WMT - Q3 2007 Wal-Mart Stores Inc. Pre-Recorded Earnings Conference Call

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PRESENTATION

Unidentified Participant

Thank you for calling Wal-Mart Stores Inc. third-quarter earnings call for fiscal year 2007. This call is the property of Wal-Mart Stores Inc. and intended solely for the use of Wal-Mart shareholders. It should not be reproduced in any way. This call will contain statements that Wal-Mart believes are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 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 believe, continue, continue to forecast, estimate, expect, expectation, forecast, plan, see, to come, will add, will be, will continue, will continue to be, will grow, will improve, will offer and will pick up or variations of one of those words or phrases in those statements or by the use of words or phrases of similar import.

Similarly, descriptions of our objectives, plans, goals, targets or expectations are forward-looking statements. These statements discuss, among other things, our anticipated U.S. comparable store sales for the current fiscal quarter and our anticipated earnings per share from continuing operations for the current fiscal quarter and for fiscal year 2007, our expectations for the continuing effect of hurricane recovery-related sales in prior periods on future comparable store sales, our expectations for the rate of growth of our capital expenditures in fiscal 2008, the anticipated growth in our retail space and locations and the rate of square footage growth in fiscal 2008, our expectations for establishing price leadership in the fourth quarter of fiscal 2007, the expected nature of our 2006 holiday period campaign, our expectations for rollbacks and other pricing on merchandise during the fourth quarter, our expectations for profits in the toy category, our anticipation for future results of our generic drug sales program and our plans to offer that program in more states, the expected impact of interest expense during the balance of the fiscal year, the expected results from initiatives in our operations in the United Kingdom, expected times of a recommencement and continuation of certain remodeling activities for stores in the Wal-Mart Store segment of our business, our expectation for improvement in comparable store sales in our SAM'S CLUB segment in the fourth quarter of fiscal 2007, our anticipated tax rate for all of fiscal year 2007 and the anticipation and expectations of Wal-Mart and its management as to future occurrences and trends.

These forward-looking statements are subject to risks, uncertainties and other factors domestically and internationally, including the cost of goods, competitive pressures, inflation, consumer spending patterns and debt levels, currency exchange fluctuations, trade restrictions, changes in tariff and freight weights, fluctuations in the cost of gasoline, diesel fuel and other energy, transportation, utilities, labor and healthcare, accident cost, casualty and other insurance costs, interest rate fluctuations, capital market conditions, geopolitical conditions, weather conditions, storm-related damage to our facilities, 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 our most recent quarterly report on Form 10-Q filed with the SEC and the information on this call should be read in conjunction with that annual report on Form 10-K and that quarterly report on Form 10-Q and together with all our other filings, including current reports on form 8-K 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. 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 store sales for our total U.S. operations and for our SAM’S CLUB segment discussed on this call exclude the impact of fuel sales at our SAM’S CLUB segment. Reconciliations of those non-GAAP financial measures are available for review on the investor relations portion of our corporate website at www.Wal-MartStores.com.

Carol Schumacher - Wal-Mart Stores Inc. - VP IR

Hello and thank you for calling Wal-Mart Stores for more information on our third quarter. We hope that you found our recent analyst and investor meeting in New Jersey to be very informative. The replays and related materials are available through November 24 on our website.

As a reminder to the announcement made at that meeting, beginning in fiscal 2008, Wal-Mart will no longer provide a sales estimate on the Saturday following the close of the sales reporting period. The last Saturday sales call, which will cover January sales, will be on February 3, 2007. Wal-Mart will continue to provide additional information on the Company’s sales on retail Thursday, which corresponds with the reporting of most other retailers.

Let me set up today’s call a bit. As always, we will provide opening comments on the quarter and the overall performance of our business. Tom Schoewe will get behind the numbers as he likes to say and will provide an outlook for the rest of the year. Our guest executive, Vice Chairman responsible for the U.S., John Menzer, will review the details on U.S. stores. Charles Holley will cover international.

Please note that as of October 31, 2006, we have closed the disposition of Wal-Mart Germany to Metro AG. This follows the completion of the sale of our operations in South Korea on September 27, 2006. The store counts and square footage updates that we normally provide at the end of the call can now be found only on our website, www.Wal-MartStores.com/investors. We will also cover some of your key questions within our call. Let me now turn it over to Lee Scott, our President and CEO.

Lee Scott - Wal-Mart Stores Inc. - President & CEO

Thank you, Carol. Hello, everyone. Today, I can tell you that although we are pleased to report record sales and earnings for the third quarter, sales in the United States were softer than we had hoped. As we discussed at the analyst meeting, we remain committed to balancing returns and growth. We are also pleased that we have seen improvements in gross margin in all three segments of our business.

Thankfully, we made it through the third quarter without a major hurricane, but the lingering effects of the positive sales we have had across the Southeast and Southwest relating to hurricane recovery efforts last year led to difficult comparisons through this fiscal year. These comparisons will continue into our next fiscal year as well.

Let’s look at the key results. Net sales for the third quarter of fiscal 2007 were more than $83 billion, an increase of 12% over the third quarter of the last fiscal year. Income from continuing operations was almost $2.6 billion, an increase of more than 7%.
Earnings per share from continuing operations were $0.62. Our earnings this year were favorably impacted by approximately $0.01 per share for property insurance-related gains.

Now let's look ahead. We have some real opportunities in the fourth quarter. This season, no one will doubt Wal-Mart's leadership on price and value. We are implementing our most aggressive pricing strategy ever across core categories, such as toys and electronics for this holiday season. I hope that some of you picked up one of those $398 laptops we had in our stores a week ago. We also have great values for your home and entertaining at SAM'S CLUB. John Menzer will share with you details about the fourth-quarter advertising program for the Wal-Mart Stores in the United States.

This year, you will hear the word Christmas from us too. Last year, our customers told us they appreciate the word holiday, but they would like it even more if we said Christmas also. Wal-Mart has produced a Christmas-specific television ad that just broke this past weekend.

Also Wal-Mart will feature a series of television advertisements with a key charitable partner, the Salvation Army, that will focus on Christmas. You will hear Christmas carols in our stores and you will see Christmas on signage, gift cards and merchandise. Our associates are also helping us celebrate with everyone. You will hear Happy Holidays, Happy Hanukkah, Happy Kwanzaa, Feliz Navidad and of course Merry Christmas. With almost 84% of Americans shopping at our stores, we are very focused on ensuring not only the best prices, but also customer relevancy throughout our stores and the communities that we serve.

I continue to be excited about the $4 generic prescription drug program. We are now in 27 states and plan to add even more states very soon. Our goal is to offer this program to customers at every Wal-Mart, SAM'S CLUB and neighborhood market. It is about saving money for our customers and driving traffic for our total box. It is also about building relationships with state and local governments because they like this program too.

This month, we are opening 21 stores in the United States just in time for holiday shopping. We continue to create jobs, advance careers and enhance communities across this country. Let me share two recent examples. Two new supercenters in the Atlanta Metro area attracted more than 4500 applicants for more than 600 total new positions. 4200 people applied for 465 jobs at the new supercenter in Edinburg, Texas, near the Texas/Mexico border.

You heard me say that it is our goal to ensure that Wal-Mart is out in front. We are committed to making sure that Wal-Mart stays out in front by improving the customer experience and by delivering value for our customers around this world.

We are pleased to see continued strength in the continuing operations of our international segment. I see a bright future for international where Mike Duke and his team are strengthening their focus on markets where we can have the greatest impact on Wal-Mart's growth and return on investment strategy.

For example, new units in Mexico are performing very well. We have just opened three supercenters in Canada and now are able to give true one-stop shopping experiences to our Canadian customers. During the quarter, we completed the disposition of our operations in South Korea and in Germany.

Additionally, let me point out that Raj Jain as the President of Emerging Markets has joined the Company and will play an active role in overseeing the Company's business development in India.

Before I close, let me recap our capital expenditure objectives that were announced last month at the analyst meeting. You can get more details from our press release. First of all, capital expenditures for the next fiscal year will grow at a significantly lower rate than spending grew in the current fiscal year.

Secondly, we will add over 60,000,000 square feet of new retail space in over 600 new locations this next year. Square footage growth for the next fiscal year will be slightly less than in prior years. Our more rigorous real estate prioritization process enables us to drive higher returns by focusing on locations that make the most efficient use of capital.
Our long-term goal is to continue to have our capital expenditures grow at a rate equal to or less than the sales growth. I feel good about the priorities that we have in place for meeting our capital expenditure objectives.

On an unrelated subject, a number of people have had the question about the recently completed elections in the United States and the fact that both houses in Congress have changed party control. They wonder what impact this might have on Wal-Mart. You know that Wal-Mart has for a long period of time been a bipartisan company. We work with both parties on the things that are of interest to our customers and to us as a business.

An example, I think the best example, is our $4 generic drug program. We have found support for this program across all parties and those are the kinds of things where Wal-Mart can make a difference for our customers and help with one of the major issues facing this country.

But it goes beyond that, if you think about the key challenges facing the country and the things that Wal-Mart is trying to do and taking a leadership position in areas such as job creation, environmental sustainability, our community relations, and of course Wal-Mart's historic long-term support of our troops who are in harm's way, we believe that through an ongoing outreach program that we will be able to work with both parties and continue to play the role that we play, which remember is taking care of our customers and taking care of associates and being a contributing member of society.

In closing, I am happy with the leadership position we are taking going into the Christmas and the holiday season not just in the U.S., but around this world. Now I would like to turn it over to Tom to recap the numbers. Tom?

Tom Schoewe - Wal-Mart Stores Inc. - EVP & CFO

Lee, thank you very much and thank all of you for joining us here this morning. I will get into a little more detail on the Company performance, but let's get started at the highest level to recap a little of what Lee has already said about the third quarter.

First, total sales for the corporation were up 12%. In addition, U.S. comp store sales were up 1.5% in the quarter. Net income from continuing operations increased 7.1%. Earnings per share from continuing operations were $0.62. Earnings were, as Lee indicated, favorably impacted by a $56 million after-tax property insurance recovery and that included certain historical claims from named windstorms. These gains are reported as reductions in operating expenses. Of the $56 million benefit, $52 million of that relates to the Wal-Mart store segment and the remaining $4 million relates to SAM’S CLUB.

As a reminder, earnings per share in last year's third quarter included three items netting to an unfavorable after-tax impact of $80 million or roughly $0.02 a share. First, approximately $40 million of costs were incurred as a result of Hurricanes Katrina, Rita and Wilma.

Second, we incurred about $69 million in the Wal-Mart segment of expense related to product warranty programs. Even if the impact of this adjustment is removed from last year's third-quarter results, our current year gross margin is a solid increase for the quarter and the Wal-Mart segment.

Finally, these items were partially offset by $29 million of other income resulting from the Visa, MasterCard antitrust litigation settlement. This was also recognized in the Wal-Mart segment. John Menzer will cover Wal-Mart U.S. results.

However, at this point, let me point out that operating income for Wal-Mart U.S. was up 13 basis points as a percentage of sales. However, if we remove all the "noise" in the numbers, the property insurance recoveries, etc., in the current year and from last year, the litigation settlement and the product warranty adjustments, the Wal-Mart segment operating income as a percentage of sales would have actually decreased by 14 basis points for the quarter.
Looking at the details. Consolidated gross margin was up 52 basis points for the third quarter. This increase occurred despite various pressures, which include transportation costs.

Moving onto expenses, the consolidated operating expense percentage for the quarter was up 71 basis points over the same period last year.

Turning now to inventory. Consolidated inventories were up 6.2% against a year-to-date sales increase of 12%. We continue to make progress in inventory management, which obviously benefits a return on investment.

Other income was up more than 15% for the third quarter. We continue to see increases in a couple of areas. First, membership fee income improved in the quarter as expected. Second, the continuing progress we are making in financial services are really paying off.

Let me shift gears and chat about interest expense. Net interest expense was up more than 21% for the quarter or 4 basis points as a percentage of sales. As expected, interest expense continues to be up because of the debt that we incurred from last year's fourth-quarter acquisitions and obviously from higher interest rates. Interest expense will continue to be a headwind this year, but our progress with inventory management has helped to offset some of that increase.

Our tax rate for the quarter was approximately 33.7%. Recall last quarter, we expected the tax rate to be at the high end of the 34% to 35% range without the renewal of the work opportunity tax credit legislation. Our rate in the quarter was actually lower than expected and is primarily due to the favorable resolution of certain tax matters outside of the United States, which allowed the release of the associated tax reserve. We are expecting the annual tax rate to be approximately 34%.

As a reminder, factors which may impact our annual rate include things like changes in our assessment of certain tax matters, the renewal of the work opportunity tax credit legislation and the mix of international versus domestic income.

Payables as a percentage of inventories for the Corporation were 76% and that is up from 68% last year. This improvement continues as a result of our inventory progress and is complemented by our international acquisitions. Our historical metric for monitoring leverage, and that would be debt to total capitalization, was 41.4% at the end of the quarter. That compares favorably to 43.2% at this same time last year. As I discussed at the analyst meeting last month, we will be moving to a cash flow ratio within the next quarter.

And finally, as Lee mentioned earlier, we completed the dispositions of our operations in South Korea and in Germany during the third quarter. In our income statement, we have reflected the results of operations of South Korea and Germany as "discontinued" both in the current and prior periods. Additionally, the loss on the disposition of Germany and the gain on the sale of South Korea are also reflected in discontinued operations.

Let me get into some more details. The sale of our business in South Korea generated a pretax gain of $103 million, which was recognized right here in the third quarter of fiscal 2007. The sale of Wal-Mart Germany generated a pretax loss of $918 million. $863 million of that loss was recorded in the second quarter and $55 million was recorded in the third quarter of fiscal 2007. A net tax benefit of $63 million was recorded as a result of these two divestitures. In the event that there are additional impacts associated with either divestiture, these results will be reported in the future quarters on the discontinued operations line.

Finally, the third-quarter net loss from operations from these two businesses, that would be South Korea and Germany, was $58 million. Since South Korea and Germany are now considered discontinued operations, results of the international segment's operation now exclude these two countries from the current and prior periods. This allows for better apples-to-apples comparisons. With that, I would now like to turn it over to John Menzer to chat about our Wal-Mart U.S. operation. John?
John Menzer - Wal-Mart Stores Inc. - Vice Chairman

Thanks, Tom. I will now cover the numbers first and then discuss some of the business strategies behind them. At the Wal-Mart division, operating income increased 9.9% on a sales increase of 7.8% for the third quarter. Tom explained the detail behind the operating income earlier in the call.

Comp store sales in the Wal-Mart segment were up 1.5% for the quarter. Comp sales were driven by an increase in the average ticket in the quarter while customer traffic declined slightly. We felt the negative impact on comp sales from last year’s hurricane recovery sales. Stores that were not impacted by the 2005 hurricanes had a comp sales increase of more than 2% for the quarter.

Our key grocery and consumer business was strong during the quarter and supercenter food sales grew by more than 12% for the third quarter. Supercenter food comp sales were above the overall segment comp store sales growth rate. Although sales were below our expectations for the quarter, we did continue to advance our business by focusing on customer relevancy, market segmentation and improving both labor productivity and gross margin. While our initiatives in these areas are still in the very early stages, we’re happy with the results to date.

Gross margin increased by 43 basis points in the quarter. Even with the impact of last year’s warranty adjustment, gross margin still increased. Our initial margin on general merchandise showed a solid improvement over last year’s third quarter and our inventory management program produced an improvement in markdowns as well.

The strong initial margin is related to an improved merchandising mix as we become more relevant to the customer with our merchandise offerings. We have seen improvement in our initial margin every quarter since the fourth quarter of last year.

Total expenses as a percentage of sales were up 32 basis points when compared to last year. Similar to the first half of the year, we experienced higher maintenance costs related to our store remodel program and also higher utility costs. Despite soft sales performance, we achieved solid improvement in labor productivity. Wal-Mart has delivered labor productivity gains every quarter for the past two years.

In addition, operating store wages were down as a percent of sales when compared to the same quarter last year. As mentioned earlier, we did have a favorable adjustment of property insurance recoveries. This reduced our expenses by approximately 14 basis points.

Other income as a percent of sales for the quarter was essentially flat when compared to last year. This is impressive given the benefit recorded in other income for the Visa MasterCard antitrust litigation settlement in the third quarter of last year. This is primarily due to the continued strong performance in our financial services area. We continue to have strong inventory productivity and are well ahead of our goal of growing inventory at or less than half the rate of our sales increase.

At the end of the quarter, inventory in the overall Wal-Mart segment was up slightly more than 2% while our sales increased 7.8% for the third quarter. We had a challenging third quarter. Last year’s hurricanes made for a very difficult sales comparison and our remodel and special projects program created a higher level of customer inconvenience than we had anticipated.

Beyond these two concerns, our women’s apparel business, particularly our more fashion forward women’s apparel, was not what we would have liked. These challenges were the primary impact on our sales in the third quarter. But even in this environment, we are pleased with both our margin increase and labor productivity improvement.

Let me provide a little more direction on where we are heading with women’s apparel as we move into fourth quarter. We told you at the analyst meeting that we expanded Metro 7 beyond what now appears to be the right segmentation. Metro 7 is still just a small part of our overall women’s apparel offerings. Metro 7 does really work in about 800 or 900 stores; ones that are more urban in profile. It has been a year since we launched Metro 7 and we now have a one-year anniversary event with extra special values hitting our stores just in time for the holidays.
Lee spoke about our strong price leadership strategy. This is Wal-Mart’s cornerstone. We will be relentless in establishing price leadership throughout the fourth quarter. Our holiday advertising campaign will remind the consumer about great prices and values they will find in our stores and online. Wal-Mart’s biggest ever 2006 Christmas campaign is built around the theme “Be Bright”. We will offer excellent value and goodwill through multichannel outreach. We’re delivering again this consistent message through our in-store signage, TV, radio advertising, circulars and also WalMart.com.

You’ll continue to see Wal-Mart roll back prices in just about every category in the store. Shoppers will find not only great selection on brands like Faded Glory, but also rollbacks on core basics and apparel, from cargo pants to flannel shirts. Intimate apparel also has rollbacks and we are seeing great movement in this category.

Other strengths so far in November are in menswear, outerwear and basic sleepwear. In women’s, we are seeing positive comps in hosiery and costume jewelry. We just announced rollbacks on nearly 50 small appliances and in domestics, including bedding sets and comforters. Customers will see great values on names like GE, Hoover and sharp.

If you saw our circular that dropped the first weekend in November, you saw that we are not waiting until the day after Thanksgiving to have blitz prices on hot items at Wal-Mart. We had excellent sell-through on our $398 laptop computer. Interesting, many units were sold immediately when the ad broke. We saw strong sales between midnight and 1 a.m.

More importantly, we are leveraging our conversion rates on our extended product care warranty plans, electronic accessories and our credit card offerings. Our price leadership is evident with our $4 generic prescription offering in pharmacy. This program continues to exceed our expectations. In the Florida pilot, pharmacy sales grew at more than twice the rate of our initial sales projections. 26 states launched since Florida continue to exceed our expectations. We believe that pharmacy sales will continue to improve as we add on more states.

This week, we will finally wrap up our last bit of remodeling and special projects for the calendar year. Our timetable calls for no remodeling work for special projects to be done during the Christmas season. Remodeling will pick up again in January of next year and will continue well into next fiscal year. Please remember though, while we have seen some negative impact on sales during construction, we also have seen an increase in comps after the remodel is finished.

Looking forward to the fourth quarter, we are up against a strong November last year and continuing hurricane recovery. These events make our comparisons very difficult for the fourth quarter. However, we are excited about the upcoming Christmas season and we feel we have the right merchandise and right customer service plans in place to meet the needs of our customers.

So in closing, we are ready for the fourth quarter. We have reinforced the selection, quality and value that Wal-Mart is known for. So I wish all of you a very Merry Christmas and encourage you to shop early at a Wal-Mart store near you and of course online also.

Carol Schumacher - Wal-Mart Stores Inc. - VP IR

Thanks, John, for that update on U.S. stores. You really covered a lot of ground. So before we move on, a lot of people have noted to us that gas prices have moderated and yet our comps are still low. What is your take on why sales have been off?

John Menzer - Wal-Mart Stores Inc. - Vice Chairman

Carol, that’s a great question. We really underestimated the positive impact of hurricane sales last year. Sales are impacted this year certainly in the Southeast. We are also seeing impacts in markets such as Dallas and Houston, Texas. There are other economic factors in place, such as higher interest rates, but gas prices still remain the number one concern among our customers according to our monthly market research.
Carol Schumacher - Wal-Mart Stores Inc. - VP IR

John, what are you seeing in the Wal-Mart side of the business that leaves you feeling upbeat given the Company's flat November guidance for the U.S.?

John Menzer - Wal-Mart Stores Inc. - Vice Chairman

Well, regarding sales, we have a strong marketing plan for these holidays. We'll have more circulars this holiday season in November and December than last year. We also had a strong November last year, but we tailed off in the month of December and so we have a more balanced advertising program this year between the two months.

As you have seen, we also moved our pricing early to show price leadership in toys and electronics. In toys, our margins were hurt slightly, but some were planned, some will provide markdown savings that overall our profit in the category will be near or at plan. Sales have been down slightly possibly to the impact in their layaway shift. But we are seeing benefits in these items that were seeing huge sales increases in these toy areas.

In the electronics area, our sales are at or near plan. We are seeing a big growth in our new categories such as flat-panel TVs, MP3 players, laptops and cell phones. But this is tempered with declines in our more mature categories such as music, DVD players and telephones. Flat-panel TVs are running at triple digit comp increases.

Regarding margins, we have a broader merchandise price mix focus this year as an example as we talked about on electronic. Also we have very strong merchandise offerings this season. So we are really excited about this season coming up.

Carol Schumacher - Wal-Mart Stores Inc. - VP IR

Thanks, John. Now let's turn to international. Charles?

Charles Holley - Wal-Mart Stores Inc. - SVP Finance

As Tom noted, the disposition of our operations in South Korea and Germany were completed during the quarter and are considered to be discontinued operations. This means the results of those operations for these countries are excluded from the following discussion and figures for international.

International sales from continuing operations for the third quarter were $19.2 billion. That is a 33.7% increase over the prior year. This sales increase included the impact of our acquisition in southern Brazil and the consolidation of Seiyu in Wal-Mart Central America. Sales from these entities contributed 18.6 percentage points of the increase in international sales.

Our strongest sales performances in the quarter came from Mexico, Brazil, China and Argentina. The third-quarter impact of currency evaluation on sales was a benefit of $488 million, driven primarily by a strengthening in the British pound, Canadian dollar, Brazilian real, partially offset by a weakening of the Mexican peso.

Operating income for the third quarter was ahead of plan at $997 million. That is up 18.1% over the prior year. Operating income growth lagged sales growth primarily due to the dilutive impact of the recent acquisitions, which only added 3.3 percentage points to the growth in the international operating income.

Gross margin was up slightly versus the third quarter of last year largely as a result of the acquisitions and improvements in Canada and Mexico. Operating expenses were up as a percentage of sales primarily as a result of the acquisitions. The operating
expense increase more than offset the improvement in margin leading to operating income that was down slightly as a percentage of sales. There was a $25 million positive impact from currency on the third-quarter operating income.

Now let’s discuss highlights by country. Wal-Mart Mexico had a great quarter, continuing positive trends from recent quarters. Operating income in Mexico grew faster than sales when compared to the third quarter of the prior year. Total sales for the quarter were up 16.8% in real terms adjusted for inflation. The real comp store sales increase during the quarter was 5.3%.

We continue to see very consistent growth among all formats in Mexico. The main driver of the sales increase continues to be customer count with a 16.3% total increase during the quarter. Average ticket was up as well. Operating expenses in Mexico grew 15% in real terms reflecting leverage of the sales increase. This leverage was driven mainly by associate productivity.

Our expansion program in Mexico added 39 units during the quarter. We are pleased to note that as we continue to add units in Mexico, our returns continue to increase. In fact, since 1999, each and every quarter, we have seen returns increase versus the previous year.

Now let’s turn to the United Kingdom. We are encouraged to see continued improvement in the U.K. With each month, we have seen stronger comps and we’re pleased to say that in the third quarter, ASDA achieved plans for both sales and operating income. The improved operating income performance in the quarter reflects both improved gross margins and successful cost reduction programs.

We are particularly proud of the way the U.K. team recognized opportunities for improvement at the start of the year and build action plans around these. Those plans are now delivering positive results. There is more to come and we are encouraged about the fourth quarter.

Total sales were up in the high single digits. Comp store sales continue to improve and were up in the low single digits, with a positive trend in both traffic and ticket. Compared to the third quarter last year, an additional one million customers have started shopping at ASDA, which is a reflection of the improvements in pricing, assortment and customer experience.

Many of the initiatives put into place earlier in the year contributed to the recovery, including new George Home ranges, new pet and baby departments and new fresh food ranges. The result has been increased marketshare over the last 12 weeks.

During the quarter, ASDA relaunched its premium extra special food range and doubled the number of SKUs to almost 800. In addition, there was a threefold increase in the number of organic SKUs to 900. In the third quarter, ASDA opened seven new stores, including four superstores, one supercenter, one ASDA Living and when George store. This brings the total to 14 new stores so far this year with a further eight to open in the last quarter.

In Canada, total sales in Canadian dollars increased in the mid-single digits for the third quarter while comp sales grew in the low single digits. Operating income grew faster than sales for the third quarter. Canadian sales were strongest in ladies wear, food, housewares and appliances, pets and infants. Following our openings of the three supercenters in Canada, we have seen strong customer response in terms of both traffic and ticket.

Brazil comps were in the upper single digits for the third quarter. Our total country operations in Brazil were ahead of plan in sales and operating income. We are pleased with the performance of our two recent acquisitions in the Northeast and the South, both of which are growing sales above our initial expectations and delivering financial results ahead of plan.

Argentina continues to deliver a strong performance with comps in real terms up in the low double digits for the third quarter.

Puerto Rico sales were up in the mid-single digits for the third quarter as a result of store expansion activities. Comp sales were slightly below last year impacted by a trend of lower consumption. As we saw in the first half of the year, Puerto Rico is experiencing an economic downturn. This downturn, coupled with a government expense reduction program and the pending...
initiation of a sales tax, continues to present a challenge for our operations in Puerto Rico. Third-quarter operating income was short of plan and lower than the prior period.

Wal-Mart Central America continues to deliver positive results. This recent acquisition delivered third-quarter sales growth in the low double digits over the same period last year. Sales and operating income were ahead of plan for the third quarter.

Turning now to Asia. China’s comps grew in the mid-double digits for the third quarter. While sales were slightly below plan for the quarter, our bottom line was ahead of plan.

We continue to see progress in Japan. Third-quarter comp sales remain positive, continuing the trend from the first and second quarters. Seiyu’s gross margin percentage in the third quarter remained flat to last year while expenses continue to track below plan. Operating income was below plan due to a slight shortfall in sales and retail price investment in targeted categories.

Now I will turn it back over to Tom to discuss our SAM’S CLUB segment results and our outlook for the rest of the year. Tom?

Tom Schoewe - Wal-Mart Stores Inc. - EVP & CFO

Charles, thanks a lot. This was a challenging quarter for SAM’S CLUB. Overall, sales grew by 1.9% due in part to difficult comparisons resulting from last year’s hurricane recovery buying and also due to a decline in fuel sales. Approximately two thirds of SAM’S CLUBS in the U.S. own and operate fuel stations.

For the first nine months of this year, SAM’S CLUB increased overall sales by 4.5%. Excluding fuel, comp sales at SAM’S CLUB increased 1.8% during the quarter and 2.8% for the first nine months. Fuel sales impacted the SAM’S CLUB and total U.S. comparable store sales figures for the quarter ending October 31, 2006 by a -1.8 percentage points and a -0.3% of a percent respectively.

Including the impact of fuel sales, the SAM’S CLUB comp store sales figures for the quarter ended October 31, 2006 would have been flat. For the nine months ended October 31, fuel sales actually had no impact on the comp store sales figures at SAM’S. SAM’S CLUB continued its trend of growing operating income faster than sales. This is the fifth quarter in a row that SAM’S has grown operating income faster than sales.

Operating income increased 4.1% for the quarter and 6.7% for the nine months. Operating income growth was the result of higher membership revenues and expanded gross margins, which more than offset an increase in operating expenses. The property insurance recoveries added 1.8 percentage points to the operating income at SAM’S CLUB.

Unlike previous quarters, SAM’S CLUB inventory levels grew at a higher rate than sales. The increase was primarily due to inventory buildups in October of electronics and of seasonal inventories to support our holiday catalog. The catalog was mailed out the first week of November. That would be a week later than last year. Our expectation is that comp sales will improve during the fourth quarter as SAM’S CLUB focuses on serving both business and advantage members during this important holiday selling season. During the quarter, we added seven new clubs and relocated or expanded five clubs. We now operate 574 clubs in the U.S.

Now let’s transition from SAM’S back to the consolidated corporate results and discuss our expectations for the rest of the year. For the fourth quarter, we expect U.S. comp store sales to increase in the range of 1% to 2%. This guidance reflects our previous November forecast.

We expect earnings per share from continuing operations for the fourth quarter to be between $0.88 to $0.92 per share. That results in a full-year forecast for EPS from continuing operations of $2.85 to $2.89 per share. With that, I would like to thank you for listening in this morning. Carol and Pauline will be available for questions and as always, have just a great day.