstores.com/investors and in the information included in our Current Report on Form 8-K that we furnished to the SEC on May 17, 2012.

Carol Schumacher
Introduction

Hello, this is Carol Schumacher, vice president of investor relations for Wal-Mart Stores, Inc. Thanks for joining us today for our earnings call to review the first quarter of fiscal year 2013. All information for this quarter, including our unit counts, square footage, and financial metrics, is available on our website. That's walmartstores.com/investors. Please note that while we update unit counts on a monthly basis on the website, in the earnings discussion, units and square footage are referred to as of the quarter end.

Our press release is available on the website as well, and a full transcript of this call has already been posted. Here's the agenda for today's call.

- Mike Duke, president and CEO of Wal-Mart Stores, Inc., will open the call with his thoughts about the quarter.
- Jeff Davis, SVP of finance and treasurer, will cover the consolidated financial details, followed by a review of our operating segment results.
- We'll kick off with Bill Simon, president and CEO of Walmart U.S.
- Next up, Doug McMillon, president and CEO of Walmart International.
- And then, Rosalind Brewer, president and CEO of Sam's Club, will round out that section.
- Charles Holley, our CFO, will wrap up the call with a review of our priorities, as well as EPS guidance for the second quarter of fiscal 2013.

A few reminders before we get into the details: Walmart's consolidated financial statements are based on a fiscal year ending January 31 for both our U.S. and Canadian operations, and December 31 for all other operations. Massmart – our acquisition in South Africa -- currently reports on a June 30 fiscal year end, but is consolidated into our results on a calendar-year basis, with a one-month lag. There's a one-month lag for all non-Canadian international operations.

This year, as you know, is a leap year, and today's results, including International comparable sales data, reflect the extra day. Leap year did not affect the 4-5-4 comp sales reporting for the U.S. businesses.

A few comments on guidance, which we include in both the news release and this management call. We provide comparable sales guidance for Walmart U.S. and Sam's Club on the 4-5-4 calendar each quarter for the upcoming quarter. We do not give annual comp guidance for the U.S. operations. For EPS guidance, we update the next quarter with each quarter's results. For annual EPS guidance, we provide our forecasted range in Q4 for the upcoming fiscal year. We don't update EPS guidance for the full year until our second quarter call, and then we will update annual EPS guidance again in the third quarter.

We refer to the impact of changes in currency exchange rates throughout this call. As you know, for financial reporting purposes, each period we convert the balance sheets and operating results from the local country currency to the U.S. dollar. The increase or decrease in the company's results, as a result of changes in these currency exchange rates from one year to the next, is what we refer to as the impact of currency exchange rates. We calculate the effect of such changes as the difference between current period activities translated using the current period's currency exchange rates and translated using the comparable prior year's currency exchange rates. We also **exclude** the impact of acquisitions until those acquisitions are included in both comparable periods. In other words, in simple terms, constant currency is this year's results converted at exchange rates from the same prior year period, and constant currency excludes acquisitions.

We also want to clarify some other wording we use in describing our results. When we refer to gross profit, we're referring to the actual dollars. Gross profit as a percentage of net sales, or gross profit rate, refers to the percentage obtained by dividing gross profit by sales dollars.

Our Annual Shareholders' Meeting is Friday, June 1 at 7 a.m. central time in Fayetteville, Arkansas. If you're unable to attend, a live webcast of the meeting will be available. The materials for the meeting are on our website or they're accessible through the new Walmart Investor Relations app, which is easily downloaded and already updated for tablets and smart phones. Now, Mike, let's get started with our results. Mike...

Mike Duke
Company highlights

Thanks, Carol, and good morning everyone. I'm excited and really proud to speak to you today about Walmart's excellent first quarter. We delivered great sales and profitability. We appreciate the hard work of our 2.2 million associates around the world who contributed to this strong performance.

Walmart reported first quarter diluted earnings per share of $1.09, well above the top of our guidance range of $1.01 to $1.06. This compares to last year's first quarter EPS from continuing operations of $0.98. Let's take a closer look at some of the key performance metrics for the quarter.

- I'm pleased that Walmart U.S. grew comp sales 2.6 percent. It was our best quarterly comp performance in three years and was well above the top end of our guidance range. Walmart U.S. not only delivered top line, they also delivered impressive profitability, with operating income growing faster than sales.

- Walmart International is off to a great start. International grew net sales 15 percent and operating income was up 21.2 percent, despite a negative impact from currency.

- Sam's Club continued its momentum as comp sales, without fuel, increased 5.3 percent for the quarter, above the top end of our guidance range. Sam's operating income without fuel was up 7.7 percent.

- Net sales for the company were $112.3 billion, an increase of 8.6 percent from last year. Currency exchange had a negative impact on sales of approximately $800 million this quarter.

- It should be no surprise to hear me say that our company leveraged operating expenses again this quarter. We continue to build on our two-year trend of leveraging, and we are very focused on delivering productivity initiatives, and reducing costs so we can invest in lower prices for our customers.

- Consolidated operating income was $6.4 billion this quarter, up 8.3 percent from last year.

- Free cash flow was more than $3 billion over this time last year.

- During the quarter, the company returned $2.9 billion to shareholders through dividends and share repurchases.

We believe that the momentum throughout our business positions us very well for the rest of the year. Our overall performance reflects the success of the Walmart business model: driving the productivity loop, leveraging expenses and investing in price leadership.

"Powered by Walmart" remains a competitive advantage. We're sharing best practices on global business processes to improve inventory management and maximize product availability on the shelf. We're enhancing our front-end scheduling processes and expanding self-check-out utilization. Our ability to continually find ways to reduce operating expenses and improve associate productivity means we can pass on those savings to customers.

Now let me move to the highlights of our individual operating segments.

In a highly competitive retail environment, Walmart U.S. is increasing price separation across categories. Improved customer traffic, combined with expanded assortment in general merchandise, resulted in significant progress in apparel, home and hardlines. Walmart U.S. customers count on us for one-stop shopping and our merchandising priorities are aligned with that in mind.

As I mentioned, Walmart International delivered strong sales growth in the first quarter and grew operating income faster than sales. We're very focused on improving profitability and returns in the International segment. We've made progress to lower the cost structure in Brazil, and we're still transitioning to EDLP in our stores there. We continue to make Walmart China an area of focus. Our new leadership team is taking the strategic steps to strengthen the consistency of our execution in China to reach our long-term goals.

You've heard us use the word momentum quite often in the last year to describe Sam's Club. That's still the case. Quality and innovation in merchandising and services are contributing to higher comp sales, with increases in traffic and ticket. I'm especially pleased that Sam's was rated number one by Temkin, a nationwide survey based on customer experience. Now, this is impressive, given the survey ranked 206 companies across 18 industries. Roz will provide more details on this ranking.

We're investing in talent and technology to expand our Global eCommerce offerings. We're seeing meaningful gains in our e-commerce-enabled sales in our key markets. Innovative programs, such as the new "Pay with Cash" option at Walmart U.S., are helping to better serve customers who want to shop online as easily as they do in our stores.

Customers and communities appreciate Walmart's engagement on issues that matter to them, and this commitment has never been stronger. We detailed many success stories and the challenges we still have ahead of us in our 2012 Global Responsibility Report. If you haven't seen it, please take a look. It's on the web – which is, of course, a more sustainable way to read the 120 pages.

Recently, I was honored to stand with U.S. Secretary of State Hillary Clinton as we pledged our resources to help empower women entrepreneurs in Latin America and the Caribbean. You will continue to hear more about our initiatives like these during the year.

Now, before I turn the call over to Jeff, let me just say again how pleased I am with our first quarter results. I really want to thank all our associates for their outstanding efforts. We have a solid foundation to build upon throughout the remainder of the year, and I have great confidence in our business strategies.

Let me close with a few comments regarding the recent allegations about our company. Acting with integrity is the essence of our corporate culture. We take compliance with the U.S. Foreign Corrupt Practices Act very seriously and continue to strengthen our anti-corruption programs around the world. The investigation is ongoing and we are working aggressively to determine what happened, and we will take appropriate action if violations of the law or our policies occurred. It would be inappropriate to comment further on the specific allegations, or for us or others to come to specific conclusions until the investigation is finished.

And with that, I'll ask Jeff to provide more of the financial details. Jeff …

Jeff Davis
Consolidated Financials

Thank you, Mike.

For the first quarter of fiscal 2013, Walmart reported diluted earnings per share from continuing operations of $1.09, which compares to $0.98 last year. Recall last year that we had several pre-tax items that provided a net $0.01 per share benefit to earnings per share. Let me review those details from last year's first quarter for comparability.

- We realized approximately $117 million from mark-to-market gains on foreign currency derivative positions;

- ASDA recorded an approximate $67 million charge related to changes in its defined benefit plan;

- Walmart Japan incurred an approximate $51 million casualty loss related to the March earthquake and tsunami; and

- Walmart Chile recorded a gain from the sale on an investment of approximately $51 million.

All of these items were included in operating expenses, with the exception of the gain from the sale in Chile, which was recorded in membership and other income.

Now, let's get back to our results for this year's first quarter.

Net sales increased 8.6 percent, or $8.9 billion, to $112.3 billion for the quarter. The increase included $1.9 billion in net sales from the acquisitions, which was partially offset by approximately $800 million of negative impact from currency exchange rate fluctuations. On a constant currency basis, net sales increased 7.5 percent to $111.2 billion. As Carol mentioned earlier, the extra day this year added approximately 100 basis points to net sales.

Total U.S. comp sales, without fuel, increased 3 percent for the 13-week period ended April 27. Bill and Roz will provide more details on the strength of our comp sales for Walmart U.S. and Sam's Club.

Membership and other income was down 3.6 percent compared to the first quarter of last year. As I noted previously, last year's gain from Chile was recorded in other income. Without this gain, membership and other income was up 3.2 percent.

Gross profit increased 7.3 percent, a 27 basis point reduction compared to last year, due primarily to price investments by our segments.

As Mike noted, our company remains very focused on expense leverage. On a consolidated basis, expenses grew at a slower rate than sales, with Walmart U.S. and Walmart International achieving this goal. Operating expense as a percentage of sales declined approximately 40 basis points to 19.1 percent from 19.5 percent last year.

Other unallocated grew 49.7 percent. Okay, now for the qualifier… Excluding the impact of last year's mark-to-market gains on foreign currency derivative positions, other unallocated grew 6.4 percent. While the increase was driven by ongoing investments in Global eCommerce, core corporate expenses were down slightly more than 1 percent compared to last year.

First quarter consolidated operating income grew 8.3 percent to $6.4 billion. Operating income included $34 million from our acquisitions, but was adversely impacted by currency exchange rate fluctuations of $50 million. As you know, one of our key financial metrics is to grow operating income faster than sales growth. Excluding the $50 million of net pre-tax items realized last year, operating income for the first quarter of this year grew at 9.2 percent, which exceeded our sales growth of 8.6 percent. We are pleased to succeed in this important metric.

Net interest expense was $535 million, which was 3.3 percent higher than last year. The increase reflects a marginally higher weighted average cost of debt, partially offset by a decline in debt.

Debt to total capitalization was 44.2 percent at the end of the quarter, compared to 46.1 percent last year.

The effective tax rate for the first quarter of fiscal year 2013 was 33.5 percent, which was flat to last year. Our effective tax rate is in line with the previous annual guidance of 32.5 percent to 33.5 percent. As a reminder, our tax rate may fluctuate from quarter to quarter and may be impacted by a number of factors, including changes in our assessment of certain tax contingencies, valuation allowances, changes in law, outcomes of administrative audits, the impact of discrete items, and the mix of earnings among our U.S. and international operations.

This leads us to income from continuing operations attributable to Walmart of $3.7 billion, an increase of 9.2 percent from last year's first quarter.

We continue to identify great opportunities to open new stores around the globe. During the quarter, we added a total of 4 million square feet through 101 net new, expanded or relocated units. Capital expenditures were $2.4 billion in the first quarter, flat with last year. As we announced in October, our capex range forecast for fiscal 13 is between $13 and $14 billion, which includes post-acquisition capex related to acquisitions of Netto and Massmart. We will update our capital expenditure forecast in our second quarter call.

Free cash flow was $3.1 billion for the quarter, compared to a negative $415 million last year. The increase in free cash flow was driven by improvement in inventory management, timing related to associate incentive payments, and strong operating profit performance.

Return on investment, or ROI, for the trailing 12 months ended April 30, 2012, was 18.1 percent, compared to 18.5 percent for the previous year. The decrease was primarily due to capital expenditures and acquisition-related activities, partially offset by positive currency exchange rate fluctuations.

Charles will cover our returns to shareholders through dividends and share repurchase in his section.

Now, let's turn it over to our operating segments. We'll start with Walmart U.S. Bill …

Bill Simon
Walmart U.S.

Thank you, Jeff.

We're proud of the first quarter performance and are particularly excited to highlight a 2.6 percent sales comp, which is well above guidance and the highest quarterly comp in 3 years. Comp traffic was up 1.1 percent and ticket grew 1.5 percent. All 3 geographic business units performed well, with strength across all store formats.

During the first quarter, we executed our core strategy, delivering the right assortment, at the right time, and for the lowest price. Our core strategy has been focused on reenergizing the productivity loop. We lower our costs in order to lower our prices, so we can give customers a great assortment at the lowest prices. It's a fairly simple concept, but one that's critically important to our customers, particularly in challenging economic times.

We delivered strong performance around all the major holidays and events, including Super Bowl, Valentine's Day, and Easter. We also benefitted from the early warm weather, as customers transitioned to outdoor activities earlier this year versus last year.

Our sales performance was supported by price investment, primarily in food and consumables. As we had planned, we reduced our gross profit rate and drove traffic with a broad assortment and a favorable mix. In addition, we significantly leveraged expenses for the quarter.

Our 1.4 million associates did an outstanding job this quarter, and I really appreciate their commitment. It requires incredible speed and flexibility to keep up with our dynamic business, especially during periods of strong growth and leverage.

Price was the focus of our first quarter marketing, and this will continue to be a key message this year. The introduction of our new "Low Price Guarantee" commercials assured shoppers that they'd save money at Walmart with everyday low prices delivering savings for real family baskets. Additionally, we focused attention on driving sales in key general merchandise categories where we greatly expanded the assortment. These categories include sporting goods, toys, outdoor home and do-it-yourself projects.

Let's review the financial details for the first quarter. Net sales were up 5.9 percent to $66.3 billion for the quarter. Gross profit was up 4.9 percent to $18 billion. Gross profit rate was down 24 basis points versus last year as we continue strategic price investment. We expect this trend to continue during the year.

Operating expenses were up only 3.7 percent on sales growth of 5.9 percent for the quarter, resulting in 41 basis points of leverage, which exceeded our expectations. As a result, we're ahead of plan in our annual savings initiatives that were communicated to you in our fourth quarter report.

With our strong sales and profit performance, we were glad to have field incentive payments this quarter be some of the highest we had ever paid. Given our momentum in both sales and profit, we expect field incentive payments to be strong for the remainder of the year versus last year.

Operating income grew 8.1 percent in the first quarter to $5 billion. We grew operating income faster than sales due to sales strength and disciplined expense management.

Inventory was up 4.2 percent in the first quarter versus the prior year. As we continue to refine our assortment, especially across food and consumables, we will continue to make strategic investments in areas that drive sales growth. With that in mind, we will continue to focus on a balanced inventory approach.

We’re pleased with the performance of all our businesses, and they all delivered positive comps, with the exception of entertainment. The performance in apparel and home is particularly encouraging, and while there’s still much work to do, we’re pleased with the quarter.

In apparel, the basics strategy is clearly working, as evidenced by the mid-single-digit positive comp for the quarter, our first positive comp in six years. We saw high single-digit comp performance in the ladies’ department, as well as strong performance in shoes and kids. The early spring also brought unseasonably warmer weather across much of the nation, which benefitted sales.

Home, which includes our seasonal categories, posted a low single-digit positive comp, as customers responded to our focus on price leadership, product innovation and our good, better, best assortment. Sales in indoor living, particularly in cooking & dining, as well as bath & bedding were strong. Outdoor also performed very well, as customers began focusing on lawn, garden and outdoor entertainment earlier than usual, in part, due to the warmer weather.

Hardlines continued its positive momentum with a mid-single-digit positive comp. All categories achieved positive comps, with exceptional performance in sporting goods, which posted a double-digit positive comp. Customers are responding to our strategy of expanded assortment and seasonal relevance, as we saw significant increases in fishing, hunting and baseball. In hardware, we launched “Projects Made Simple,” a solutions-focused merchandising approach to prepare and equip our customers to complete “do-it-yourself” projects. After reintroducing fabrics and expanding the assortment, customers responded well, and comps were in the mid-single digits.

Entertainment, which includes toys and electronics, had mid-single-digit negative comps. As others in the industry have reported, TV and gaming price deflation and other industry dynamics continue to pressure sales. Media tablets and tablet accessories had strong growth, with each category generating a triple-digit sales increase. Spring toys, bikes and accessories performed well, leading to a low single-digit positive comp in toys. We also recently launched two new entertainment initiatives – our VUDU disc-to-digital service and an “Apple® store within a store.”

Grocery, which includes food and consumables, continued its positive trend, delivering a low single-digit positive comp, while driving additional traffic to the box. In food, we expanded our assortment with heightened focus on local relevance and innovation, and it’s paying off. We’re also excited about the recent launch of our USDA Choice steak program, which was something our customers requested, so we’re happy to have that available just in time for the grilling season. Now, if you haven’t tried it, you’re going to love it. We believe we’ll become our customers’ number one destination for meat. Overall sales of consumables continue to improve as well. Greater assortment and on-shelf availability contributed to higher traffic in the quarter. As we continue our price investment across these areas, we expect to leverage the increased traffic to propel sales in general merchandise departments.

While grocery inflation moderated slightly to approximately 3 percent for the quarter, customers are still trading down to lower price points and smaller pack sizes. Trade down and other initiatives reduced the net inflation impact on our customers to between 50 and 150 basis points.

Our health & wellness business continues to perform well, delivering mid-single-digit positive comps. Diet and health categories were strong in our OTC business. Seasonal allergy sales saw strength, as the season got off to an early start this year. On the pharmacy side, script count grew in the low single digits. The first quarter experienced slightly higher impact from brand-to-generic conversions than the fourth quarter last year. We expect to see an increase in the second and third quarters as key brand name drugs become broadly available in generic form.

We're improving the online customer experience by expanding our multi-channel capabilities, growing our assortment, and making strategic investments in price and shipping options. For instance, we recently launched our "Pay with Cash" program, which allows customers to buy online and pay with cash for the transaction in a retail store. We also just wrapped up our "Get on the Shelf" contest, a program from @Walmart Labs, which had over 4,000 submissions and resulted in three winners getting their products placed on Walmart.com.

In the first quarter, we added 27 net new units, primarily supercenters, including new stores, expansions, relocations and conversions, as well as Neighborhood Markets. Our Neighborhood Markets continue to perform well, again generating mid-single-digit positive comp sales this quarter. We continue to test the Walmart Express format, currently with 10 stores, and we're encouraged by the initial results.

During the second quarter, we expect to open between 40 and 50 new units, including 16 Neighborhood Markets. The second quarter will mark the beginning of the acceleration of the Neighborhood Market openings, and that trend will continue for the balance of the year. As a reminder, we plan to add between 14 and 15 million square feet of total retail space this year. This figure includes between 210 and 235 total units, which include new stores, expansions, relocations and conversions.

Operationally, we continue to enhance our customer experience and drive leverage through innovations and productivity initiatives. Our view on leverage is not merely "cutting costs," but rather making strategic investments in our people and processes. We'll be focusing on four key areas including workforce management, inventory management, on-shelf availability, and emerging innovation, such as the "Pay with Cash" program I discussed earlier.

Our teams redesigned modulars to maximize space and holding capacity. We've worked with our replenishment and logistics teams to ensure we have a consistent, efficient flow of merchandise. Each time we don't touch product, we save money to invest in price and lower costs for our customers.

Our logistics team decreased cost per case shipped by 5.4 percent this quarter versus the first quarter last year, excluding the rise in fuel costs. We will continue to focus on improving our warehouse productivity and driving efficiencies through our transportation fleet.

Another important part of our business model is our commitment to sustainability through decreasing our energy consumption. As an example, we developed a new high-efficiency store that integrates multiple energy consuming systems, such as air conditioning and refrigeration, creating a building that is 25 percent more energy efficient than our 2005 prototype. We're testing the high-efficiency store now with a limited rollout to validate costs, savings and ROI. We're excited about the early results of this store design, and I look forward to implementing this in the future.

Overall, we're very pleased with the quarter and believe we have set the groundwork for the rest of the year. As we move into the second quarter, we remain mindful of potential challenges for our customers. The overall economy is still our customers' main concern. In particular, they remain concerned about job security or the availability of jobs, followed by gas and energy prices, and rising food costs. Food is consistently the top monthly expense outside of housing and vehicle payments. We will also manage specific challenges to the business including the brand-to-generic impact in health & wellness, as well as grocery price disinflation.

We're forecasting comp sales for the 13-week period from April 28 through July 27, 2012 to increase between 1 and 3 percent. Last year, Walmart U.S. had a second quarter comp of negative 0.9 percent.

As we've been saying, our strategy is clear and every associate is working hard to deliver a great year. Our merchants are focused on driving sales with the right assortment. Our price investment strategy will gradually reduce what our customers pay, and thus our gross margin rate as well. We will focus on productivity initiatives and expense management, which will continue to drive results to the bottom line.

Now, I'll turn it over to Doug for an International update.

Doug McMillon
Walmart International

Thank you, Bill.

Walmart International delivered exceptional results in the first quarter. Net sales grew 15 percent, and operating income grew faster at 21.2 percent. Most of our markets had strong comp sales. We outperformed the market in every country, with the exception of China.

Customers around the world are similar: they want great items at great prices. We're serving our customers with a broad assortment, locally relevant items and lower prices as we continue to progress through our EDLP journey. In addition, being Powered by Walmart brings unique items and lower costs to our customers.

EDLP is our business model, and when we execute it well, it serves both customers and shareholders well. We've been transitioning to EDLP in more of our markets. Pay close attention to the results in Japan, Brazil and Central America since they're the most recent transitions. Our more established markets in the U.K., Canada and Mexico also strengthened their EDLP positioning.

We can't have an EDLP philosophy without EDLC, everyday low costs. We're constantly implementing best practices across markets. This process mindset is improving productivity and lowering costs. A best practice example is our recent focus on optimizing inventory flow. Without effective inventory management, we miss sales or add costs. The added costs show up in markdowns or in lost associate productivity. So, we're working to improve our on-shelf availability and increase inventory turnover.

EDLP and item merchandising drive comp sales growth, which is the most important pillar of our growth. Another growth pillar is new stores, and we remain committed to both comp sales and new store growth in International. We increased square footage by 14.4 percent, or 1,122 more retail units in the past 12 months.

Earlier, Carol reminded you about the alignment of the calendar and the impact of calendar changes, including the extra day from leap year. This year, Easter benefitted the first quarter, but will pressure sales in the second quarter. Carol also provided the definition for constant currency sales and remember, it excludes acquisitions and effects of foreign currency. With these points in mind, let's get into the financial results.

Walmart International's first quarter reported net sales were $32.1 billion. Operating expenses were $6.3 billion, and operating income ended at $1.3 billion. Acquisitions generated sales of $1.9 billion, offset by $800 million of negative pre-acquisition currency impact. On a constant currency basis, reported sales were reduced by approximately $800 million, operating expenses were reduced by $142 million, and operating income was reduced by $50 million.

Walmart International's first quarter constant currency sales were $31 billion, up 10.9 percent. All of our markets had strong sales growth, with Brazil, Mexico, and the U.K. the strongest. On a constant currency basis, Walmart International's gross profit rate declined slightly from last year, and operating expenses grew slower than sales, as all markets except China leveraged expenses for the quarter. First quarter constant currency operating income was $1.3 billion, up 22.7 percent and growing faster than constant currency sales. After excluding the effects of last year's items that Jeff covered earlier, operating income still grew faster than sales at 15.8 percent.

Inventory levels indicated signs of improvement in this quarter, with overall days on hand declining slightly from last year. Our constant currency inventory grew 12.6 percent over last year, an improvement since the fourth quarter of last year. We continue to work on the underlying processes required to deliver sustainable, solid inventory management in every market. This is an important area of focus and we still have room to improve.

Now let's get into the results for several of our larger markets. The following discussion is on a constant currency basis and, unless otherwise stated, sales and comp sales are presented on an unadjusted nominal, calendar basis.

Let's begin with EMEA, which stands for Europe, the Middle East and Africa, which also includes Canada.

The U.K. had a strong first quarter, growing sales, and growing operating income faster than sales, excluding fuel. In the first quarter of this year, overall sales grew 7.1 percent and comparable sales increased 5 percent, excluding acquisitions and fuel, driven by core growth in grocery and children's apparel. The comparable sales included a strong first week in January. Traffic in the quarter increased 2.9 percent, and average ticket also increased 2.1 percent. In addition, our online business in the U.K. maintained its strong performance, with sales growth of 19.2 percent in the quarter.

With customers trusting EDLP, we carried the momentum gained over Christmas into the first quarter. The ASDA price guarantee attracted more than 500,000 online checks per week in the first quarter.

The U.K.'s gross profit rate, excluding acquisitions, was relatively flat compared to last year. Excluding acquisitions and last year's pension costs, first quarter expenses as a percentage of sales grew slower than sales. We continue to sell at lower prices by embedding cost savings programs in operations.

ASDA added 3 new stores in the quarter and ended the first quarter with a total of 544 stores, including 32 Supercentres, 310 Superstores, 27 Living stores and 175 supermarkets.

In March, we announced the acquisition of GAAT, which is a division of the Turkman Group, based in Istanbul. GAAT performs the design and sourcing of our successful George apparel brand, and the synergies from the new relationship will enhance our global sourcing capabilities. The transaction closed in April, which falls into the second quarter.

Moving to Canada… In April, we held our annual International Conference for the Investment Community and the location this year was at our Canada operations. Over the course of a full day, analysts heard about our strategy of growth, leverage, and returns from a broad team of senior Walmart executives. We would like to thank those of you who attended. We emphasized our focus on balancing growth and improving returns. The team highlighted their progress growing new supercentres and adding food, including fresh food, to predominately general merchandise stores. Walmart Canada estimates that 9 out of 10 Canadians shop in our stores, with 1.1 million customer visits a day.

Walmart Canada had very strong sales growth, but operating income declined, as last year's results included a gain from a property sale. This gain related to the final sale of real estate following the closure of the Sam's Clubs. When excluding this gain, operating income grew from last year. Net sales grew 7.1 percent in the first quarter compared to last year, driven by strong sales performance across the business. Comparable sales in the first quarter increased 3.7 percent from last year. Walmart Canada's average ticket increased 1.1 percent, with traffic growing 2.6 percent.

Gross profit rate declined slightly on clearing winter seasonal inventory, and expenses grew slower than sales, as we benefitted from increases in store productivity.

During the past 12 months, we opened 38 supercentres, including store conversions, bringing our store count to 333 stores. Canada converted 1 store and expanded 2 stores to supercentres in the first quarter. This year marks the largest expansion program in Walmart Canada's 18-year history, with 73 projects scheduled.

Massmart continues to have strong performance in sub-Saharan Africa. For the six months ended December 2011, Massmart's overall sales grew 15 percent and comparable sales grew 9.2 percent versus the same period in 2010. As you know, Massmart is a publicly-held company in South Africa, and only announces results every six months, so you can expect to see their next earnings release on July 12.

Now to Latin America. The following summary includes the consolidated results of Mexico and Central America and is on a U.S. GAAP basis. Walmex separately reports its earnings under IFRS, so some numbers are different from Walmex-reported numbers.

Walmex had solid consolidated sales growth, and operating income was flat to last year. Walmex's consolidated net sales for the first quarter were up 13 percent, and comparable sales for Mexico were up 5.6 percent. Average ticket in Mexico increased 3.3 percent, and customer traffic increased 2.3 percent over last year.

Mexico's first quarter comp store sales for the self-service formats grew 5.3 percent, while ANTAD's comp store sales report for the rest of the industry, excluding Walmex, grew slower at 3.5 percent. As a reminder, ANTAD is the national association of supermarkets and department stores and provides industry data, including on self-service formats, and market share analysis.

In Central America, overall sales increased 9.1 percent, and comp sales were up 2.6 percent on a constant currency basis. As I mentioned earlier, we're actively implementing EDLP in Central America so these positive comp store results are encouraging.

First quarter consolidated gross profit rate declined slightly from last year. However, Walmex leveraged consolidated expenses on store productivity initiatives, and as a result, consolidated operating income was flat to last year.

Walmex finished the year with 436 more stores than at the end of the first quarter of last year. During this year's first quarter, Walmex opened 45 stores in Mexico.

Moving on to Brazil... Brazil grew sales in the first quarter, and had positive operating income. As you know, Brazil began the EDLP journey last year, and we're beginning to see the first comparative results.

First quarter sales in Brazil grew 14.5 percent from last year, with comparable sales growing 8.6 percent. Brazil ended last year with a significant portion of sales under the EDLP pricing strategy. I'm pleased to see this level of comp sales one year after the ramp-up began. Average ticket grew 7.7 percent, and traffic grew 0.9 percent when compared to last year, benefiting in part from the Easter calendar flip.

Gross profit rate increased slightly on the Easter calendar shift, and I'm proud to say that Brazil leveraged operating expenses in the first quarter, growing them slower than sales.

As I said previously, there's a tremendous focus on improving Brazil's operating income. Our in-country leadership continues to get results from the productivity loop, and invest the savings back into price to drive sales growth. The sales growth and stability that resulted from Brazil's adoption of EDLP allowed them to focus on reducing operating costs. Brazil achieved cost reductions in advertising, workforce management, and freight optimization.

Over the next few months, you will see a slowdown in Brazil's new store growth. We previously made a decision to moderate growth in the short-term to ensure we were building a solid foundation in this important market. Right now, getting the operating model right is more of a priority than new store growth. In the past 12 months, we've opened 51 net new stores in Brazil, bringing our total store count to 531.

Our operations in Chile grew full year sales 15.1 percent in 2011. Full-year operating income grew faster than sales, even after excluding the gain on the sale of an investment last year. Like Walmex and Massmart, Walmart Chile is also a publicly-held company and will release first quarter earnings on May 30.

Moving to Asia…Walmart China grew sales during the first quarter, but operating income declined slightly from last year.

Net sales for the first quarter grew 7.4 percent over the last year, and the comparable store sales growth was 1.2 percent. Average ticket grew 7.7 percent in China, but traffic declined 6.5 percent.

First quarter gross profit rate was flat to last year, and operating expenses grew faster than sales over last year due to a significant number of new store openings.

To date, we've converted 75 Trustmart stores to the Walmart brand. This year, we anticipate completing our previously announced purchase of the remaining ownership in Trustmart. In the past 12 months, we opened 37 new stores, and that brings our China store count to 370 stores.

In some ways, China reminds us of Brazil. We have some foundational work to do. You should expect to see us focus on the basics, work to improve our processes and productivity and review the amount of new store growth as we strengthen our foundation. We'll still open new stores, but our primary focus is improving operational execution of our current stores base. It's in that spirit that we closed our 3 soft discount pilots to spend more time on the performance of our supercenters and Sam's Clubs.

On to Japan…Japan's net sales, comparable sales, and average ticket all grew in the first quarter in nominal terms. For the past five consecutive quarters, Walmart Japan has outperformed the market. Sales and comp sales grew approximately 4 percent. First quarter traffic grew 3.6 percent and ticket grew 0.8 percent. According to statistics released by the Japanese Ministry of the Economy, Trade and Industry, or METI, overall supermarket comparable sales for the first quarter declined by 0.1 percent from last year.

Gross profit rate was relatively flat even with recent investments in price leadership, and Walmart Japan leveraged operating expenses from last year.

In the year after the 2011 earthquake and tsunamis, Walmart Japan has made strong progress in community programs. In collaboration with Mercy Corps, the "wakame" seaweed project has been a great success, providing wakame-processing machinery to displaced women.

It has been a long time since we have had the opportunity to talk about adding new stores in Japan. In the first quarter of this year, Japan opened its first new supermarket since 2008, a reflection of our success and confidence in our management team and that EDLP is the right strategy in Japan. We continue to anticipate adding 8 new supermarkets and 15 Wakana delis this year to our current base of 424 stores.

In closing, we've started the year with momentum in our business and will keep that going. We will stay focused. Our customers and members count on us to help them save money so they can live better, and we want to be there for them. We serve our customers with passion and purpose – and we will continue to do our very best to serve them well every day.

Now, I'll turn it over to Roz for the update on Sam's. Roz …

Rosalind Brewer
Sam's Club

Thanks, Doug.

I am very pleased with the quality of the results we achieved this quarter at Sam's Club. It represents a strong discipline to our strategic objectives to provide quality merchandise at the best price in a clean and efficient shopping environment. We have sales growth in key categories that are both high velocity and high volume; we're investing in price in those categories that are most important to our members; and we've had strong membership renewal rates. Members are truly responding to Sam's as we grow share of wallet.

Comp sales, without fuel, exceeded guidance and were up 5.3 percent for the 13-week period. This is our best first quarter 13-week comp performance in eight years. Comp traffic and ticket, excluding fuel, increased for both Business and Advantage members in the period.

Exceptional values in categories such as fresh and consumables are driving traffic across the club, helping deliver strong sales performance. Gross profit rate improved during the quarter, even with investments in pricing for key items. Our operators are performing well, and we increased productivity, reinvesting those productivity gains back into member service and member experience.

Our membership engagement surveys tell us that Sam's members are very happy with the way associates are delivering in the Clubs. But we got even more validation of this recently when Sam's received the number one ranking in the 2012 Temkin Experience Ratings on customer experience. Temkin surveys 10,000 U.S. consumers about their recent interactions with 206 companies over 18 industries. We were both the top company and the top retailer!

Now, let's get into the financial details for the quarter.

Including fuel, first quarter net sales were $13.9 billion, a 7.9 percent increase over last year. Gross profit rate was up 8 basis points. SG&A expense as a percentage of net sales increased by 4 basis points, and operating income increased 7.7 percent to $490 million for the quarter.

Fuel prices moderated in April, compared to last year and that contributed to a slightly higher fuel profit in Q1. Fuel prices in the first quarter were approximately 7 percent higher than a year ago, and gallons sold were up 6.6 percent. Fuel sets the first price impression for Sam's Club and drives traffic for existing and prospective members. Volatility in fuel prices can have a notable impact on our financial results. The remainder of our discussion today, therefore, is focused on our core business and **excludes fuel** for comparative purposes, unless otherwise noted.

Net sales for the first quarter were $12.1 billion, up 7.1 percent from last year. This sales increase benefited about 100 basis points from the addition of leap day, compared to the first quarter last year. All three geographic operating divisions performed well. Comp traffic and ticket increased for the 13-week period by 2.8 and 2.5 percent, respectively.

Improvements in merchandise quality and mix led to comp sales growth and unit share gains against the market. Our latest analysis, which is based on data through the end of March, indicates that we gained market share and increased share of our members' total spend. Inflation ran between 250 and 300 basis points in the first quarter, and we're seeing it moderate early in the second quarter.

Our strategic initiative to combine price leadership with quality merchandise is driving results. The emphasis on fresh and consumables is increasing member trip frequency and ticket. We achieved double-digit comps in beverages, baking, and baby care categories, and high single-digit comps in snacks, coffee and paper goods. Our grocery and fresh and freezer areas both turned in comps in the mid-single digits.

Health and wellness continues to be a key focus area. We are pleased with the enthusiastic member reaction to our magazine, Healthy *Living Made Simple*. Our communications, personal pharmacy and optical consultations and free health screenings show our commitment to help members improve their health. The pharmacy category turned in a mid-single-digit comp and optical delivered a double-digit comp for the 13-week period. Plus members have responded well also to our discounted optical offers.

The clubs were prepared for early arrival of spring weather with seasonally relevant merchandise, which drove sales of apparel and outdoor. Apparel recorded a high double-digit comp, driven by men's, ladies, and children's apparel. Outdoor living comps were in the mid-single-digits.

The environment in electronics continues to be challenged by deflation. TVs and other electronic products with little newness had a negative high single-digit comp for the period. But members are moving toward innovative products. Sales of tablets and wireless had high double-digit comps for this period. We were very pleased with the results of the Apple iPad 3 launch.

We continue to invest in price and have managed gross profit rate well in a very competitive and still inflationary pricing environment. Driven by strong sales overall and a favorable impact from mix, gross profit increased 8.6 percent. Even with these price investments, our gross profit rate increased by 19 basis points when compared to the first quarter last year.

For Sam's Club, the eCommerce channel continues to perform well, posting a double-digit comp increase, driven by increases in traffic. Through March, there have been 2.3 million downloads of our mobile app, and the percentage of online traffic coming through smart phones and tablets is growing. We are attracting more multi-channel members by investing in new features so members can research, browse, interact and shop anytime and anywhere.

Membership and other income was up 5.7 percent compared to last year. In other income, similar to the fourth quarter, we realized a financial benefit that is part of a profit sharing arrangement with our credit card provider. Last year, we recognized this benefit in full at year end. This year, however, with improved visibility to performance, we are recognizing this benefit each quarter. This increase in other income was offset by a decline in rental income.

As you know, prior to the third quarter of last fiscal year, we received rental income from a third party for running a portion of our wireless business. We began running this business with Sam's Club associates over the first half of last year, and the sales and expenses of the wireless business are included directly in our operating results.

Membership income for the first quarter increased 2 percent versus last year. Remember, for reporting purposes, membership income is recognized over the membership period, rather than when it is collected. We continue to see strength from new primary business member sign-ups, and our penetration of Plus members also continues to grow. Primary renewals continued to grow this quarter, although business add-on membership remains soft.

We are increasing membership through technology and productivity initiatives. These efforts are helping to support our reduction in club expenses, and for the quarter, we leveraged wages. The process improvements put in place last year in areas such as associate scheduling and how we stock our shelves are providing greater benefits this year. Sales per labor hour are up 1.5 percent for the quarter.

SG&A expense as a percentage of sales increased by 14 basis points in the first quarter, due to increased associate incentive payments and an increase in advertising expenses reimbursed by suppliers through cost of goods sold.

At the end of the first quarter, inventory, including fuel inventory, was essentially flat when compared to last year.

Looking at the bottom line, our first quarter operating income increased to $488 million, a 7.7 percent increase over the first quarter last year.

For the quarter, we met our growth plan, holding grand openings for three Clubs: a new club in McAllen, Texas in April and two relocated clubs – one in Hendersonville, Tennessee in March and one in Lubbock, Texas in April.

We look forward to a strong summer. From our "small business week member appreciation" program, in which our club managers across the country will work at a local member's business, to Mother's Day, Memorial Day, Father's Day and the Fourth of July, we have great summer events planned that will create excitement and drive traffic to the clubs.

We expect comp club sales, without fuel, for the 13-week period from April 28 through July 27, 2012 to increase 4 to 6 percent. Last year, Sam's comp club sales, excluding fuel, increased 5 percent for the comparable 13-week period.

Now, I'll turn the program over to Charles for our wrap-up and guidance. Charles…

Charles Holley
Guidance

Thanks, Roz.

I hope you got the sense that we are excited about the start to this fiscal year. We recognize there are always some unknowns with the economy ahead, but we feel confident about our business strategies and our ability to execute them across all segments.

Our revenue growth of 8.6 percent is the largest first quarter sales increase since the first quarter ended in April 2009. Our annual net sales target remains the same. We plan to grow sales between 5 and 7 percent, which should add between $22 and $31 billion in revenue for fiscal 2013.

This quarter, we also added 4 million square feet of retail space. As we outlined in October, we have in place initiatives to reduce construction costs and to deliver more productive stores, and these efforts continue.

Moving on to expenses … We leveraged expenses for the quarter, and we're confident that the progress we've already made will push us toward the goal we shared in October – that is reducing operating expenses as a percentage of sales by more than 100 basis points over the next five years. The contributions from Walmart U.S. and Walmart International put us on a great path to deliver on these expense leverage goals.

Now, price investment. We are reinvesting expense savings in the U.S. back into prices for our customers. In our international business, depending on the market, we are reinvesting in price and/or driving higher profitability and returns.

Our earnings performance continues to translate into strong free cash flow. Our priorities for cash remain growth, strategic acquisitions and returns to shareholders through dividends and share repurchases.

During the quarter, Walmart returned $1.3 billion to shareholders through dividends. In March, we were pleased to report that our board of directors declared an annual dividend of $1.59 per share for the fiscal year. This was approximately a 9 percent per share increase over last year's dividend of $1.46 per share. We have used $5.3 billion of our $15 billion authorization, leaving $9.7 billion for additional share repurchases. Your takeaway should be that we continue to remain focused on returning value to our shareholders!

Looking forward to the balance of the year … For our company to have a great year, we have to succeed in four key areas:

First, Walmart U.S. must continue its strategic momentum. So far, through the first quarter, I would say we're off to a good start on this imperative.

Second, Sam's Club must continue to deliver the kind of strong performance we've seen so far this year.

Third, we must improve profits and returns in Walmart International, especially Brazil and China, and our other countries must continue to perform well. The International segment had a strong first quarter, and Brazil delivered improved results. Although we are seeing progress in Brazil, China will take longer to improve, but we believe we have the right team in place to drive better results from the business.

And fourth, we must expand our capabilities and increase sales in our Global eCommerce business, as we integrate multi-channel offerings for customers across markets. I believe our e-commerce businesses are doing well on both counts.

We know it's early, and as always, we have much work to do. However, what gives us confidence is that our execution is at a higher level than we have seen in the last three years.

For the second quarter of fiscal 2013, diluted earnings per share from continuing operations are expected to be between $1.13 and $1.18. This compares to earnings of $1.09 per share in the second quarter of last year. This guidance takes into account our current performance trend, along with seasonal impacts and the current economic and sales environment.

We're committed to our core values and customer-focused culture. We are celebrating Walmart's 50^{th} year of operations this year. I hope to see everyone at our upcoming Shareholders' Meeting on June 1. We are proud of how we lower costs of everyday products for customers, the financial returns we achieve for our shareholders, and the communities we serve around the world.

Thank you for your support of our company.

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