# Q4 2021 Earnings Call

## Company Participants

- Brett Biggs, Executive Vice President and Chief Financial Officer
- Dan Binder, Vice President of Investor Relations
- Doug McMillon, President and Chief Executive Officer
- Gui Loureiro, President and Chief Executive Officer, Walmart Mexico & Central America
- John Furner, President and Chief Executive Officer, Walmart U.S.
- Judith McKenna, President and Chief Executive Officer, Walmart International
- Kalyan Krishnamurthy, President and Chief Executive Officer, Flipkart Group
- Kathryn McLay, President and Chief Executive Officer, Sam's Club
- Sameer Nigam, Founder and Chief Executive Officer of PhonePe
- Suresh Kumar, Executive Vice President, Global Chief Technology Officer and Chief Development Officer

## Other Participants

- Bob Drbul, Analyst
- Chris Horvers, Analyst
- Chuck Grom, Analyst
- Ed Yruma, Analyst
- Greg Melich, Analyst
- Karen Short, Analyst
- Kelly Bania, Analyst
- Michael Lasser, Analyst
- Oliver Chen, Analyst
- Paul Trussell, Analyst
- Peter Benedict, Analyst
- Robbie Ohmes, Analyst
- Simeon Gutman, Analyst
- Steph Wissink, Analyst

## Presentation

### Dan Binder {BIO 1749900 <GO>}

Good morning and welcome to Walmart's 2021 Investment Community Meeting. Thank you all for joining us on the webcast. We appreciate your interest in Walmart, I know the executive team looks forward to sharing their strategies with you and answering your questions. Now, let me get a few of our usual statements out of the way.

The information presented at today's meeting should be viewed in conjunction with our press release and earnings materials that can be found on our website stock.walmart.com. The presentations will also be posted on our website as they are completed. Today's presentations include forward-looking statements that are subject to future events and uncertainties which could cause actual results to differ materially from these statements.

Please reference our entire Safe Harbor statement and non-GAAP reconciliations which are included with our earnings materials on our website stock.walmart.com. Hopefully, you've had a chance to review our earnings materials and guidance issued this morning. You can see today's agenda on your screen. And in a moment, Doug McMillon Walmart's President and CEO, will share some initial thoughts with you about our culture, our people and our opportunities, and then he'll be back to discuss Walmart strategic objectives after you hear from our CFO Brett Biggs.

Brett will discuss Q4 results and fiscal year 2022 guidance and then we will conduct our first of two Q&A sessions today. We will have a brief 10-minute break following the Q&A session then you will hear from several other leaders, who will discuss our priorities and strategies across the business. Following these presentations, we'll have another brief break and then we will conduct our second Q&A session. And that at the end of that session our will formal meeting will conclude. With that, let's get things started.

## Doug McMillon {BIO 3063017 <GO>}

Hello, everyone, and thank you for joining us for our 2021 investment community meeting. We are grateful for your interest in our company and for the confidence so many of you have in our future. We believe that confidence is well founded, and we're excited to give you an update on the opportunities we see ahead. I've been a part of Walmart for more than 30 years now and I can't remember a time when there was so much exciting change happening inside our company.

The world around us is changing in big and important ways and I'm so encouraged by how our associates are leading and embracing change. We have a blend of experience and new thinking that are coming together to allow us to execute with more creativity and speed. We aren't the business we were just a few years ago and we aren't the business, you'll see in the years ahead. We're moving.

David Glass was a CEO that followed Sam Walton, he led us into the food business and got us started outside the United States. In the 1990s I remember him telling us repeatedly that the company was just getting started. Every time I'd hear him say it, I would think, really? We were already large by then, and so much had already happened.

But today I can tell our associates the same thing, there is so much opportunity still in front of us. We have the talent, the culture and the assets to thrive in the next generation of retail to invent it. We've been building for this moment and the moment is here, it's up to us. We can make it true that in 2021, this company was just getting started.

I know many of you have been investing in and following Walmart for a long time and you know a lot about our company. This is a different business today and we're just getting started. We're moving. Looking back at 2020, I'm so proud of how our big team has responded to the challenges. They just keep stepping up. It feels like our customers and society have come to appreciate our associates more than usual and that's well deserved. So many have been selfless and courageous.

We've tried to show our frontline associates in our stores clubs and supply chain, our respect and gratitude with our words and our actions. They along with our customers, our shareholders, our suppliers and partners, the communities we serve and the planet we seek to strengthen shape our decisions. We take a multi-stakeholder view because we know that mindset and approach deliver the most valuable, sustainable business over time.

As for today, Brett will join us in a moment to talk about our results for the fourth quarter as well as to provide an outlook on our expectations for the next few years. I'll come back after his remarks to talk through the acceleration of our strategy and how we'll deliver sustainable long-term growth, then you'll hear from several of our leaders about the specifics of our plan. I'm confident you'll leave this session with a clear understanding of a few key points.

First, innovation and speed, it's time for us to dial-up our aggressiveness even more and go faster. Walmart is in a position of strength and we have momentum. Our confidence in our plan motivates us to accelerate and we will walk you through why we feel that way. Second, we're building a new customer centric business model. Our customers welcome us serving them in new ways, and our assets and capabilities are being monetized in ways we haven't tapped into before.

We have assets to leverage like our stores and supply chain, strings like our store traffic and a brand trusted for value. We have foundational cornerstones like EDLP and EDLC. We can stay true to who we are and build on our strengths, while building a mutually reinforcing flywheel. We're starting to drive the top and bottom line in more expansive ways. Our bottom line is becoming more diversified, which will enable us more operating income growth over time. We're repositioning to be in different businesses and exiting some geographies. So resources are shifted to our priorities. We're building a better model and it's uniquely Walmart.

Third, we will continue designing this business to create shared value for all our stakeholders. We are out to demonstrate that our company can do even more good for people as we grow, communities are strengthened, customers, associates, shareholders and suppliers benefit, everyone wins. I'll be back to share more specifics on the strategy in a few minutes.

Now, I'd like to welcome Brett to add his view on the quarter and the future. Brett?

## Brett Biggs {BIO 17414705 <GO>}

Good morning, and thanks, Doug. I've been with Walmart for more than two decades. And this is one of the most challenging and unique times we've all faced. However, it's also a time that presents great opportunities, and I'm looking forward to highlighting some of those for you this morning. I'm so proud of how our associates have responded in serving customers while accelerating our strategy.

The recent progress in transforming Walmart into a truly omnichannel business prepared us for this period and it helps shape our future. This is an important moment for Walmart and we are ready. There are several things I want you to take away from this morning; first, we have great momentum. We just completed a year with record sales of $560 billion in constant currency, including record fourth quarter sales of more than $150 billion and record operating cash flow of $36 billion.

Profit growth was also strong. Thanks to a number of things. Strong sales in particular improving general merchandise sales, improving eCommerce margins and improved margin mix overall. Certainly, we had tailwinds during the year, but we're performing extraordinarily well. This strong performance has allowed us to invest in the future of the business, invest in our associates and give good returns to shareholders.

From a position of great strength we're now going to accelerate investments in supply chain, technology, automation and our associates, allowing us to stay ahead of shifts in customer behavior. We strongly believe these investments will accelerate the company's top line and profit growth in the mid to long-term. Active portfolio management is also strengthening the model and focusing resources, and we remain laser focused on operating efficiency and delivering sustainable expense leverage.

So, let's turn to highlights of the fourth quarter and the year. During the year, we saw elevated sales levels related to customer stocking up, eating at home, entertaining and educating at home and investing in home decor and their yards, and of course, those things are supported by stimulus spending. In parallel, we had incremental COVID costs, some of which will continue. We had a strong holiday season, followed by an acceleration in January. Total constant currency revenue was strong increasing more than $10 billion for the quarter and $40 billion for the year.

Walmart U.S. comp sales excluding fuel grew 8.6% in both Q4 and for the year, including 79% annual growth in eCommerce. Walmart U.S. grew net sales by $29 billion for the year. Now for context that is similar to the annual revenue of Dollar General and Starbucks. Sam's Club wrapped up a terrific year with full-year comp sales growth of 15.8% excluding fuel and tobacco and membership income increased more than 9%. On its own, Sam's Club would rank near the top 50 in the Fortune 500. Outside the US, sales increased 6.3% in constant currency for the quarter, including 60% eCommerce growth with strength in India, Mexico and Canada, seven of nine markets posted positive comp sales. And for the year, International net sales grew more than $6 billion in constant currency.

Adjusted operating income on a constant currency basis declined about 3% in the quarter and it was pressured by more than $1 billion of incremental COVID expenses including associate bonuses, as well as a charge of around $220 million related to a decision to repay UK property tax relief granted earlier in the year. The fourth quarter also included some increased tech expenses and increased wage pressure related to recently announced structure changes in Walmart U.S. as well as additional headcount to ensure a holiday season was a success, which it was. Excluding the UK charge, total company adjusted operating income would have increased. Despite various headwinds Walmart U.S. adjusted operating income increased 6.5% on solid gross margin improvement and continued reduction in eCommerce losses as well as some benefit related to timing of allocations.

For the year, adjusted operating income increased over 9% in constant currency, with each segment growing significantly despite more than $4 billion of incremental COVID costs. Q4 adjusted EPS was a $1.39, but would have been about $0.37 higher if not for COVID costs and the UK property tax repayment. GAAP EPS was a $0.74 loss significantly impacted by the loss on businesses in the UK and Japan as both are classified as assets held for sale. That's partially offset by an unrealized gain in our investment in JD.com, the value of which is increased by $9 billion since our initial investment.

Operating cash flow for the year was exceptionally strong at $36 billion and the company returned $8.7 billion to shareholders through dividends and share repurchase. So, in summary, it was a great year financially and on an underlying basis, it was a strong finish.

Let's now talk about how we plan to continue the strong momentum, because of our financial strength, competitive position and ability to execute, we're in a unique position to continue innovating and serving customers in multiple ways. Over the past several years, we've made great progress building an ecosystem of synergistic assets and we've made strategic choices like reducing exposure to lower growth international markets while focusing on higher growth opportunities in the US, Mexico, and India.

Now is the time to play even more aggressive offense, we're winning and we intend to keep pushing the ball aggressively down the field. Over the next few years we're going to step up capital investment primarily in the US to improve the customer experience, support growth and drive efficiencies. I'll give you some highlights and you'll hear more as the morning progresses. As I mentioned earlier, our revenue grew $40 billion last year, putting us at least a year ahead of where we thought we might be. So we need to lean in more aggressively in key markets with increased capital and fulfillment capacity, supply chain automation and technology.

This new infrastructure will allow us to expand eCommerce assortment, enabling us to reduce both shipping time and cost. We will step up automation in DCs to deliver aisle and department-ready pallets, stores. We will continue to refresh our existing stores by enhancing pickup and delivery capacity, merchandising programs and efficiency initiatives. In India, we see significant growth opportunities for Flipkart and PhonePe, it's exciting to see the emerging middle class rapidly adopting eCommerce and using their mobile phones to use money transfer, insurance and other services.

Meanwhile, we will step up technology investments to continue upgrading legacy enterprise systems and customer-facing technology. We're in a multi-year journey of modernizing our tech stack and capabilities to increase the efficient use of the cloud and simplified customer and associate experiences. As we accelerate investment, CapEx is expected to be around $14 billion this year with most of the increase versus last year in the US. Over the next few years we expect CapEx to be around 2.5% to 3% of sales. While this is higher than the past few years, it is far below the CapEx peak of 4% to 5% of sales during the period of heavy supercenter growth.

This spend will allow us to fully optimize our strategy and in turn accelerate the company's top line and profit growth rates in the mid to long. After years of transition, these investments should put us in position for 4%-plus sales growth and operating income growth rates higher than sales. 4% top line growth would basically be the equivalent of adding a Fortune 100 company every year.

Our unique financial strength allows us to continue to deliver strong returns to shareholders while growing the business. And as you saw this morning, we increased our dividend for the 48th consecutive year and we authorized a new $20 billion share repurchase program, which we plan to execute over the next three years or so. There are so many initiatives underway to give us confidence that these are the right investments at the right time. We're already seeing proof points and you'll hear more about these later on.

We expect continued strong growth in the US businesses and expect even higher international growth rates as we focus on key markets and making money in new ways. We'll continue improving margin mix through an enhanced general merchandise offering, new brands and marketplace growth with a greater push towards expanding fulfillment and other services for sellers.

We'll drive existing and new customer growth through initiatives like Walmart+. We'll grow sales and profit increasingly with growing higher margin businesses and advertising financial services, marketplace, health care services and the like. Our operating discipline will continue to sharpen. After a pause in FY22 primarily because of additional wage investments, I expect expense leverage to continue at or above 20 basis points a year.

Let me turn now specifically to our expectations for this current year. We feel very good about the underlying business and ability to compete from a position of strength. However, we're still facing similar COVID related challenges as we have over the past several quarters, which caused us to suspend guidance and continues to make short-term guidance very challenging.

Despite that we want to give you the best view we can at this time, given what we know and what we see right now. We know we'll have both headwinds and tailwinds this year, the balance and degree of which isn't clear. As the year progresses, we hope to get more clarity around COVID impacts, vaccine efficacy and availability, the scale and duration of economic stimulus and the midterm economic climate globally.

Even if conditions stay generally similar to now for any length of time this year and with limited additional stimulus, we would expect continued solid underlying performance from Walmart U.S. with low single-digit comps and continued solid eCommerce sales growth. Low single-digit comps would result in around a 10% comp growth on a two-year stacked basis, so very healthy growth. We would expect the level of comp growth to be more heavily weighted toward the middle of the year as a result of the timing of COVID related demand and stimulus in FY21. Now, of course, that could look different depending on future stimulus and/or significant changes in customer spending patterns, as the COVID crisis hopefully moderates at some point. The comparisons against last year are unique. There were stretches that were really strong and others less so, driven by how people responded to the virus, how they stocked up, how they responded to being in home more and of course stimulus actions.

In International, excluding divestitures, we expect to see higher level of sales growth versus the US with strength in India, Mexico and China. And at Sam's, we expect low single-digit comps excluding fuel and tobacco. Total company sales are expected to decline due primarily to the divestiture or anticipated divestitures of businesses in the UK, Japan and Argentina. Excluding that we would expect total company sales to grow in the low single-digits. From a profitability standpoint given the assumptions mentioned earlier excluding the impact of divestitures, we would expect operating income and EPS to be flat to up slightly versus a very strong profit year in FY21.

In regards to the UK transaction when we announced it we said we expected EPS dilution of approximately $0.25 in the first full year assuming we held proceeds in cash. We expect to hold more cash than normal during this time due to the strong cash flow but plan to reallocate that cash in a thoughtful way in the coming quarters into new projects, as well as share repurchase.

We still expect to make up for the EPS hit in the midterm, but there will be timing impacts that negatively affect FY22 EPS by about $0.20. However, this should provide a tailwind to EPS growth in future years as we reallocate more of that cash. Due in large part to the International transactions, we expect operating income dollars and EPS to decline slightly in FY22 on a consolidated basis. But we expect Walmart U.S. operating income to increase in spite of some continued COVID costs, accelerated technology costs and increased wages.

Alternative revenue streams like advertising in Walmart fulfillment services are gaining traction and are expected to become a larger portion of profit growth in the future, including FY22 along with a fairly steady gross margin rate. Due to the International transactions in FY21 COVID-related expense and profit timing, we expect the FY22 quarterly profit growth cadence versus last year to be quite variable. We expect Q1 operating income to be relatively flat to last year and EPS to be flat to slightly up, reflecting the presence of Asda in our financials for about half the quarter and some tax rate fluctuations.

Due to the timing of FY21 cost and divestitures, Q2 and Q3 operating income and EPS maybe down mid to even high single-digits with Q4 operating income and EPS potentially up mid-to-high single-digits. Again and I probably can't stress this enough, we're in a very unusual time causing projections even in the short term to be very challenging and open to significant fluctuation. Many times I get asked by analysts, investors and others, are we missing anything about Walmart? And I thought a lot about this question lately and even for someone like me that's been here for over 20 years I have to step back and see the evolution through a different lens.

Walmart is different than it was last year, three years ago and certainly five years ago. It's faster, it's more creative and it's less risk averse. It's actively creating its future by building on a set of unique strengths and capabilities. Let me describe the Walmart I want you to see. We have more customer store traffic than anyone in the world. We have one of, if not, the largest pickup businesses in the world and we're scaling delivery. We're one of the largest eCommerce companies in the world, approaching $100 billion in revenue in the next couple of years and we believe $200 billion a few years after that. We have one of the largest marketplace businesses in the world and now we're scaling a marketplace fulfillment services business to grow even faster.

We're majority owner of one of the most successful retailers in the world Walmex with over $50 billion market cap with great growth opportunities. In India, we're majority owner of one of the largest eCommerce and payment businesses and one of the largest and fastest growing economies in the world. We have a $75 billion club business globally. One of the fastest growing segments in the retail industry and it's a winner in three key markets in the US, Mexico and China.

We have a rapidly growing advertising platform, which should be a multi-billion dollar business in the very near future. We're a global leader in supply chain innovation with exciting initiatives on the table. We're a global leader in sustainability with a clear aspirational goal to become regenerative. We have both growth and scale. We reduced our exposures in Brazil, Argentina, the UK, Japan and we'll still have a top line that's over $0.5 trillion. That's the Walmart I want to make sure you see. This is the time for us to accelerate and we are ready.

And as always, I thank you for your interest in Walmart, and I'll turn it over to Doug.



## Doug McMillon {BIO 3063017 <GO>}

Thank you, Brett. Thank you for your leadership and partnership. We're pleased with our results for the fourth quarter and the year. Growth was strong across the company, innovation and speed picked up. We moved quickly to add new capabilities to protect the health of our associates, serve customers and members safely in our stores and clubs and serve them with more capacity for pickup and delivery.

We found ways to support the explosive growth in eCommerce and learned how to hire people in hours rather than days which enabled hundreds of thousands of people to get work when they really needed it and when we really needed them. We managed our business well in an unpredictable environment, but we certainly didn't get everything right. Given supply constraints, our in-stock suffered significantly during portions of the year. Store standards were impacted. We would reduce store hours and limit customer density all over again, but that did impact our sales.

Those reality should provide some upside in 2021 as we lap the extraordinarily strong results of last year. I want to thank our associates around the world. They have been courageous. They are adapting to change. They worked really hard to overcome the hurdles presented by one of the most difficult periods in history, and I know they'll continue to do so.

The challenges of the past year came in different forms and weren't limited to the health crisis. We are all aware of the difficult social, political and economic realities that we face. These are deep-rooted problems that we all have to tackle. As for Walmart, we will continue to be part of the solutions. As it relates to the health crisis, we helped with PPE for healthcare workers and stood up COVID testing sites. We donated more than 625 million pounds of food and over $55 million in grants for hunger relief in 2020.

Now we're supporting the country in the vaccination effort. As it relates to the financial crisis, we will help with employment and we will help small businesses by buying their goods, building an expanded market place for sellers and as Sam's Club serves family owned restaurants, and other small businesses, small businesses are vital to our economy. When it comes to the social and political challenges we all face, we will engage in public conversations in ways that are thoughtful, constructive and in line with our values. We are committed to racial equity. We'll keep changing inside our company and find ways to leverage our business and influence to shape systems extending beyond our company. This work is important to me and it's important to our associates, including our leadership, and we know it's strategic, being diverse and inclusive is smart business.

2020 not only confirmed our strategy it accelerated it by fast-forwarding many of the customer trends we've been building towards. We feel emboldened and are now moving with even more speed and aggressiveness. We're scaling new capabilities in businesses and designing them to work together in a mutually reinforcing way. As we imagine the future, we believe people, our customers, families will want an even better value for their money. Our merchandise assortment that is relevant to their life and seems limitless. Services that help them save time, save money and get or stay healthy, an experience that is easy and enjoyable and the knowledge that the company they do business with can be trusted to treat everyone in their supply chain well and take actions that strengthen our planet.

In the future, people will still want to shop in compelling stores, but more and more there will be occasions where they prefer to pickup an order or have it delivered. Some customers will eventually allow us and pay us to keep them replenished in their homes on the items they routinely purchase. For an increasing number of customers, Walmart will be seen more like a service. Customers will think of us as the merchant that serve their wants and needs, but in ways to take less time and effort. We won't just be utilitarian for them. We'll serve up items and ideas that are relevant and exciting. We will reach them directly and through other platforms.

Our customer relationships will continue to broaden and deepen in health and wellness and financial services. Our customers view these as natural and expected components of their Walmart experience. We have all of these things together in a seamless way.

So, we're in an early stage of building a new business model that will enable us to serve people how they want to be served in any particular moment and thrive in the next generation of retail as a business. Over time, we believe that big winners in retail will be those that deliver a unique interrelated ecosystem. Many of you will remember the original Walmart productivity loop. We lowered prices, grew sales and leveraged expenses. Some of you will remember the ecosystem chart we shared in 2018.

But we continue to learn, our thinking moves on and so we'd like to share today's version as a way to describe our emerging business model. It should help you better understand how we will serve customers and drive sustainable diversified operating income growth over time. As I describe it, some of my comments are specific to the US, but you should think of this as applying in all of our priority markets around the world. Think about it as a flywheel that's spinning, powered by a mutually reinforcing set of assets.

We start with the customer in the center. We're designing for them. Our relationship with them is founded on our ability to provide them the lowest prices on the items they buy all the time. They come to our stores and our app to get the things they want or need. Our first priority is to continue to earn their business when it's time to buy the big basket. The stock up trip to be the best and first place they shop. We do that well with the supercenter format, having a broad assortment so close to 90% of America is an advantage.

As we've added pickup and delivery capabilities, we've experienced a lot of growth, but too often we aren't able to meet the demand. This is a good problem to have but we need to solve it quickly given how trends accelerated as a result of the pandemic. So we're going to invest more aggressively in capacity and automation to position ourselves to earn the primary destination position with customers. We are absolutely playing offense here. Customers can choose to visit a store, pickup their order, have it delivered, have it delivered into a secure box on their front step into a garage refrigerator or all the way into their kitchen even when they're not at home.

When you hear us say delivery, define that as the combination of delivery from our stores, clubs and eCommerce fulfillment centers. Our customers and members are indifferent as to whether they're delivered items come from a store or an FC. So we can optimize for speed and costs behind the scenes as we meet or exceed customer expectations. Over time, more and more of our customers will want Walmart+ because it makes life better. That relationship will drive repeat business and provide data that enables us to serve them even better and be more personalized. It's an important piece of our strategy. For now, we're focused on continuing a high quality experience for Walmart+ members as we add capacity. Over time, we'll add more benefits to the membership to broaden its appeal.

Moving to 3 o'clock on the wheel, the demand we've been experiencing in general merchandise is amazing. Beyond the pandemic, our eCommerce business will continue to grow at a fast pace. We expect our eCommerce sales globally to be over $100 billion in the next couple of years. We continue to add assortment and brands. Our emphasis here is on general merchandise. We've got a lot of upside in apparel, home and hardlines. To capture that upside, we're going to pull forward investments in space and automation. As our fulfillment capacity grows, we'll use it to improve the customer experience, expand our first party assortment, grow our marketplace and build our fulfillment services business, which is scaling nicely.

Beyond selling merchandise, we can do more to serve the healthcare needs of families. They want and need high-quality preventative, accessible and affordable health care. As you evaluate our opportunity in healthcare, we consider not only our pharmacy, optical, hearing and OTC businesses, but also consider our position as the country's largest seller of food and how that relates to health. Our locations which enable access, our large stores and large parking lots, which give us room to expand, our experience with associate benefits where we cover a lot of lives and our growing digital capabilities. Together, they create the opportunity for a differentiated omnichannel health care business that helps a lot of people. We aren't starting from scratch. We're convinced our customers want this and they trust us to provide it.

Financial services are also a way we can help make daily life better for customers. Last month we announced the formation of a new FinTech startup designed to develop and offer innovative and affordable financial solutions. Our customers have been clear that they want more from us in terms of financial services and this new approach will help us deliver for them in a differentiated way more quickly. For a FinTech start up, customer acquisition costs are high and our platform lowers those costs. We have a head start.

Moving to 6 o'clock on the wheel, our purpose is to save money and help people live better. So we must operate at a lower cost and do it in a way that's sustainable. As you know, we've had several automation tests going on, I'm very pleased to share a few of the most important forms are now ready to scale. These investments will enable us to improve the customer experience and increase productivity. Our digital transformation continues. Our way of working, our use of data and the modernization of our tech stack continue.

Earlier I mentioned diversifying our profit base, scaling new profit pools is a priority, big marketplace and fulfillment services, advertising, financial services, data monetization and last mile delivery. These are all early stage businesses that are scaling or are positioned to scale. The resulting more diversified model will allow us to sustainably reinvest back into the customer value proposition and choose how much flows through into profit.

As I walk through the flywheel, I mentioned several investments. Based on everything I've learned over the years and the opportunity I see looking ahead, this is the right time to make these investments. The strategy team and capabilities are in place, we know where the customer is going. We have momentum and our balance sheet is strong. Here's what we see. First, the combination of stores and eCommerce is a winner. Last year step changed our eCommerce business and our stores are an asset. We have demand and need more space earlier than we had planned a year ago. Given the delivery is a key driver of Walmart+, we need more capacity to grow Walmart+ with a high net promoter score.

Second, our automation plan is now ready to scale, we'll be investing in our distribution centers, our eCommerce fulfillment centers and in market fulfillment centers, which will in many cases be inside of or built beside our stores. John will tell you more about what this means for our US business. Those investments will enable productivity improvements for years to come. They have a nice IRR.

Big picture, think of our US supply chain with hundreds of distribution and fulfillment centers, thousands of stores and clubs so close to so many people functioning in a hybrid fashion, automated where they should be based on volumes and complemented with onsite market fulfillment centers or offsite MFCs where we see incremental demand.

Importantly, imagine our supply chain is interconnected, so the cost to meet or exceed customer expectations is optimized, and imagine our growing network with the next-gen level of automation. I think the next few years will represent more change in our supply chain than even the grocery DC roll out we did to support supercenters. It's really exciting. We'll keep investing in store remodels, so that our stores are fresh and appealing. We'll also continue to invest in our people. Last fall, we changed the structure in our US stores leaning even more into teams. At that time, we gave a raise to 165,000 people. And now, we'll be raising wages for 425,000 more. These are investments in people that are important to our future, because they provide a great pickup, delivery and in-store experience for our customers. These investments are part of the strategy we pursued since I started in this role. We've increased our starting wages by more than 50% since 2015.

Once these increases are implemented approximately half of our US hourly associates, about 730,000 people will earn at least $15 an hour. Our average wage in the US will be at least $15.25 per hour. Our supply chain associates are already earning $15 or more and we've made additional wage investments in Sam's Club over the last few years.

Importantly, in addition to hourly wage rates, we will continue investing to provide career opportunities through our internal education programs and access to affordable degrees. Because of technology, the future of work will be different and we want to prepare our associates for that journey. We believe we should do more than provide just an hourly wage. Bonuses for some roles, our 401(k) match, stock ownership plan, affordable healthcare and other components or smart investments. We'll make these investments in our supply chain and people while also staying on track to modernize our technology. To pay for all that, we will keep growing sales, expand our general merchandise business and scale mutually reinforcing and profitable businesses.

The guidance that Brett provided this morning includes these investments for these areas I've just described. One way to think about us is to recognize our people and physical assets as strategic moats and realize that we're changing how we think and work to build digital products and related businesses that complement those assets and have helpful margins, marketplace, advertising, and membership income, for example.

We aren't strangers to membership, Sam's Club in the US, China and Mexico is performing very well and that performance accelerated during 2020. Sam's is innovating, adding new capabilities and improving our merchandise offer, especially in fresh food and with our member smart private brand. Sam's is a big business for us and it has strong momentum.

As I mentioned before, this mutually reinforcing flywheel concept applies in our priority markets outside the US. Specific elements of the flywheel such as pickup and delivery, eCommerce and marketplace, fulfillment services, payment and other financial services and advertising have application in Mexico, Canada, India and China. The same flywheel assets are adapted to be relevant to the specific needs of the customer in each market and to leverage our different operating models.

Let me focus on Mexico and India, for a minute. We see an opportunity to grow eCommerce market share in Mexico. Our stores business is strong and an omnichannel approach will be a winner in this market. Our Walmex team has done a great job of growing eCommerce including a strong same-day delivery option from stores and clubs. The pandemic had a similar impact to customer trends in Mexico as it did in the US. So now, the next step for us is to leverage the momentum we have to grow 1P and 3P eCommerce through investments in technology, supply chain and customer acquisition. The team is building alternative income streams to complement our traditional retail business including advertising.

In India, our momentum and potential for growth make this a unique opportunity. eCommerce penetration is still low but growing rapidly. We're well positioned to grow as an emerging middle class spends more money through their mobile phones. Like the US and Mexico, this is a market where will step on the gas to ensure we have the appropriate level of investment in areas like supply chain. The PhonePe business continues to grow and perform very well. These are homegrown businesses with innovation and problem solving for the Indian customer at their core. We continue to be impressed with Flipkart and PhonePe talent led by Kalyan and Sameer, you will hear from them along with Judith in a little while.

I talked a lot about investing for growth and I also think it's important for us to call out the areas where we are narrowing our focus in making choices. We're deploying capital to areas where we see the best opportunity for growth while pulling back in other areas. Over the last few years, you've seen us divest restaurants and apparel specialty chain, banks, Vudu and eCommerce businesses and brands along with markets like Brazil and Argentina. We've announced new ownership structures in the UK and Japan, moving us to a minority position.

We have executed these decisions to narrow our focus, while also developing important partnerships to drive growth like those with JD.com, Dada, Aditya Birla fashion retailer and Ninjacart. We're being deliberate about where we invest, where we divest and where we partner. We're a good partner and we're flexible. In order for us to pull all of these work streams together into a cohesive well executed strategy, the organization has to think and work in new ways.

Think about it as an enabler of our strategy. Whether it's moving to an agile way of working, prioritizing digital acumen and diversity in our talent base or developing new ownership structures around the world, we will function in a way that supports innovation, speed and productivity. Our product teams and technologists are working hand-in-hand with business leaders every day to develop and deploy the right products at the right time for our customers and associates. The tech team we've assembled is working to take our technology to the next level.

We'll do the things I've described while staying true to our purpose and our core values and while taking a shared value approach. The best way to create a valuable company is to build for the long term, manage the short-term and serve all the relevant stakeholders. So we're systems thinkers, we connect dots, we designed sustainability into our holistic supply chain and save money doing it by eliminating waste.

Environmental, social and governance issues aren't side projects, they are strategic core and part of our culture, as aspirations push us beyond sustainability. This is a holistic approach that supports and replenishes humanity and nature. Regeneration means renewing and replenishing in addition to preserving and doing less harm. Our target of zero emissions by 2040 with no offsets is an ambitious and motivating challenge.

We believe it's important to push towards zero in our own operations even where it's difficult and may not be feasible with current technology. Our push will help drive necessary innovation. We will lead where we can and help make possible what's not currently possible. Climate change remains at the forefront of our ambitions on regeneration and you've heard us talk many times about Project Gigaton and our efforts to reduce emissions in the supply chain of our business and those of our suppliers. To date, suppliers have reported a cumulative 375 million metric tons of avoided emissions. We're well on our way to our goal of avoiding 1 billion metric tons of emissions.

In summary, we are confident in our strategy. Now is the time for us to be aggressive, speed matters, we're going to keep the customer in the center and design for them. The new business model we're building will allow us to thrive to reinvent, there is so much opportunity in front of us. Our associates, including our leadership are the reason we have so much confidence. Sam Walton was described as a merchant with a servant's heart, our associates are continuing that legacy. Thank you for your attention.

In a moment, we will begin the first of two Q&A sessions, Brett and I will take your questions about what we've shared so far, and then you will hear more from the team.



## Questions And Answers

### A - Dan Binder {BIO 1749900 <GO>}

Thank you for joining our Q&A session this morning. (Operator Instructions) Our first question come from Peter Benedict at RW Baird. And after that we'll go to Paul Trussell. Peter?

### Q - Peter Benedict {BIO 3350921 <GO>}

Okay, Dan, thanks. Can you hear me?

### A - Dan Binder {BIO 1749900 <GO>}

Yeah, we got you. Yeah.

## Q - Peter Benedict {BIO 3350921 <GO>}

Okay, great. Hey, guys. Thanks. So, I guess, two part question here. First, just on the higher capital spend, maybe can you tease that out a little bit more, Brett, maybe some of the components there what areas of the business are getting how much? And as you think beyond this year you talked about the 2.5% to 3% of sales, are there certain areas that we'll get more of that versus less kind of what continues beyond this year?

And I guess related to that on the US wage investment, what do you think your US associate base should all be making at least $15 an hour, is there a time frame we should be thinking about for that? Thank you.

## A - Brett Biggs {BIO 17414705 <GO>}

Yeah. Peter, thanks. I'll kick off. So, on capital, as I mentioned in my remarks earlier, we're going to lean into the places that we've talked about from a strategic standpoint, really for several years, but definitely, this morning. So, we will lean in more particularly in supply chain and eCommerce. Peter, you've been following the company for a long time, if you go back several years, we were spending 50%, 60% or more of capital in the stores. Now that's turning toward ensuring we have the right amount of capacity we need to fulfill the customers' desires as much as in the way that they want to be fulfilled, but then also getting it to customers more quickly. Those are the kind of things that we're going to be focused.

In innovation, there's so many things that are going on from an innovation standpoint in supply chain and we've been on the front edge of that, Doug. And thinking about how we get pallets to the stores and how we make it easier to pick in the back rooms. And those are the kind of things over the next few years where you're going to continue to see us lean in, and globally, not just in the US.

## A - Doug McMillon {BIO 3063017 <GO>}

Yeah. Good morning, Peter. I'll just add that really excited that we're now to the point where we can invest in some of this automation. I know you've been following us closely. We've been working on this for a while and now we've got these various forms distribution center technology, fulfillment center technology, store level market fulfillment center technology that we can start to really scale. And that will take a few years to roll that out, but we like the customer experience benefits. We like the he productivity improvements that we're going to see. And this year, just really fast-forwarded things in terms of customer behavior. And we think the vast majority of that behavior is going to last and it's terrific that the automation we've been working on is now ready maybe if anything I wish had been ready a year ago, but at least we're there now and we can get going on it. So, really excited about that.

As it relates to associate wages, the approach that we have been trying to take for years now is to make sure that we're creating this ladder of opportunity, providing an opportunity for people when they start with the company to build a career like so many of us have. And so the investments that we're making right now are aimed at this new structure that we put in place. It's even more of a team approach to getting the work done across the store that needs to get done. Obviously, picking in the store has become really important. Managing inventory is obviously really important and this new structure is going to help us do those things more effectively. And those people that we're raising wages for tend to have been with us for a longer period of time than someone that might be earning the entry wage. And so we're trying to move that average up, create that ladder and continue to have associates that come through our system and become store managers.

We've got about 75% of our store management that starts as hourlies. The alternative would be to invest all of that to try and get to $15 faster, but if we do that, then we wouldn't be able to create this succession that we are committed to creating. We will raise our starting wage rate over time. And I think our history proves that. I mean, we've gone since 2015 from 9 to 10 to 11 were up over 50% in our starting wage rate and we will be sensitive to geographies on their parts of the country where the starting wage should be lower than others. And we are obviously really aware of what's happening nationally with this discussion around $15. And I think that that's an important target, but also think that that should be paced in a way that's good for the US economy and you can kind of see us as a model working through how that works. But I'm really excited to raise the wages today for so many people.

## A - Dan Binder {BIO 1749900 <GO>}

Great. Thank you, Peter. We'll go to Paul Trussell with Deutsche Bank next and then Karen Short after that.

## Q - Paul Trussell {BIO 20732173 <GO>}

Hi. Good morning. Thank you for the color and especially for the willingness to provide guidance in a volatile and dynamic backdrop and guidance is really where my questions lie. Brett, to the extent you can dig deeper, can you just help us a little bit more on some of the many moving parts in looking at your fiscal 2022. Just how best we should think about the impact of the UK, Argentina, Japan, wage investment, COVID costs just as best as you know today?

And then, Doug, as you kind of still expect the top line in the US to remain positive despite the tough compares, just discuss what's driving that confidence and what the digital contribution to that growth looks like?

## A - Brett Biggs {BIO 17414705 <GO>}

Yeah, Paul. Good to see you. You almost answered your question as how you are asking the question. As we were talking through as you can imagine we're talking through wanting to give guidance this year because it's -- we want to give you the best view that we have right now knowing everything that we know. But we know less than we typically do in a normal year about what's going to happen with the vaccine, what's going to happen with economies, what's going to happen in other parts of what's going on.

So, we've tried to raise up the guidance a little bit and to be fair to give you just a -- give you a little more high-level guidance than we have. And so, getting to the individual pieces and talking about any of those specifics would be pretty challenging. But if you look at even the top line guidance, we've given you as closer we can without divestitures or excluding divestitures. So, we're trying to give you apples to apples. And so with that we think low single-digit growth for the company and Walmart U.S. is possible. And you've got stimulus plans and other things that are sitting out there. But even with that Walmart U.S. would have a 10% to your stack, so it'll be very, very healthy growth.

Same thing on the EPS and operating income, we are trying to give you apples to apples as if Asda in Japan and all that are still in the business, obviously, there is not. And there'll be an impact top line and bottom line from that. I know you appreciate the situation that all of us are in with COVID and we wanted to give you as good a guidance as we could right now.

## A - Doug McMillon {BIO 3063017 <GO>}

As it relates to US growth, Paul, obviously there is a lot of variance week to week, month to month, quarter to quarter, and I'm sure every retailer and we certainly did kept a really good diary about what was happening every day as we went through that year. And just looking back on all the things that happened even in February and March a year ago is a long list of activities, things that occurred in the environment and decisions that we made. Many of those decisions restricted sales in our stores. We changed hours, we metered how many people could be in the store and obviously we were hit hard from an in-stock point of view. Normally, it's a great thing to have inventory turns and we were managing our supply chain well, but we didn't have these huge stockpile sitting to the side for the surges that we saw in things like consumables.

So, I've never seen anything like what happened in our stores as we went through the year and it was a real challenge for our associates. Our store managers, our system managers, our associates deserve so much credit for being able to adapt. Some of them were on leave. We had people join the company, we hired over 0.5 million people during the course of last year to help fill in for those on leave and to react to the additional demand that we had for pick and delivery.

So, imagine, being a store manager dealing with a lot of associates without much experience. So, we've got all these things underneath the surface, in-stock, store hours, associates that were less experienced, all of those factors caused us to think if things continue to improve the vaccine roll out continues, people start to come back out, people will come back to Walmart that may have been shopping locally, because they were trying to manage the COVID situation carefully. We've talked about our market shares as we've gone through the year. We think we've got an opportunity in food and consumables to grow market share this next year.

So, those are the kinds of things that cause us to feel like it's appropriate to forecast that increase in sales and then go earn it. There will be a lot of volatility quarter by quarter and we'll just do the best job we can, Paul, of explaining what we're seeing as we go through it.

## A - Dan Binder {BIO 1749900 <GO>}

Thank you, Paul. Next we'll go to Karen Short with Barclays, and then to Simeon Gutman after that.

## Q - Karen Short {BIO 20587902 <GO>}

Hi, thanks. Can you hear me?

## A - Brett Biggs {BIO 17414705 <GO>}

Hi, Karen.

## Q - Karen Short {BIO 20587902 <GO>}

Yeah. Thanks so much for all the color. Really helpful. I wanted to just one clarification, just on the EPS. So, we use $5.28 is the base, correct, in terms of slide to slightly up. But then the bigger question I had was just on the US operating profit in general. So, when I kind of do back of the envelope math on the employees getting the wage increase, I guess, kind of close to 14% impact to operating profit in the US and you've obviously guided to slightly up operating profit in the US. So, maybe can you parse that out a little bit more because that seems -- and I know you guided to up sales. So, there are comps in the US, and that's a component of it, but maybe a little color on that, because that 14% hit seems like a fairly large lump to overcome to still have the US be up?

## A - Brett Biggs {BIO 17414705 <GO>}

Sure. I'll walk you through that. So, on the EPS, you're correct, the $0.20 that we've talked about as it relates to as that there still be a little bit of impact from Japan, because that is accretive as well assuming we get that transaction closed in the next few weeks. But the way you did your math would be accurate.

On the US, there is a lot changing in the P&L. And one of the things over the last several years, as we've had gross margin that has decreased fairly significantly as we've invested in price and done other things. Now, as we have price gaps in a pretty good position certainly versus where they were years ago the way that we're able to move product, we're getting efficiencies there. The new income streams that you see us having the general merchandise business which has improved. That helps mix. eCommerce contribution margin that continues to prove, all of that helps gross margin. So, in the past where you're starting with gross margin going down fairly significantly at times, that's really not the case probably as we look forward.

So, on the expense side, do have increased wages, but you also had significant COVID costs this year and other things that hit the expense line. But when you balance all of that out. And again, Karen, we're giving you the best view that we can, we do think that Walmart U.S. can continue to grow operating income, but there is just a lot of things inside of that.

## A - Doug McMillon {BIO 3063017 <GO>}

It's helpful to have the eCommerce improvements that we saw and Brett mentioned their contribution profit improvement that's driven through apparel and home mix and other things, including the fact that we finally put our merchant teams together and John and Mark worked really well with the merchant Scott McCall and others to help people come on board and take on that additional responsibility in a way that's been helpful. And then the volume growth leverages fixed costs in a different way. So, as you've heard over and over again, a lot of things just got fast-forwarded and change the shape of what we're looking at.

## A - Brett Biggs {BIO 17414705 <GO>}

And the additional revenue streams that we've been talking about, we will talk about even more this morning, advertising, financial services, marketplace, those things that really weren't large businesses at all. They're growing and they're scaling and they are becoming a bigger part of the Walmart U.S. P&L. So that's a positive. Thank you.

## A - Dan Binder {BIO 1749900 <GO>}

Thank you, Karen. Next we'll go to Simeon Gutman with Morgan Stanley, and then we'll go to Bob Drbul of Guggenheim.

## A - Brett Biggs {BIO 17414705 <GO>}

Hi, Simeon.

## Q - Simeon Gutman {BIO 7528320 <GO>}

Hey, good morning. Thanks for taking my question. I first maybe a two parter for Doug and then a one part for you, Brett. Doug, you mentioned balancing and managing all the interest of stakeholders and you guys have done a good job of that over the last few years. So, this is the why not invest more upfront and this year how much of the debate is that? And then can you tell us, how much of this investment plan is new or is it pulling forward what would have been a five or 10-year plan.

And then to you, Brett, thinking about fiscal 2023 and beyond to realize you gave a construct, is the leverage point of the business or again of a retail business increasing such that you can't get higher incremental margins over time and for some of those things you just mentioned plus advertising. It seems like the incremental margin should get better, especially as you invest in supply chain and get more efficient. But you said roughly in line EBIT growth to sales I'm sure it's far out so you're being careful, but why shouldn't we expect higher incrementals over time.

## A - Brett Biggs {BIO 17414705 <GO>}

You may start and you want to...

## A - Doug McMillon {BIO 3063017 <GO>}

I'll go first. When you think about why not more the two pieces they go through my mind are the automation investments and then the wage investment. On the automation side, I think, we're going as quickly and as aggressively as we can and should go. These things will take some time. If we find that it's working really well, and we can go faster, I'm going to be in the camp of wanting to go faster because this looks like it's going to be really great for our supply chain, great for customers, great for the company from a financial point of view.

On the wage side, we've been on a path. We've got a strategy. We've got a plan and we're executing that plan and you will just see us continue to make investments at the right time. We think in the right levels, while also investing in automation to help with productivity. We're trying to play a harmony here and balance these things together. And one things I'm excited about by the way is that as we've been changing we've been able to add a lot of jobs, which I think is great. It's great for the economy, it's great for people to have employment. And automation historically tends to change work and create new opportunities and I think that's what we're seeing.

I mean, the number of people that we've hired to pick orders in stores and a number of people that will need to run the automation investments that we're making, there is going to be opportunity for folks. And we're trying to craft this whole approach with not only hourly wages but what we do with benefits and incentives, what we do with healthcare, what we do with 401(k) match and all of those things to retain people in a way that you get the highest level of productivity because people are bought in on what the company is doing.

So, we think we're doing this strategically at the right pace as it relates to the wage investments. So, I think, the one place where we could go faster if it all works is automation and it is a pull forward and we were planning on doing these things. I think two things happened. One is the pandemic change behavior faster than we would have had in our model. And then secondly, it just so happens that two or three of these kind of came together in a way that they're ready to be scaled at the same time, and that's great.

## A - Brett Biggs {BIO 17414705 <GO>}

Yes, Simeon, the way you're thinking about the profit algorithm is right. And I said in my comments that this company looks pretty different than five years ago and five years from now it's going to look different again. And the comment I made in the remarks was that I do think operating income should grow faster than sales. And as an executive team as we talk through these investments, making these investments that's what we think we should do. And when you look at the -- our ability to generate revenue and profit in different ways. If you look at general merchandise business that's growing and changes the mix, as you look at contribution margins in eCommerce changing, all of that lead you to believe that operating income can grow faster than sales in the mid to long-term and that's what we expect to do as a company.

## A - Doug McMillon {BIO 3063017 <GO>}

Absolutely. We want that to happen. We think that will happen. We've got a path to make that happen and it's cool that it's happening in a different way that's sustainable.

## A - Brett Biggs {BIO 17414705 <GO>}

Yeah.

## A - Doug McMillon {BIO 3063017 <GO>}

And more digital in nature. I mean, we've become more of a digital company and that's important in the way that customers live and work and behave these days and the way you can stitch things together. I remember growing up watching other retailers, Sears comes to mind that diversified and learning in business schools, there were mistakes made.

And looking at what's happening today and what we're trying to do, the thing that's different is technology, the Internet is different, digital is different, the way you can stitch these things together is different, and when I look at the flywheel that we showed you a few minutes ago, I get really excited about the arrows that connect the dots. If we can design these things in a way that we become more of a default for certain aspects of their life because of the way we've intuitively designed things that's where the magic can really happen and that is possible today because of digital and technology when it wasn't years ago.

## A - Brett Biggs {BIO 17414705 <GO>}

CFOs don't get excited very often, but as I see this business model shaping up, it is really exciting. It's a really different look to the company. It's great.

## A - Doug McMillon {BIO 3063017 <GO>}

It doesn't feel like we're getting too far away from core. I'm not worried about...

## A - Brett Biggs {BIO 17414705 <GO>}

That's still with the cores.

## A - Doug McMillon {BIO 3063017 <GO>}

Yeah.

## A - Brett Biggs {BIO 17414705 <GO>}

Yeah, that's what's so exciting about it.

## A - Doug McMillon {BIO 3063017 <GO>}

And we've got a team today that thinks that way. Some of the talent that's been with us for a long time as well as some new folks.

## A - Brett Biggs {BIO 17414705 <GO>}

Thanks, Simeon.

## A - Dan Binder {BIO 1749900 <GO>}

Thanks, Simeon. Next we'll go to Bob Drbul with Guggenheim, and then to Steph Wissink with Jefferies following that.

## Q - Bob Drbul {BIO 3131258 <GO>}

Good morning, guys. I just had a couple of questions. I think, the first one on the flywheel, Doug, you talked about the flywheel a little bit, can you just talk about how you think it will evolve with the new businesses that you're adding beyond what you showed today. Can we start with that one?

## A - Doug McMillon {BIO 3063017 <GO>}

Well, Bob, if we're ready to talk about that we would have gone ahead and told you that that was what we were planning. But it's obvious that as you put the customer in the Middle you put families in the middle and you think about the opportunity you have, if you're the one selling them the items they buy all the time and serving up the items that they might love to discover, it just creates all kinds of opportunity.

I think, financial services as a suite is one example, healthcare leads you in a lot of different places. The idea that we can help people with healthcare in a way that makes healthcare in the country more preventative, certainly high quality, affordable, accessible is something that I think not only opens us up to all of the industries that make up health care, but also helps with their overall relationship and the way that people think about Walmart and that can lead us in a lot of different directions.

The other one that comes to mind that was on our list, but we didn't talk a lot about it is data monetization. Data is obviously really valuable and we got a history of giving our data away to suppliers. And doing that so that we could get in stock and that's obviously really important and some portions of our data will continue to be free because we need their help serving our mutual customers. But there are other aspects of our data, they are really valuable and can be put to work in ways that that we haven't before.

And the concept of building products, digital products that we can use internally and also monetize outside is a really exciting prospect. And some of those things will be purely digital, some will be a combination of people plus digital, think of last mile, for example. This advantage that we have with supercenters so close to people can be monetized in ways that we haven't before because of the speed it provides and the relationship that it provides. So, I think, in future years just as we did today we will show you this evolving business model and show you new things and in some cases we may tell you this one didn't work. We're taking it off. We're adding this one on and I think that's how it should be frankly. Go ahead, Bob. We still see you.



## Q - Bob Drbul {BIO 3131258 <GO>}

Yeah. Sorry. Just working with the mute. Two questions for Brett really, I think the first one is, can you talk about your price investment flexibility, there has been a lot of discussion from the CPG companies about taking pricing and your ability to take price. So, how do you guys fit into that and how are you thinking about it?

The second question, I think, also for Brett, with the cost of debt being where it is, can you talk a little bit about your willingness to perhaps may be take on some debt for additional share buyback or any thoughts around that would be helpful? Thanks. That'll be it.

## A - Brett Biggs {BIO 17414705 <GO>}

Yes. On price, I said our price gaps really as good as they've been, in some cases higher than they've been. We're going to continue to be the price leader in markets that's really important to what we do. It's important to our customers and it's part of who we are as a company. But we're going to be thoughtful about it. We're going to be strategic about it. It's -- we want you to come in and as a customer, as you get a basket on Walmart we want that to be the best deal you can get as a customer. That's who we are in EDLP.

## A - Doug McMillon {BIO 3063017 <GO>}

I'll just add that John and Scott and the team are thinking about rollbacks. I mean, there are going to be times this year that it will be difficult for families and we've got this history of creating rollbacks and lowering prices and some of those plans are in place with the guidance that we gave you earlier today.

## A - Brett Biggs {BIO 17414705 <GO>}

Yeah. And your question on capital obviously is a good one, we just announced the $20 billion share buyback today that we think will execute over next three years or so. We're in an enviable cash position, because of the cash flow generated because of the execution now the Asda transaction and cash coming in. It's okay to think to hold a little more cash right now. Where we always look at share buyback, the first thing we want to do Bob and you've seen it this more as we won't invest in the business. That's the first thing we always want to do and I think we're doing that to the extent that we feel like we need to to execute our strategy, our dividend, we just increased 48 years in a row. And then you get down kind of to share buyback. I feel good about our company, I feel great about the valuation of the company. And so you'll continue to they see us as you can tell by what I said this morning, pretty aggressive from a share buyback standpoint.

## Operator

Thanks, Bob. Next we'll go to Steph Wissink with Jefferies, and then Michael Lasser after that.

## Q - Steph Wissink {BIO 17692025 <GO>}

Good morning, everyone. And we also have two questions if we could. Doug, the first is for you. I was really struck by the language you are using around shifting from an option for your consumers to being their preferred choice or their preferred destination primary destination. So, can you talk a little bit more about how you energize your teams to really think about Walmart as the primary destination and maybe give us a little hint on Walmart+, where you are and some of the learnings around that.

And then, Brett, a question for you and maybe this goes back to an earlier question on the incremental margins, but if I'm hearing you correctly, your past fiscal 2022 expanding margin leverage from an expense perspective, expanding margins on the growth side from a mix and some of the alternative streams of value perspective. How should we translate that into the flow through to operating margin something better than that 30 basis points, 40 basis points a year? Thank you.

## A - Doug McMillon {BIO 3063017 <GO>}

Yeah. I'll go first, on primary destination, the supercenter does a great job of doing that and I always think of what it was like when I was a teenager, my mom was headed out the door and she would say I'm going to Walmart, what do you need? I didn't really think about it then, but looking back on it now the fact that she didn't say I'm going shopping or I'm going to a grocery store, she said I'm going to Walmart. And she bought everything that we could possibly buy at Walmart and so many Americans and people around the world do that today, and that's obviously really important.

But we didn't get that done in eCommerce in early stages. We weren't the first place you go when it's time to buy products online. We're trying to change that, obviously you've got to earn that. You've got to have the assortment, you got to have the price, you got to provide service, you got to deliver when you're supposed to deliver. All of those things have to be done and it takes some time to build those kinds of capabilities. But as we're building that the opportunity that we have is in the way that we put them together.

If the combination of the supercenter stores neighborhood markets, in some case Sam's Club and the Internet can cause Walmart in the omnichannel future to continue to be primary destination that's obviously the number one thing that we want to get done and that's a priority for us. Once you have that and that doesn't mean it's just food and consumables, people are buying a lot of hard lines or buying general merchandise. Our general merchandise share went up this past year driven largely by what was happening in stores. eCommerce obviously grew at a higher rate, but the store volume was amazing. If we can get that done it opens up all these other opportunities with the flywheel as we were discussing earlier.

Walmart+ is a component of that plan, but the number one aspect of the three dimensions we've got today for Walmart+ is the delivery of items from our supercenters. eCommerce deliveries are important, but the supercenter perishable assortment is obviously really important. And we've got a limit on how much we can pick and deliver from stores. The automation that we're investing in will help change that. And the other capacity choices that we're making will help unlock that which will enable Walmart+ to grow more.

We don't want to get ahead of ourselves and go sell too many Walmart+ memberships and have a customer experience that is less than our expectation or their expectation. So, net promoter score is a key metric for example that we keep our eye on. So, Walmart+ will grow and there may be some things that we add to it over time that are more digital in nature that enable even more membership growth. But when I think about Walmart+ the thing that I'm focused on most is the net promoter score of a Walmart+ member not the number of memberships that we're selling.

The number of memberships will work out, but let's focus on quality, as we start to scale it, Walmart+ then unlocks data that we can use to serve up items for customers more effectively, which helps us with margin mix. So that's important and something that over time will matter to the company, we're not great at that today, it's a skill we're learning. And I think in the future, it will be even more important to the company.

## A - Brett Biggs {BIO 17414705 <GO>}

Yeah. The construct of the P&L as you can imagine is pretty near and dear to my hard and it's been fun to go through the last several months with the executive team. And, again, I said in my comments, even somebody has been there as long as I have, you have to step back and realize how many levers we have to pull as a company. And now we're in higher growth markets in international and we're investing in eCommerce and exciting things in international, we're growing at Sam's. There's all these levers that we can pull. And the good thing about that is that there may be a year we pull this lever, maybe a year we pull a different lever, maybe a quarter we pull a lever, a quarter we pull another lever, but it all works.

When you look longer-term where we're really trying to control our own destiny is really important as we've been focused on operating discipline on the expense side, and we've made progress in that regard, and I still think that's going to happen longer term, I feel very confident about that. These new revenue streams are growing revenue streams and profit streams are a big part as well of giving us a different way to make money. They just freeze up even more levers and gives the company more optionality, which is so important. We talked about sales growth of being over 4% into the future that helps a lot with every data point when you get sales growing like that because even at the same operating margin percentage, you can just grow dollars and that's really what the productivity loop was all about.

## A - Doug McMillon {BIO 3063017 <GO>}

There was a time when I think a lot of people thought given our scale that we could only grow 1% or 2% and even before the pandemic, we had proven that was not the case. I mean, if you do what customers want you to do you can grow the top line and then you can manage the bottom line. So, we think what we put in place the last few years, I'm really confident will help us for a generation and that's what we're out to do. We're out to position the company for the next generation retail and we think because of omni and because of our culture and because of our progress and technology and mindset shift that we've got the opportunity to do that and we'll manage the short term, but we're building for the long term.

## A - Brett Biggs {BIO 17414705 <GO>}

But Doug if these things come together the way that we believe they will and the way we plan them, it does give opportunity for that operating margin to grow over time.

## A - Doug McMillon {BIO 3063017 <GO>}

And some of those things are scaling now. So, as we talk about fulfillment services and advertising and some of these other things, two years ago, we were just getting started or

18 months ago, I think, PhonePe is only four, five years old. I mean, some of the numbers, Judith, was covering is like topic really? It reached that scale and like four years?

## A - Brett Biggs {BIO 17414705 <GO>}

Four years ago we weren't even talking that much about a pickup business which is huge today.

## A - Doug McMillon {BIO 3063017 <GO>}

So, when I look at our situation, our flywheel I don't feel like there is anything speculative in it. We've got traction on these things, it's just that they are smaller, but the ability to grow them seems apparent if we just execute and we can execute.

## A - Dan Binder {BIO 1749900 <GO>}

Thanks, Steph.

## A - Brett Biggs {BIO 17414705 <GO>}

Thanks, Stephanie.

## A - Dan Binder {BIO 1749900 <GO>}

We will go to Michael Lasser with UBS next, and then Robbie Ohmes after that. You have to unmute, Michael.

## A - Doug McMillon {BIO 3063017 <GO>}

Michael, we can see you, but we can't hear you.

## A - Brett Biggs {BIO 17414705 <GO>}

The most uttered phrase these days, you're on mute.

## Q - Michael Lasser {BIO 7266130 <GO>}

Sorry. Thank you. Thanks a lot for taking my questions. Can you more deeply connect the investments that you're making this year and how they're going to allow Walmart to generate that 4% top line growth that you're expecting, especially because one could argue that these investments are necessary just to keep up with the changing environment for instance. Does this mean you expect to be able to maintain 20% to 30% eCommerce growth in the US business, even as you generate stable to improving sales in the US and why? And as part of this, do you expect that the wage investments to yield as much of a return this time around as they might last time around, whereas last time you were a bit more proactive and this time the environment is a little different and than I have a follow-up on the guidance for this year.

## A - Doug McMillon {BIO 3063017 <GO>}

Yeah, I think, the wage investment will pay off. And if you're one of those 4,000 people that we're talking about today, your attitude about Walmart the way you're feeling today is different. And we're asking them to do work in a different way. We're asking our associates to adapt and I think the investments we're making in them correspond to that. So, I do expect a nice return from those investments, it will help with retention. It will help with them being able to do their jobs at a really high level of productivity.

I am a little distracted by Michael's lack of an ability to shave and I'm worried about our razor sales. I'm sorry, I could not get the thought out of the mind.

## Q - Michael Lasser {BIO 7266130 <GO>}

Times are tough.

## A - Doug McMillon {BIO 3063017 <GO>}

We sell a lot of razors on the app, Michael, I think you can get one.

## Q - Michael Lasser {BIO 7266130 <GO>}

I'll be there. (multiple speakers)

## A - Doug McMillon {BIO 3063017 <GO>}

I know there is a lot of folks...

## A - Brett Biggs {BIO 17414705 <GO>}

We haven't seen some of you in a while.

## A - Doug McMillon {BIO 3063017 <GO>}

Yeah. I look forward to when we're together in person. It's a challenge to do all this virtually. I mean, as it relates to the 4% growth, we just have a lot of opportunity with eCommerce, we're not good at it yet. I mean, we're adding assortment. We're adding brands, things are scaling, the marketplace is scaling nicely. We need more investment and capacity to have the fulfillment service achieve its potential and serve customers as well as ultimately we must. So, yeah, I think the investments that we're making are going to create upside, which should translate into not just keeping up with market growth, but exceeding market growth, building on the other relationships we have with customers, including the one that's most important right now, which is the one in our stores.

## A - Brett Biggs {BIO 17414705 <GO>}

And one thing too Michael, if you think about now the international markets that we're in. They are, for the most part, higher growth markets than the total that we've had over the last several years. So, that helps as well.

## Q - Michael Lasser {BIO 7266130 <GO>}

My follow-up question is as you pointed out at the outset, there is lot of uncertainty with trying to project sales this year and this is happening at the same time you are making these sizable investments. So, if your top line result is a little bit lower than you expect, do you see outsized de-leverage in your P&L or is there room to preserve your profitability such that we should think about while there is uncertainty with the top line, there is less uncertainty with the bottom line for this year.

## A - Doug McMillon {BIO 3063017 <GO>}

Yeah, there is some room and we will manage the year as we could go through it as best we can, we've got as Brett and I talk about all these levers all the time. And gross margin is one of them, but I wouldn't want to do anything, Michael, that harms the business or slows down the strategy beyond this coming year. I think, we're going to be fine this coming year and we've done the best job we can of describing to you what we see. But we're -- the decisions we're talking about mostly today are not aimed at the next 12 months, they're aimed at the next few years and we won't lose side of that. We will stay on track as it relates to those kinds of things.

## A - Dan Binder {BIO 1749900 <GO>}

Thank you, Michael.

## A - Brett Biggs {BIO 17414705 <GO>}

Thanks, Michael.

## A - Dan Binder {BIO 1749900 <GO>}

We'll go to Robbie Ohmes with Bank of America next, and then Seth Sigman.

## Q - Robbie Ohmes

Sorry, guys. Can you hear me?

## A - Doug McMillon {BIO 3063017 <GO>}

Hi, Robbie. We're good.

## Q - Robbie Ohmes

Great to see you. Couple of questions, I guess, for you, Doug, I was hoping the multi-billion dollar ad business in the near future, I was hoping you can maybe talk about, that's a little more maybe than I was expecting, what -- where is the confidence coming from and I don't know if you can weave into it, the TikTok situation, is there anything you guys learned from that situation about where Walmart fits in within this social media platform world that you can share with us. And then my separate -- I'll ask my separate question for Brett after you answer that question.

## A - Doug McMillon {BIO 3063017 <GO>}

Yeah, I think, as it relates to advertising, Robbie. We've got a unique opportunity because of our stores. We've got all of the things available to us related to eCommerce growth and digital growth and the reporting we provide for the investors and our advertising program is there and we can show you that down the road if a customer decides to come into a physical store, our store and buy it. We can connect those dots for you. That's the unique proposition of our advertising program. And we just haven't been that aggressive with our site and app. We want to preserve the customer experience when they are looking for an item and not have ads clutter that up in a way that is going to detract from the experience. So, we're going to manage that as we drive the growth up. But as I mentioned before, there's just a ton of traction there.

What's happening with social commerce is exciting. It's been nice to have assets around the world, including in China to learn from how people are behaving as it relates to social commerce. And we think we've got an opportunity to partner in different ways with different people to connect the dot on commerce because sometimes a marketplace approach to a front-end that's driven by advertising doesn't result in the best customer experience because of lack of fulfilment or other components that make up a great seamless, fast, simple experience.

The TikTok live stream that we tried, I think, attracted 700,000 people, and that happened kind of quick. And I think we can do an even better job of bringing attention to events like that when we want to. And so the team is learning and it will -- I think, in six months, 12 months we'll look back on social commerce and we'll see more traction and we'll see Walmart playing a role in that. In some cases, that will be just a simple partnership and we'll work out the terms of that partnership and that's what I think you can expect from us as it relates to that. There is a connection back to advertising, where I think our mindset needs to be, we're a retailer first, commerce first, serve the customer first and all these other things that flow from that including the monetization of data and advertising will be secondary and tertiary to the number one thing.

## Q - Robbie Ohmes

That's helpful. Thanks. And then, Brett, I was hoping you could, if you take the US eCommerce business and take away alternative profit streams and just look at the profitability per transaction across the US eCommerce business. Did that -- how did that look this last fiscal year versus previous years. And then maybe automation and a lot of these investments you're making, do they improve the profitability of the transactions or is that more about driving revenue growth in digital?

## A - Brett Biggs {BIO 17414705 <GO>}

Yeah, it's, Robbie, we've talked about several things over the past few years, several things we look at when we look at that eCommerce P&L, which is a very integrated part of the US P&L. When we look at contribution margin and that's improved, this year it's improved the years before that. And so that's a big reason of why we've seen losses reduced in the US eCommerce business. But also on the logistics side, the cost of ship, the variable cost to ship has continued to improve and these investments are there -- I would answer, yes, to all of what you just asked, is they are there to drive revenue, they are there to drive efficiencies, they are there to drive better customer service and better customer experience, it's all of that and that's what's great about these investments. Is there just -- there's -- all of the pieces that we need from the eCommerce business, it fulfills that.

## A - Doug McMillon {BIO 3063017 <GO>}

The growth in marketplace was a big deal too.

## A - Brett Biggs {BIO 17414705 <GO>}

Yeah.

## A - Doug McMillon {BIO 3063017 <GO>}

I mean, the first party contribution profit got better and then marketplace scaled which helps Linda whole thing together. And Robbie, it's kind of reminiscent of how we managed mix back when I learned merchandising to begin with. We had items that we made higher margins on and items we made lower margins on. Today, we're just doing the same thing, it's mix management. But we're not only manage category mix but we managed channel mix with 1P, 3P all the components that we're talking about, which I think is helpful as it relates to our structure now. The omnichannel approach gives people an opportunity to manage things across and that's how they should be managed.

## A - Brett Biggs {BIO 17414705 <GO>}

Thanks, Robbie.

## A - Dan Binder {BIO 1749900 <GO>}

Thanks, Robbie. We've got time for just one more question. We'll go to Kelly Bania with BMO Capital Markets.

## A - Brett Biggs {BIO 17414705 <GO>}

Hi, Kelly.

## Q - Kelly Bania {BIO 16685675 <GO>}

Hi. Can you hear me okay?

## A - Brett Biggs {BIO 17414705 <GO>}

We can.

## Q - Kelly Bania {BIO 16685675 <GO>}

Perfect. Just wanted to ask another question on US eCommerce, maybe following up a little bit from Robbie's question, when we look at US EBIT dollar growth, it was about $1.6 billion to $1.7 billion this year. Can you just help us understand a little bit the magnitude that eCommerce, the improvement in eCommerce losses contributed to that, could it be a third or more?

And then I guess, Brett, you talked about reaching maybe $100 billion globally, I think, that was in eCommerce over the next few years. So, it sounds like maybe 15% to 25% growth. But can you talk a little bit longer-term about what mature margins could be there and as you think about advertising financial services marketplace, what is part of that as you think about US eCommerce margins or maybe those are separate?

## A - Brett Biggs {BIO 17414705 <GO>}

There is a lot in those questions, Kelly. We -- as you look at the profitability increase in Walmart U.S. because last year there are so many pieces of that. There is improvement obviously 8.6% comp sales help a lot, all the way down the P&L. Gross margin rates with improvement in mix as Doug was talking about general merchandise. We had a lot of increased costs over $4 billion in costs globally as a company related to COVID. So, it's a little tough to parse out all of that. And eCommerce business is becoming even a more integrated part of what we're doing in the stores. But eCommerce losses did improve significantly during the year.

As we think about going forward, what I had said in my remarks is that we expected $100 billion in global eCommerce over the next couple of years and could see $200 billion a few years after that. All of these -- we'll go back to the comment I made about levers and we certainly think about and we know the pieces of the business and what the profitability of each one and that's important. But we are looking at that total, and how do we grow the total. Hence -- we wouldn't be going into these businesses, any of these businesses, we didn't think they were going to be profitable long-term, but each business serves a purpose and it serves potentially a different purpose at a different time.

So, all of this goes into how we think about our financial algorithm, but having that 4% top line growth, having operating income grow faster than sales, that's the algorithm, how we get there can change over time. And I think that's a great that it can change over time that we have that flexibility to do that.

## A - Dan Binder {BIO 1749900 <GO>}

Thanks, Kelly. So, that wraps up our first Q&A session. We're going to take a brief 10-minute break and then we'll resume our program. Thank you.

## A - John Furner {BIO 19351533 <GO>}

Good morning. I'm never been more proud to talk about what's happening in the US. And let me start by thanking the team; our store associates, our people in fulfillment and distribution centers, our drivers, our technologists, and corporate associates. Our people stepped up these past months like never before. And they helped their fellow Americans get food, medicine, essential supplies, gifts for holidays and birthdays, and even items to start new hobbies. And now, they've distributed COVID tests and they're doing vaccines.

I was in stores throughout the year, and it was just incredible to see how our people work so hard through so many obstacles; the pandemic, civil unrest, natural disasters, accelerated customer volume, constant changes to laws and regulations, and staffing disruptions due to leave that were understandable, but it did affect operations. Yet, amid all of these challenges, we still reset layouts, managed availability, and we improved quality.

This is a picture of what we refer to as Produce 2.0. Our team was able to implement this last year, and they did a great job maintaining the department all year with quality and availability. And there were other parts of the store where we struggled with being in stock. But we saw improvements in the recent quarter and our results reflect that. The in-store experience, it's the foundation of our business, and I've seen a lot of progress recently, specifically in the last quarter.

Of course, we also saw major changes to customer behavior last year, including nearly three times the digital growth we were expecting before COVID. And we believe that represents lasting permanent change. And that's why we think this is the time to invest more aggressively in our supply chain, in automation, in technology, and in our people, specifically, those in omni roles as we shared today.

And we're showing you the flywheel, so you can see why we feel empowered to make these investments right now. Our overall business is becoming healthier and we have billions of dollars in opportunities that when scaled can drive the returns we need. Yes, our investments are about adapting to our customers want to shop. But look at our flywheel and understand that is more than that. We are investing to grow.

Looking at the center of the flywheel, our top priority last year outside of COVID concerns was to become even more customer-driven and we've done that. We combined our apps and many of our services together. We redesigned stores, we launched Walmart+, a valuable and unique proposition that's simplifying customers lives. And for the past year, we've been working as a combined organization, one merchandise org, one supply chain org and one finance org for all the items Walmart sells with corporate incentives that are aligned and reflect that. We are now one business representing how the customer sees us.

And we're now better able to identify and attack problems from the mindset of the customer using whichever assets make the most sense. For example, the bag you see in that porch contains items someone ordered from our traditional walmart.com site just a few hours before. We have algorithms that tell us when a customer's walmart.com order includes items that are sitting in their local store and when it makes sense we just pick those items from the shelf and we use our last mile network to drive them right to the home. And most customers are very surprised the first time this happens, as they are expecting everything to come in a box a couple of days later.

3,000 of our stores are now doing these deliveries and they have added density to our last mile business and helped accelerate it. And think of the savings on something like a television that we're now able to deliver from a store, a few miles away instead from an FC several states away. And for years we said that one of our biggest advantages was having 100,000 of the highest demand items within 10 miles of 90% of US households. And this is a way we're better leveraging that advantage to serve our customers.

Now at looking at primary destination, I'll add last year we saw the power of EDLP in great items like never before. We just delivered an 8.6% comp for the year. We had a historic fourth quarter that was just shy of $100 billion in sales. Now, it's amazing to think about that because in 1993 the year I joined Walmart, we reported about $55 billion in sales for the year. Well, last year Walmart grew $40 billion and in the US alone we grew $29 billion more than half the volume we reported back in 1993, my first year. And very different from my first year 1993, last year, we picked up almost 6 billion items for pickup and delivery and we were recognized as the most downloaded US shopping app.

The reason you see arrows on the flywheel is that it's mutually reinforcing, primary destination is fundamental, then we grow by deepening and expanding that relationship. We see two fundamental paths to expand merchandise. One is delivering almost all the supercenters straight to customers' homes. This is especially important as Walmart+ grows. The proposition will be and should be that you can have almost anything we sell in stores delivered within hours.

The new delivery capability I mentioned is a big step towards getting there. Path two is using walmart.com to expand way beyond the supercenter in a way that's healthy for the long run. And we've made a lot of progress adding brands such as Lee, Reebok, DKNY and S'well. And this year we will add many more, some iconic names that I'm very excited about. We have 13 general merchandise private brands that would be classified as billion dollar brands and three of our apparel lines are $2 billion brands.

We're seeing some strong initial progress from the combined merchant organization, our customers and merchants are now able to benefit as our merchants think about all of our channels, stores, pickup, delivery, first party and third party and that's led to new brands and better buying. Walmart.com contribution profit rates for categories have been up year-over-year, each and every month since we combined and we expect that that will continue.

Our furniture and mattress business, for example, continues to be one of our top profit driving categories across walmart.com and it continues to grow. And we've seen a multiplying effect for things like accessories, customers who buy mattress on walmart.com are more likely to buy a mattress cover or sheets in the store. We put new emphasis on building out a trusted world-class marketplace business that dramatically expands our product and services. We've got a lot of momentum and we plan to accelerate it through strategic partnerships with Shopify, ChannelAdvisor and PayPal and we're working with Judith's team on an international platform to reach customers and sellers outside the US.

Health and wellness and financial services are on this part of the flywheel because they are adjacent to our core business and it's a natural fit with customers. We now have 20 Walmart Health Centers and with more in the pipeline. And looking at monetizing assets, the marketplace business I just mentioned is a huge opportunity because of what we can offer sellers. We have big goals with Walmart fulfillment services and with Walmart connect, our advertising business we have a multi-billion dollar opportunity when you consider our reach. Our website and app, our TV walls and self checkouts and our ability to help suppliers place ads outside the Walmart ecosystem.

Five years from now, we expect to be well within the top 10 advertising platforms in the US ahead of big players like Hearst, Fox and Twitter. And Walmart is one of the biggest buyers of media in the country. We understand the relationship between advertising spend and business returns so we know what marketers want.

In terms of the flywheel, the Connect model will grow as other parts of the businesses grow, because we can do things like help marketplace sellers reach target audiences, creatively place targeted ads and buy buttons on digital platforms, and this is something that's happening a lot in other markets, but it's totally under developed in the United States. And as Walmart+ drives loyalty and brings more data, we can help brands create new ads and experiences for our members.

We're also very excited about our last mile delivery business. We're now doing about 1.5 million deliveries each and every week from stores, which is more than seven times what we were doing a year ago. We're doing this through a combination of our own Spark Driver platform and third parties. We're quickly getting items to customers and we expect to see delivery costs to continue to go down as we build volume and density.

And I'm sure you've noticed this flywheel is based on foundational components that have always been a part of our DNA, in particular EDLC. We're working with a number of suppliers on next generation fulfillment technologies and we're scaling what's working. In our supply chain, we're using robotics to pick and palletize items by store, department and aisle. And this has helped both with productivity and in-stock.

In stores, we're very excited about our market fulfillment centers, which store and pick both refrigerated and non-refrigerated items. We've actually expanded our picking capacity stores in the past year, but we still have room to grow. But market fulfillment centers make the process significantly faster and more profitable. They move a significant amount of the picking off the sales floor allowing us to do more within the box. And one of these fulfillment centers can serve a large area spanning multiple communities, and we're now moving to scale these locations and we expect to have over a 100 of these within the next couple of years. And at some stores, we will carve out existing space for them, at others we will add-on and some will build stand-alone units.

And there's a lot of good work with packaging and we're also building a supply chain engine to anticipate demand specific to the locations and times. There are literally billions of dollars of opportunities on the table here. And I'm also proud that we have so many members of our technology, product and design teams focused on building tools for our stores -- our store associates.

Now you may remember me talking about Ask Sam, an app that we developed when I was at Sam's Club. It let's associates speak questions into their handhelds and get immediate answers that in many cases save them a trip to the backroom or across the store. We've rolled out Ask Sam at Walmart and one metric that shows you just how much our associates like this app is that when once someone starts using it, they ask an average of 10 questions a day.

And the last part of the flywheel is reinvesting in the customer value proposition. And that's the whole point of this flywheel, how we create the growth and profit pools we need to be an even better retailer. We'll keep innovating and we'll keep investing where we need to including and our people. In the past year, for example, we doubled the number of our store associates supporting omni-initiatives. We restructured to a team-based model, it's more aligned with an omni-focus, and we've continued to invest in wages. Today, I was proud to inform more than 400,000 people that they're getting a raise. And I know this will lead to an even better customer experience.

I'm really excited about our strategy in the future. It's a tremendous opportunity to have the largest retail business in the US, growing sales with profitable billion-dollar businesses inside it and to be moving as quickly as we are right now. In just the past six weeks, for example, you saw us create a FinTech startup, announced the expansion of fulfilment technologies in stores, rename and expand our advertising business, launched delivery from our 3,000th store and begin scaling vaccinations to do more than 10 million doses per month. We're moving fast, but we have to move fast and we're making the investments we need to move fast. But we hope you see today that we're doing it in a strategic and healthy way. And in a world full of friction, we're making life easier for people in a way that's authentic to Walmart. Thank you.

## A - Judith McKenna {BIO 4806787 <GO>}

Thank you, John. It's great to see how the flywheel is working and generating continued momentum in our US business. Today, I want to talk about two things, the universal applicability of the flywheel to our international businesses with a particular focus on Mexico and India. And also talk about the changing shape of our international portfolio, but you can't talk about our businesses without first saying a massive thank you to our 700,000 extraordinary associates in Walmart International. They have stood tall during the last year and served our customers when they needed it most. They are true heroes. And in all of the numbers and strategies, you'll hear from us, they are the real story in every corner of the Walmart world and they make our business possible.

This has been a strong year for the International business, we have delivered strong results. We have reshaped our portfolio making deliberate choices about ownership for Asda, Japan and Argentina. We've created new and exciting partnerships which helped build out our ecosystems, and we have significantly accelerated growth in eCommerce. In fact, eCommerce penetration of International sales grew by almost 40% last year.

Turning first to the portfolio, we have closed on the deals with Argentina and Asda and we expect to close the Japan deal in the very near future. That's three major transactions all done virtually with virtual transition plans in place. And I want to specifically recognize the teams in each of those markets for their work this year.

A pandemic and the sale process is not easy to manage. We know that we're bringing to life our strategy of strong local businesses powered by Walmart. And one of the key points that makes our operating model unique is that we are flexible. We will find the right ownership structure to be successful in each market, be wholly-owned, majority-owned or minority stake. We're also building strategic partnerships to equity investments to support our core businesses. First, in JD and Dada in China and now Aditya Birla Fashion & Retail and Ninjacart in India. All great examples. All these structures contribute to powered by Walmart as we learn from those that we have a relationship with, be it through boards or direct commercial relationships. And that learning is already benefiting the whole of Walmart and shaping our perspectives.

The portfolio moves we've made allow us to focus our resources to invest in our growth markets and drive their flywheels. Mexico, Canada, China and India will all see investments this year. It's all part of building strong local businesses powered by Walmart. Our markets may have different structures, but what's common are the fundamentals of the flywheel to drive sustainable growth. At the core, they're all customer-centric and have mutually reinforcing assets that generate innovation, engagement, growth, and profitability.

The secret is that each one is tailored to the market, which it serves. What is most relevant to the local customer and where is the country on its development curve. Each market is testing, developing, and scaling products and services that build out a flywheel relevant to them whether they create them themselves or they adapt from other markets. Over the past year we've seen exponential growth in eCommerce. We've grown eCommerce sales in China by 89%. We've added pickup and delivery capabilities to hundreds of stores across Canada. We are seeing eCommerce growth in Mexico of 171%. We're processing over 1 billion monthly payment transactions in India with PhonePe. And our recent launch of Flipkart Wholesale, we brought together Flipkart's core strengths in technology and logistics with Walmart India's cash and carry business to help step change B2B retail in India, creating opportunity to support millions of kiranas across the country.

Our success in eCommerce last year has been in part because of our unique global footprint, and the access to markets with some of the most innovative eCommerce and omnichannel ecosystems in the world. In 2020, best practice sharing truly lived up to its promise, bringing powered by Walmart to life, and we were able to leverage skills, technology and products and iterate in real-time to serve our customers.

Around the world, we're making progress at every stage of the flywheel and especially in Mexico where it's been a year of true acceleration. I talked last year about the strength of Walmex and thank you to those of you who followed up after that. It's been another strong year for them. Remember, this is a public company listed on the Bolsa and earlier today we presented Walmex results and strategy plans to the market. Walmex is a scale business serving more than 5 million customers daily from nearly 3.5000 stores and clubs across Mexico and Central America. Gui and his team have done an outstanding job in an incredibly challenging year with the pandemic and other natural disasters significantly impacting Mexico and Central America. And they have still delivered, high growth, strong margins and a very strong ROI.

Walmex has always been good at boldly innovating within the market. First, with Bodega then bringing Sam's Club to Mexico and now with eCommerce. They are putting in place the elements of the flywheel and seeing results. But I asked Gui to tell you in his own words about the business.

## A - Gui Loureiro

Thank you, Judith, and good morning, everyone. Let me begin with our results for calendar 2020, which we just shared with investors in Mexico this morning. This has been a challenging year for our business and I'm very proud of the way our associates rose to the occasion. They delivered great results. We saw total revenue increase 8% year-on-year in Mexico. We were able to grow 130 basis points ahead of competitors. eCommerce sales grew 171% and will reinforce our leadership in online grocery. Disciplined cost control allowed us to grow our more than $1 billion eCommerce business while we improved NPS and profitability.

We also innovated to expand omnichannel and last mile capabilities across our fleet. Before I go on, I want to remind you of who we are today. Walmex is the largest private employer in Mexico with nearly 200,000 associates across the country. We have stores within 10 minutes of 85% of Mexico's population in the top metro areas and we are a major contributor to the Mexican economy. We have unique strengths that position us to become Mexico's leading omnichannel retailer. By now, you are familiar with the flywheel, and I'm going to spend a few minutes showing you how our flywheel works in Mexico.

At the very top, we are focused on winning the primary destination. The shape of retail is changing faster than ever and we are growing differently than before. Our new Bodega stores continue to be a driver for us. Our growth engine has been strong, efficient comp growth. Last year, that was 6.7% with nearly 3% of that come from our growing omnichannel capabilities. We continue to innovate and move with speeds to serve our customers better.

We reinforced our omni business by enabling 586 on demand stores, 1,349 pickup locations and 1,128 kiosks and we build 63 stores, opened three new distribution centers and rolled out our Spark last mile delivery program to almost 30 store. We also invested to add capacity to our supply chain and drive automation. Going forward we will double down on each of these fronts.

As we move through the flywheel, our next step is to further extend GM assortment. This year we will significantly increase the number of sellers in our marketplace, first focusing on local then develop through cross border trade, at the same time we are creating mobile financial solutions that will further link customers into our ecosystem for payments, credit and remittances.

This year we will give customers the ability to load their digital wallet with credit and debit cards and choose it as a payment method in our online business. This is a natural build on our omni business that helps us solve another customer pinpoint, speed of payment and money transfers. Moving around we see cost control and new revenue streams adding further momentum to the flywheel.

EDLC and productivity have been core to our business from the beginning. This year we launched Smart Spend, which allow us to leverage learnings across US and International markets. And we are excited about the potential for a high-margin advertising business

Walmart Connect, which we expect to grow by 60% in the coming year. All this comes together as we invest into our core customer and associate value propositions.

Customer expectations took a giant leap forward in 2020. Thanks to the resilience of our team and the flywheel model we had the resources and the agility to accelerate our strategy and leap with them. Back to you, Judith.



## A - Judith McKenna {BIO 4806787 <GO>}

Gui, thank you. We're proud of what you and the team are doing and I'm excited to see your flywheel gain even more momentum as we go through 2021. Now, I said I would come back to India and while the flywheel specifics of Flipkart and PhonePe are different to the ones that you've heard about earlier, the concept is just as relevant there as anywhere, with a customer-centric ecosystem central to success. It's 2.5 years since we invested in Flipkart and the fundamentals of why we invested remain unchanged and we continue to be impressed and we're learning a lot. I am more confident than ever in the work that they're doing to serve our customers in India and they are building a strong business and helping support economic growth right across the country.

Flipkart and PhonePe have risen to the challenges of the health crisis and with digital adoption in all its forms accelerating in India both have emerged stronger as we entered into 2021 than when I last spoke to you in 2020. Flipkart saw more than 250 million customers over a five-day period during its recent big billions day event, and PhonePe has just reached that milestone of 1 billion monthly payment transactions.

Both businesses have consistently delivered against our expectations. Flipkart and PhonePe are part of each others ecosystems, but they are separate businesses. And we recently completed a partial spin off of PhonePe that will see each business get its own Board of Directors and give each more independence. So, let me first look at Flipkart.

Flipkart's GMV growth was impacted by 53-day shutdown in the first half of the year. But the business rebounded and exited Q4 with strong momentum delivering GMV growth roughly double that of the full year. This is a credit to the resilience and the agility of our CEO Kalyan and his team, who were able to pivot and continue to drive growth recognized in the role that they had to play in serving customers, and at the same time, they strengthened the core business to be more resilient.

That agility is not surprising to us because Flipkart is a tech company with customers at its heart. This is a rapidly expanding eCommerce platform with a growing suite of bundled services, a market leading position in categories like fashion, electronics and appliances, and a promising ad tech and wholesale businesses.

We believe that Flipkart is positioned to win India's eCommerce future. And I caught up with Kalyan earlier this morning to share more about the opportunity in India and how the team is innovating and building capabilities to deliver their priorities this year. So, Kalyan, India remains one of the most promising growth markets in the world for retail, but I'd love to hear from you in your own words, what makes the market so special?

## A - Kalyan Krishnamurthy {BIO 19972410 <GO>}

Judith, India has roughly 1.4 billion people today, 34% of the population are millennials, young people. By 2030, there is an estimate that this young population of millennials and Gen Z will be 75% of the total population. 700 million Indians are digital today and I also want to just quickly acknowledge the Digital India vision of the Government of India, which has actually enabled this. So, you have a unique combination of a big market completely digital, getting wealthier and very young.

Let me just quickly talk about the eCommerce opportunity also in India, which is a result of the Digital India vision, a few years back there was an estimate that by 2025 the eCommerce market size in India will be $50 billion to $60 billion. I just read a report from consulting firm Bain & Company that by 2025, the latest estimate is actually $90 billion to $100 billion that is the real opportunity we are looking at in India today.

## A - Judith McKenna {BIO 4806787 <GO>}

It's remarkable isn't it the step change that's happening and has happened and we could see that when we invested three years ago. But what I've loved saying is how Flipkart has grown and lent into that shift in behaviors really, what is it that makes Flipkart so uniquely suited for this moment?

## A - Kalyan Krishnamurthy {BIO 19972410 <GO>}

Judith, let me just first give a headline on Flipkart. We are a company built by Indians for Indian consumers. Roughly 300 million customers shopping 150 million product listings across 80 categories. We are the leading product marketplace in India today. Flipkart is known for local innovation. If you just look at the last seven to eight years in commerce in India, in general, I would say, a huge number of innovations across commerce in the last several years have come from Flipkart. And Judith, this is not just in one area, when you open the Flipkart app to shop everything you there -- see there, just the access, searching for products, digital payments and the way you receive products, everything is innovated for the local Indian consumer. That's what Flipkart is all about. Very quickly just talking about some innovations which we are very proud of which just happened in the last couple of years. Flipkart today offers five native languages in which you can actually get access to the product catalog of Flipkart. We recently also launched voice-enabled shopping, which is very unique in India today. So these are some of the big innovations which we've done in the last few years, Judith.

## A - Judith McKenna {BIO 4806787 <GO>}

Yeah, I just love the innovative nature of this and the fact that you're absolutely designing what's right for the Indian customer. But it's more than just a platform though and there's so much more to what you're doing as well, isn't there?

## A - Kalyan Krishnamurthy {BIO 19972410 <GO>}

Absolutely, Judith. I think, what people see in the world when they open the Flipkart app, it's just an app with a lot of products there, but behind the scenes, there is a few things which is really enabling all of this. First is talent, we are so proud of having the best of best of best talent in India. Actually our engineering talent, technology talent is actually a global talent sitting in India. Outside of that, if you just look at the top investment areas for Flipkart in the last few years, which will actually continue into the next few years will be in technology and infrastructure, supply chain through Ekart, which is among the largest consumer supply chains in India today.

## A - Judith McKenna {BIO 4806787 <GO>}

That's incredible, isn't it? And the way that you've used Flipkart -- Ekart and integrated it in has been amazing. And it just reminds me when you talk about innovation in some of those areas, just how quickly you and the team turn things around, you were shut for 53 days during last year due to the pandemic and I remember them well. And any of the challenges that you faced in 2020, really, you reacted so well to them and you actually finished the year even stronger than you started despite everything, what was it that really made the difference for you and the Flipkart team?

## A - Kalyan Krishnamurthy {BIO 19972410 <GO>}

Sure, Judith. That's a great question, while 2020 saw great customer adoption. We saw an acceleration in the business, but it was actually not about the business in 2020, it was all about safety and partnerships, and once again we were really inspired by the Government of India, they are the ones who initiated this clear-off in favor of safety. We worked with our employees, our ecosystem partners and invested heavily in safety. And this is not just financial investments, infrastructure investments, education to all our ecosystem partners and employees on safety.

Second is, we over-index on partnerships. We were very clear quite beginning -- in the beginning of the year itself, that in a pandemic like this, actually it will be easier for bigger companies to pull this through but smaller partners, ecosystem partners of Flipkart will actually find it quite difficult to get on the other side of this. So, we invested in partnerships in a big way, we once again invested not just financially, we actually listened to them, spoke to them and understood what they really wanted. So, it was a big year for partnerships. To your specific question, we absolutely saw an acceleration in customer adoption. Customer is at the core of Flipkart and that's the way it has been for the last several years.

In the beginning of the year, we saw several new insights come up for Flipkart, customer insights and we saw some new trends emerging, which was not there before. The meaning of essential categories, people were shopping for was evolving very rapidly. So, once again, we worked with our seller partners to make sure that we have the right selection for the consumers, which is evolving in 2020. So that was another big priority. Finally, we also use this opportunity to actually completely re-architect our financials. I would summarize 2020 as a year when we got closer to our seller partners, closer to our consumers. A more trusted employee brand, and finally more financially prudent.

## A - Judith McKenna {BIO 4806787 <GO>}

Yeah. That's great. And I couldn't put it better myself. And I think what was really fascinating to watch is the way that you reacted in the moment to what you needed to do. But you really kept keeping a long-term view of how the company could evolve and grow in different ways. So, let's look forward now to 2021 that we're already in. What priorities are you thinking about as you continue to build out your ecosystem and really think about driving growth for Flipkart?

## A - Kalyan Krishnamurthy {BIO 19972410 <GO>}

Sure, Judith. Actually once again just mentioning the point I mentioned before, we are very, very good at listening to our customers. That's the core of Flipkart, and one big insight, which we've seen in the last few years is that India as an e-commerce market is evolving from trial list consumers to loyal consumers. So, one of the biggest challenges we've taken on ourselves is how to have a very strong value proposition for a loyalty program.

So, Flipkart Plus, which is a very uniquely local loyalty program is one very big priority. Second is grocery as a category is something where we want to strengthen our value proposition, especially partnering with the roughly million kirana partners we already have in our ecosystem. Fashion is a very big category in India underpenetrated digitally. So, we want to actually capitalize on that opportunity. And finally, as I mentioned before, technology and infrastructure will be two very big investment areas next year and going forward.

We are also experimenting with more and more revenue models, for example, continues investments in our advertising platform which is among the top five advertising platforms in India today. Overall, Judith, I would summarize Flipkart and India has a big, big opportunity ahead of us, of course, there are challenges but we are up for the challenges.

## A - Judith McKenna {BIO 4806787 <GO>}

It sounds fantastic. Thank you so much for joining us today. I'm really excited about what the future of Flipkart looks like and huge thank you to you and the team for everything that you've been doing through 2020 and are going to do in the years to come.

## A - Kalyan Krishnamurthy {BIO 19972410 <GO>}

Thank you, Judith, for the partnership.

## A - Judith McKenna {BIO 4806787 <GO>}

Thank you, Kalyan. We're really looking forward to seeing your progress as you bring the next 200 million Indians online. Now, let's move on to PhonePe. The Indian government's vision for digitization really comes to life when you think about payments. UPI was launched in 2016 and has enabled extraordinarily rapid growth. In fact, I recently read that the UPI value of transactions is now equivalent to 15% of India's GDP. That growth is remarkable. And as the market leader in UPI transactions, PhonePe is enabling access and inclusion for hundreds of millions of Indians right from their phones.

Last year we spoke about PhonePe's ambition to build capabilities that allow Indians to spend, manage and grow their money. So, excited to introduce Sameer, Co-Founder, and CEO of PhonePe, to update on where the business is along that journey and also talk about their focus on being an open platform innovating for our B2C and B2B customers and on developing new revenue streams.

### A - Sameer Nigam {BIO 20697326 <GO>}

Thank you, Judith. It's been another year of significant progress for PhonePe, but what stood out for me the most during 2020 was the sheer resilience of Indians during these testing times. Here is the short video showing just that.

(video presentation)

Last March, while India was under a strict national lockdown due to COVID, in true PhonePe spirit, hundreds of our employees worked together and launched the I for India donation campaign to help raise money for the PM CARES Fund. Our month long national campaign helped raise more than $6 million from 1.6 million donors. Post lockdown, our offline sales force resumed their hard work to digitize kiranas and small businesses across India. PhonePe has already added 16 million merchants to our digital payments network.

This year we have set a target of creating over 10,000 rural jobs to scale our merchant network to 25 million small businesses across all 5,500 semi-urban and rural districts in India. Last year we also started focusing heavily on building customized business growth solutions for India's small businesses and kiranas. We launched a store discovery platform on our consumer app, it helps consumers discover and chat with all the local grocery shops, pharmacies and other essential service providers.

We also launched PhonePe ATM, a service that allows small retail shops to double up as ATM centers where consumers can make quick petty cash withdrawals instead of having to visit banking ATMs that are miles away from their homes. More than 2 million merchants signed up as PhonePe ATMs in 2020. All these product innovations in 2020 have helped make our PhonePe business mobile app top 10 business category app in India that has been downloaded more than 10 million times already.

On the consumer side too, COVID-related lockdowns and social distancing needs have really accelerated the consumer shift in favor of digital payments, which is here to stay. India is witnessing unprecedented growth in digital payments adoption and our own transaction volumes reflect this growth. PhonePe now has more than 275 million lifetime registered users which essentially means that one in every five Indians now has PhonePe.

Our monthly transaction count is up nearly 100% year-over-year. Our MAU has crossed 110 million monthly users with a very healthy percent 97% monthly customer repeat rate. Even in terms of monetary value, our annualized TPV run rate has crossed the $300 billion mark. At PhonePe, we continue to be a very small lean organization that harnesses the power of technology to transform lives positively. We obsess about building simple, scalable and innovative products for every Indian. We are now applying the same philosophy to build what we hope will become India's most comprehensive financial services platform.

I'm happy to report that our mutual funds category now has users spanning over 90% of the pin codes in the country. We are also India's fastest growing insurer tech platform, having sold nearly 1 insurance policies since March 2020. We started this company in 2016 with the vision of building India's best digital payments company. Today, I'm very proud to report that PhonePe is leading in India across most key industry metrics, active users, active merchants total transactions and TPV. Back to you, Judith.

## A - Judith McKenna {BIO 4806787 <GO>}

Thanks, Sameer. The team are doing some truly amazing work. So, finally, let me reemphasize our key takeaways for International. Firstly, the shape of our portfolio is changing and we're focusing our resources on markets where we see the greatest opportunity for long-term sustainable and profitable growth, strong local businesses powered by Walmart.

Secondly, Walmart International has a unique global footprint and is able to move with speed, thanks to our access to innovation around the world. And finally, the flywheel applies no matter the shape or nature of our businesses. Building an ecosystem of mutually reinforcing assets with the customer at the center is our path to win the future of retail across International.

Now I'm delighted to have the opportunity to introduce, Kath McLay CEO of Sam's Club U.S., to talk about the Sam's Club format, which has also been a real powerhouse for us in International. I want to personally thank her and her team for their knowledge and learnings they continue to share about Sam's Club across our business. Over to you, Kath.

## A - Kathryn McLay {BIO 20989984 <GO>}

Thanks. Judith. And you're going to hear me talk today about how we're leveraging those learnings across the enterprise. This year the warehouse channel has thrived in the US and abroad. Consumers tend to warehouse clubs that could provide larger pack sizes and fewer trips. And at Sam's Club, we were ready with a strong omni foundation to serve members how and when they needed us. Our associates turned up to take care of our members and serve them in an omni way during this most unusual period.

These patents were consistent across the globe, driving growth in Sam's Club in the US, China and Mexico. In FY21, our club format recorded $75 billion in sales. We have great momentum and now we're accelerating. Today, I'm going to talk to you about our business in the US, but I'm also going to talk to you about Sam's Club in Mexico and China led by my colleague Judith and the country presidents in each market.

While they are separate businesses, we're working together in ways that make our strong businesses even stronger. In the US and abroad, Sam's Club is growing. That growth is driven by a focus on items and omni convenience. The power of the warehouse model and strengths of Sam's Club were even more evident during COVID. The effort we put into investing in tech and improving our item quality really paid off this year.

Let's turn to the US, comp sales excluding fuel and tobacco were up 15.8% in FY21 and transactions increased by 8.9%. Families also responded to our contactless omni offerings like direct-to-home shipping, Curbside Pickup and Scan & Go. Equipped with these digital tools, Sam's Club saw tremendous membership growth and hit out an NPS of an all-time high. This all added up to a banner year for membership in the US. We added six times the number of members than we did in previous years.

We also saw a 400 basis point improvement in our renewal rates. You can see how that adds up to a 9.4% increase in membership income, our greatest annual increase in six years. We're confident that we have the right offer to keep these members and attract even more while working the model to grow profits.

To explain why, let's walk through the warehouse model. Great items at disruptive prices are fundamental to the model. Sam's Club is an item business with a curated SKU range so every item matters. Our merchants are experts at finding great items that members rely on and the unexpected products that members are excited to discover. Last year, we added more than 200 national brands like Beyond Meat, Casper and Cola. This coming year we're making significant investments in digital tools that will arm our merchants with the best data. So they can predict trends and select merchandize that seems hand handpicked for our members.

Our Member's Mark private brand continues to be vitally important in all our Sam's Club businesses. We know from our data that members who purchase Member's Mark are more likely to renew. So, we want to continue to be hyper-focused on quality and innovate to build a bank of items that delight. I want to tell you about a few of my favorite Member's Mark items, let's start with our shuffleboard and dining set. This is definitely the item, no one knew they needed but everyone wants as soon as they see it. Our senior merchant noticed members were responding to multi-function items. And during COVID members were looking for at home entertainment. So, she worked with the supply to create an on-trend dining table that is not only a 12-foot shuffle board but a bowling game as well.

And with six tools, marine quality decking and an included cover for just $1,899. It is already a hit with members. There is nothing else on the market like it, but just the shuffleboard and chairs alone will cost $3,000 at another retailer. Another one of my favorite discoveries are our Danishes and they highlight our merchant's commitment to quality. I've done a blind taste test with one of our competitors and our vision wins every time. This pastry went through a complete overhaul inspired by member feedback and a competitive review of similar items across the country.

Our new recipe is exclusive to Sam's Club, we created with carefully sourced ingredients on European equipment to ensure that traditional processes are replicated. It is made with 100% butter and the dough is twisted by hand. Since we launched this recipe as a three-pack for $2.98 last summer, sales are up 270%. And with a new supplier production facility coming online, we expect to double our sales this year. Great items drive the model, but it really starts to work when our merchants and operators buy for less and operate for less, so we can offer disruptive prices. I am really proud of how our merchants and operators are working together to drive efficiencies across the club. We're simplifying our buyers to make it easier on our associates and drive productivity. For example, we streamlined our freezer cooler category by removing SKUs and increasing the number of full door presentations for on-trend items, like our Frozen Acai Bowls to reduce labor. You've heard us talk about our apps like Sam's Garage and Ask Sam, which as John mentioned is now at Walmart.

We have a lot more where that came from. We have apps for inventory management, for planning, for emergency operations, for pickup, and more. These tools drive incredible productivity and allowed us to handle unprecedented sales volume growth this year while maintaining a high NPS score. This is no easy feat. One example is the Fresh app. Earlier this year, we rolled out a major enhancement using machine learning to improve production planning of our Fresh offerings, like the Danishes I talked about earlier and other items we prepare in the club.

We streamlined the process from eight steps to three and significantly improved accuracy. We're more efficient, we sell more, and we produce less waste. And what used to take eight minutes now takes 30 seconds. All of that adds up to saved labor costs, so we can invest back in price. Now, let's talk about convenience. Earlier, I talked about our omni offerings; Scan & Go as well as Curbside Pickup and direct-to-home. All three of these offers saw significant adoption increases in FY21.

Let's talk about my favorite, Scan & Go. Looking for a safe way to shop, members flocked to this tool in FY21. Penetration for scan and go increased by 560 basis points. We built on this strength with the launch of Scan & Go Fuel in the fall. This launch significantly boosted adoption. Many members tried Scan & Go Fuel sparking use of the tool in the club as well. As you know, these products are transferable to the rest of the formats and Walmart is now using Scan & Go too, launching it as part of their new Walmart+ membership.

We will continue to innovate on Scan & Go, and you'll see us testing some exciting new features this year to make this clever tool even better for our members. I'm also proud about Curbside Pickup offer. At the onset of the pandemic, we listened to our members and launched a concierge service in just six days. That allowed our members to shop our assortment without having to leave their vehicles. Not only did this provide a critical service for our members when they needed it most, it helped inform and accelerate our Curbside strategy. We quickly launched Curbside Pickup across the fleet in June.

We have seen Curbside orders increase triple digits for the year. We've expanded our GM Assortment and we have more than doubled the capacity to meet strong member demand. Members love this service. It has an NPS of 80, a significant increase since June. We're not just focused on digital convenience though. We're committed to making the omni experience come to life in the physical environment as well.

Last year, we piloted a new look and feel in a few of our clubs. The new branding is modern and minimalist while highlighting the best things about Sam's Club, our incredible items and our omni offerings. We've already made these updates in 56 clubs and plan to hit half the fleet this year and the remainder next year. We will continue to accelerate here to maintain our leading position and make shopping Sam's Club the most convenient experience in the channel.

I want to talk briefly about ways we leverage Walmart scale at Sam's Club, and, in turn, how we export Sam's Club assets throughout the enterprise. As part of Walmart, Sam's Club can leverage best in class services and resources like supply chain, tech, and procurement. This helps us keep our SG&A low, so we can invest in digital tools and convenience that sets Sam's Club apart from the competition. Abroad, we've taken a great brand and made it successful in China and Mexico. And what we've learned in these markets helps make the whole enterprise stronger.

Our Mexico and China businesses have adopted tools that worked well for Sam's Club in the US. Mexico launched Express membership, which allows members to sign up in one minute, something that used to take 15, and is currently testing Ask Sam and our Fresh app. And we've expedited the member signup and renewal process in Sam's Club China through our WeChat mini program. We also worked together to share items that will be relevant across markets under the Member's Mark label and leverage supplier agreements to lower costs for both private and national brands.

In 2020, our global leverage program helped launch 700 new items in Sam's Club in Mexico and China. We have some really high performing clubs in Mexico and china and we expect to open as many as 30 new clubs between the two markets over the next three years. In closing, you can see we're excited about the Sam's Club business and we are building on fabulous momentum. Abroad, we will continue to innovate while building clubs. And in the US, we will remain an item business with a focus on quality, price, and assortment that continues to build on our strengths, an incredible team of associates, a winning model, a culture of innovation, and digital assets that set us apart. All of this comes together to increase member advocacy that will continue to fuel growth. Thank you.

And now, I'll turn it over to Doug.

## A - Doug McMillon {BIO 3063017 <GO>}

Thanks, Kath. Now let's talk technology. I'm joined by Suresh Kumar, our Chief Technology and Development Officer. I know many of you had a chance to meet him at last year's meeting. He has been busy. He and his team are leading the effort to modernize our tech stack, put our data to work and build new capabilities and income streams. Suresh, last year we shared our plan to modernize our tech stack. Please tell everyone about our progress.

## A - Suresh Kumar {BIO 21073281 <GO>}

Thank you, Doug. Absolutely. So last year, we talked about approach to moving faster and taking advantage of THE developments in machine learning, artificial intelligence, and other new technologies. Now, these modern technology elements will enable Walmart to move with speed, be innovative, and become more productive.

Now, we are modernizing our tech stack on an innovative hybrid cloud platform that is uniquely suited for Walmart. And I'm really pleased with the level of progress that we have made in this area on several different fronts. Now, first, we added a lot of great talent to our tech team, brought in senior leaders from across the industry. And this has really created a deep domain expertise as we start building out more modern applications.

Second, we have been aggressively upgrading our infrastructure. We upgraded more than 50,000 servers, and that's allowing us to take advantage of the latest hardware and software. Now, we also upgraded more than 2,000 stores to one gigabit per second fiber connection. And what this is allowing us to do, we can run machine learning and data workloads like computer vision and augmented reality, which demand a lot of bandwidth right inside our stores.

But more than anything else, we have doubled down on our move to the cloud. We ran 100% of our US eCommerce and Sam's customer journeys on the cloud this past holiday. And we also ended up building a data lake in the cloud and migrated more than 1.7 petabytes of data into it. And this is allowing us to run very advanced analytics in a very efficient manner.

And lastly, we rolled out our cloud powered checkout system to nearly 23,000 point of sale devices. And by the way, this is the same technology that powers the contactless customer experiences that Kath talked about in Sam's. So, this migration to the cloud really has been at the center of our modernization efforts this past year.

## A - Doug McMillon {BIO 3063017 <GO>}

That's really good stuff. To me, the highlights are the team we've assembled and the fact we stayed on schedule with all of those things during a pandemic, and you worked remotely to get it all done. It's just amazing. A lot of the work that you just described, though, is necessary for kind of the mid and long term. But we are actually already seeing some benefits from the modernization now. Would you share some of those?

## A - Suresh Kumar {BIO 21073281 <GO>}

We absolutely are. The most visible benefit was how we handled the volume surge when the pandemic started. Now, our everyday volume level started to rise, and it rose to levels even higher than our prior holiday peaks and well above anything that we had seen when we started running holiday shopping events. Now, migrating to the cloud allowed us to keep the site available for our customers while operating a lot more efficiently because we could scale up and we could scale down in a very seamless manner. Now, second, supply chain scaled very well during the holiday. We lit up over 2,500 stores to start delivering online orders, in effect, turning our stores into fulfillment mode.

## A - Doug McMillon {BIO 3063017 <GO>}

Very cool.

## A - Suresh Kumar {BIO 21073281 <GO>}

And we could do this, by the way, because we built a system that crunches millions of pieces of information to find the fastest and lowest cost mode to deliver a particular order to a very specific customer. And of course, this is a huge win for our customers and for our business because not only did we deliver to customers a whole lot faster, but also at a lower cost.

## A - Doug McMillon {BIO 3063017 <GO>}

Our store associates enjoyed doing it too.

## A - Suresh Kumar {BIO 21073281 <GO>}

Absolutely. And another big benefit of modernization and using new technologies is actually for our store associates. Now John mentioned Ask Sam, and this is an app that uses natural language processing. We've also started testing out a new app that we called Wisbech [ph], and this one uses augmented reality. What this does is it directs our associates in the backroom to very quickly identify what needs to be taken upfront. And using this app, associates are able to take only one-third of the time to complete a task which they previously had to do by scanning each and every case.

## A - Doug McMillon {BIO 3063017 <GO>}

That's huge.

## A - Suresh Kumar {BIO 21073281 <GO>}

And by the way, these are just a few of the examples that illustrates the benefit of the work that we are doing. We are enabling the business to move with speed, become more productive, and we are innovating on customer and associate experience.

## A - Doug McMillon {BIO 3063017 <GO>}

You and the team did some incredible things in 2020. For example, supporting the surge in eCommerce was amazing, but what are you most proud of?

## A - Suresh Kumar {BIO 21073281 <GO>}

So, Doug, when the pandemic hit, we found ourselves needing to deliver a new set of urgent priorities to help our associates and to help our customers. So, for example, we had to scale our VPN capabilities by 600%, our videoconferencing capabilities by over 100%. What this allowed us to do is to enable our corporate associates to work remotely without skipping a beat. Now, similarly for our customers, we delivered on features that allowed them to shop safely and conveniently, everything from contactless shopping options, COVID testing, site support, to delivery prescriptions. We launched over 100 features, big and small, to enable shopping during COVID.

What I'm really proud of is how our team continued to make progress on our strategic initiatives, our tech modernization efforts, while at the same time innovating actually with speed to deliver on COVID-related business features that were needed to serve our customers and our frontline associates.

### A - Doug McMillon {BIO 3063017 <GO>}

Yeah, your team stood tall in 2020. Looking forward, we're changing our business quickly and we're building new capabilities with tech playing a key role. What are some of the things that excite you the most?

### A - Suresh Kumar {BIO 21073281 <GO>}

So, I continue to be excited about the work that we are doing with machine learning. It's helping us both improve efficiency in the business, and it is transforming our customer and our associate experience. So, one good example is how we manage our assortment. We built a machine learning model to optimize the timing and the pricing of markdowns. And this one effort alone saved us $30 million in markdown costs.

### A - Doug McMillon {BIO 3063017 <GO>}

Awesome.

### A - Suresh Kumar {BIO 21073281 <GO>}

Now, of course, we are going a whole lot further. We are building algorithms to better forecast demand and to optimize both the location and quantity of inventory, so that we reduce the need even to have markdowns in the first place. Another key area where we applied ML is in facilities maintenance. We now have an automated system to review thousands of proposals and invoices every day, and it does it for accuracy across multiple dimensions, like historical labor hours, costs of parts, travel time.

And then the system recommends the ones to either approve or to reject. And our associates in real estate use the recommendations to increase proposal and invoice accuracy, and this has resulted in savings of at least $40 million last year. One more example is on the pharmacy side where we have been building out our data lake so that we can run ML models on top of it.

We took out millions of dollars of costs by improving our supplier agreements and by improving our merchandising choices. We analyzed agreements to see where we could buy a whole lot more effectively. But at the same time, we recommended what drugs could be added to our $4 generics program. And of course, this helps strengthen our customer offering, while at the same time improving our cost position. So I've highlighted a few areas, but the power and the potential of ML is applicable in every single thing that we do and that is something that I'm really excited about.



### A - Doug McMillon {BIO 3063017 <GO>}

Me too. And really appreciate those savings, by the way. Now, let's talk about priorities. What will you be focused on looking ahead?

### A - Suresh Kumar {BIO 21073281 <GO>}

Yeah, so Doug, last year was building about foundational capabilities, about accelerating the modernization work, to enable the business to go faster, to become more innovative, and become more productive. This year onwards, it's going to be about unlocking the future of shopping for our customers, meeting them in the shopping journey in a highly personalized omni fashion. In fact, we want to start serving our customers right when they start consuming content, social commerce.

Now, on our associate side, we want to reduce the time that they spend on activities like inventory counting, making multiple trips to the back room for stocking, picking, all of this kind of stuff so that they can focus on serving our customers. And we are focused on building systems that optimize all aspects of inventory and do that in real time. Everything from how we get inventory from our suppliers, to keeping our products in stock, to fulfilling customer demand in the fastest and lowest cost way possible. We want to enable our merchants to focus on the art of merchandising, have the systems take care of everything else.

The foundation that we have built is truly helping us reinvent how we serve our customers, how we run our business. Really excited about the potential that we can unlock. Now, as I said in the beginning, technology will enable Walmart to move with speed, be more innovative, become more productive. And we see our role in technology as powering Walmart to lead the next retail disruption. And of course, that is well underway now.

## A - Doug McMillon {BIO 3063017 <GO>}

It sure is. Suresh, thank you for everything your team's doing. Thank you for the momentum that you're building. We covered a lot today. Thank you for your time and attention. Our focus is on our customers, on people, on the families we serve. And we're excited about getting even more aggressive. We have a strong, deep team and we will execute. We will strengthen this company in a way that benefits a lot of people for a long time to come.

Now, we'd like to give you a five-minute break to grab a coffee and stretch your legs and when we come back, we'll have a Q&A session that will include Brett, John, Judith, and Kath. Thank you all.

## A - Dan Binder {BIO 1749900 <GO>}

Thank you for joining our second Q&A session today. Just as a reminder, please unmute your Zoom when we're calling you. That will go to our first question from Oliver Chen with Cowen. From there we will go to Ed Yruma at KeyBanc.

## Q - Oliver Chen {BIO 15320650 <GO>}

Hi, good morning. Thank you very much. Regarding technology, what are some of the learnings from India that will be most applicable to the US and also curious about edge computing and how that may play a role and thinking about leveraging stores and technology there.

## A - Doug McMillon {BIO 3063017 <GO>}

Yeah. Judith, you want to kick that off, and maybe John you can comment.

## A - Judith McKenna {BIO 4806787 <GO>}

Yeah. So, hi, there. I think the leverage from India is really understanding how they are building out their ecosystem. We are starting to really see the difference that they are making for India in the way that they are joining together different bits of the platform that they have gotten building out flywheel, albeit different to the flywheel that John described for the US.

We have got some interesting things happening. They are building our ad tech for example as well. This is a developing market, so slightly different to the US, but we're just about to start a trial in our Chile business using the Flipkart Ad Tech app, which is really helpful to a similar kind of market to be able to trailer out two benefits to that. The first is, of course, Chile benefits from that. But, secondly, and Flipkart learn how to produce commercial grade tech, which potentially might have a future for them as well. So, we learned a lot. It's not just about the tech but about how they approach things and about how they are building out a broader flywheel as well.

## A - John Furner {BIO 19351533 <GO>}

Yeah. Thanks, Judith. And Oliver, good to see you. Thanks for the question. Now, I think, I would just frame-up the answer by saying, one of the extraordinary things about Walmart is we're local in about 5,000 communities and that's been extremely advantageous in the last few years, but particularly last year as our teams did so much to serve communities all over the country. And this local presence has so much meaning in terms of being real in the community, our ability to serve customers in a number of ways whether it's picking up in a store, shopping in a store, using our local facilities as points of distribution, and with the supply chain investments we're making and your point on edge computing. It's a great one.

And it certainly does open up real possibilities for us considering we've got these properties all over the country, we're within about 10 miles in 90% of the population. And going forward, I think, it's a huge advantage whether it's in our core retail business or some of the other income streams that we cover this morning.

## A - Doug McMillon {BIO 3063017 <GO>}

As it relates to edge compute, Oliver, this year's focus was on increasing the pie for the bandwidth into a lot of our stores because we imagine future use cases along the lines of what's Suresh talked about just a few minutes ago with an app that you can hold up and see which merchandise to pull forward. We'll use handhelds for that for a period of time someday we may have wearables and we can imagine other enterprise users in addition to that example. And there may be excess capacity to monetize on top of that, we'll just have to see how much we need ourselves.

## A - Dan Binder {BIO 1749900 <GO>}

Thank you. Next we'll go to Ed Yruma and then to Greg Melich after that.

## Q - Ed Yruma {BIO 4940857 <GO>}

Hey, thanks for taking the questions. I guess, first, you guys have kind of layout some very rough outlines and some interesting developments in your distribution capabilities. Can you talk a little bit about micro fulfillment, the last mile investments, are you seeing a step-change in terms of the consumer that wants items delivered versus pickup and how does that change the longer-term profitability of eComm. And then as a follow-up, you guys have done a great job kind of reformulating your international mix. How do we think about contribution longer term. Now you've tipped into kind of higher growth markets. Thank you.

## A - Doug McMillon {BIO 3063017 <GO>}

John, I might kick it off just by saying we made a deliberate choice years ago to focus on pickup in the US before focusing on delivery. We were doing delivery in the UK and other markets, and Judith, we we're learning a lot from what Asda had done with delivery. But in the US, we thought, based on how large the country is and how people like to drive their cars and they do drive throughs for food and banks and everything else that we had the opportunity to really focus on pickup for a few years, which was obviously advantageous to us economically and those capabilities which we couldn't pay software from Asda to get started, which is great, those capabilities, actually, John, worthy unlock to productivity for delivery, which you're building on now.

## A - John Furner {BIO 19351533 <GO>}

Yeah, I'm really glad that that work was done a few years ago, Judith, because it created the foundation for what is enabling what we're doing today and really just step back and think about what happened with the customer last year. The pandemic changed behavior in some ways, I'm sure it's temporary, but in many ways, these are permanent changes. And customers having the ability to shop in a store, or pickup, or deliver at their schedule or an attended or even within two hours of things that we are doing all over and if it weren't for the pickup capabilities that were happening in the store, all that wouldn't be possible today.

So, we talked about the growth of the last mile delivery. And that's always just a function of volume and density and neighborhoods and the more density you have, the more economic it is to deliver an entire range of goods. But we said about listeners and you also mentioned local -- what we're calling MFCs, market fulfillment centers. I'm really excited about the capabilities that adds for a couple of reasons. One, it will increase capacity. The increased capacity also helps stores manage what's going to be done on the sales floor, and what will be done in the fulfillment center. And then those fulfillment centers, they can serve broader areas including other stores. So, the way that we're tying all the supply chain assets together with automation, and our fulfillment centers down to the last mile up to the point of delivery to and including inside the home. It's a really exciting proposition.



## A - Doug McMillon {BIO 3063017 <GO>}

The fact that we've attracted more new customers with the pickup and delivery services is also helpful. I think, there are a lot of folks who weren't shopping Walmart in the stores that once those services were available, they were excited to take advantage of them and try them and Kath that include Sam's Club where this year you've added a lot more curbside capacity.

## A - Judith McKenna {BIO 4806787 <GO>}

Yes, so we rolled it out across the whole network in June and have seen it successfully grow week on week ever since then. I'm excited to kind of explore how we can leverage synergies with Walmart from a delivery perspective, moving into the next year.

## A - Doug McMillon {BIO 3063017 <GO>}

I think, it's one of the drivers of membership growth, the fact that people could take advantage of Sam's without coming into building during the pandemic.

## A - Judith McKenna {BIO 4806787 <GO>}

Maybe just, do you want me to pick up on the international and the growth piece? I will build on the point that john was making, which is we're learning around the world from last mile delivery. The Spark platform that we have got, we got that starting in Canada. We got it delivered in Mexico. So, this is not just a US thing. This is around the world as well and the capabilities that we are building. A pretty universal and I think that's one of the unique things that we have.

And the International mix, yeah, we have done a lot of changes this last year and International, you know the Asda deal just closed this week. And we are more focused on high growth markets as well, and each of those markets is a different place in its portfolio. So, I'm excited to see how we continue to contribute to Walmart overall, but as Brett said, you will see us with the higher sales positioning than you have seen in the past. And I think also businesses that are really building out and growing for the future as well. So it's an interesting and unique global footprint that we have got, the priority markets continue to be as they have always been, with Mexico, China, India, and Canada, but also we see strength in Chile and Africa coming back as well.

## A - Dan Binder {BIO 1749900 <GO>}

Thank you. Next we'll go to Greg Melich with Evercore ISI. You are on mute, Greg.

## Q - Greg Melich {BIO 1507344 <GO>}

Sorry about that. Hope everyone is doing well in the weather there. I guess, two things, first for Brett, it's great to see CFO excited. And I guess one or two levers should we look to going forward to get the profit margin growing again into 2022 and beyond if you were to pick all the initiatives you see out there?

And then my second question, I think is for almost everybody, probably Doug, John, not really sure. If you look at that eCommerce business now, $65 billion how much of it is 3P? And as you get to $100 billion or $200 billion, how much you think that mix will change? And do you ultimately need to have your own drivers and assets to really scale the business? At what point of scale, would you need to have your own trucks drivers like in Amazon? Thank you.

## A - Brett Biggs {BIO 17414705 <GO>}

I'm glad you picked up on my excitement, Greg. And actually the question you asked is why I'm excited and very optimistic about what we can do as a company, because when we look at where we want the company to be financially, two years from now, three years from now, five years from now, there's a lot of different ways to get there. It doesn't have to take one track and that's what's so important with the other income areas that are growing significantly, Judith just mentioned International growth being more significant than it's been in the past.

There's so many initiatives going on at Sam's Club that are driving sales and profit and membership. And then go to John's area, and there's so many things from talking about, again, the new revenue streams but also the general merchandise business, marketplace, and there's just a lot of ways to get to the place we want to be. Greg, if I go back several years ago, maybe that wasn't quite the case. I just like the optionality that we have as a company. I think it's -- it just opens up opportunities for us.

## A - John Furner {BIO 19351533 <GO>}

And Greg, on your question on mix, it reminds me back years ago when we were in general merchandise businesses and the Division 1 -- what we call Division 1 stores and then we bought grocery chains and we added those together and we created this magic mix of the supercenter. And as the formula started to work, we accelerated investments up to about 350 stores a year.

And then if you think over the last 8 to 10 years or so, we had the Orange app, which we talked about, which was the copy of the Asda app. We had our Walmart.com app does have come together and that same sort of mix equation, it's really exciting to see it play out and for our merchants and we've got a fantastic merchant team. Now that they are in a position to have a category or a group of items or group of categories and be able to mix those across channels and channels being everything from 3P that's fulfilled by us 3P fulfilled by the sellers, then we've got our 1P commerce business which was strong last year and our store business, the lines are really starting to blur. And it's all about resetting how we think about the customer and offering the customer the very best experience across all the channels.

And so having having a 3P business, it's growing like it is and fulfillment services we see demand from sellers is accelerating. And we're really making sure that we think about sellers as a customer. I've been spending time on Zoom calls, unfortunately we can't have meetings together, but my team and I have been meeting with some of our largest sellers and we're listening to all the things that they need from us and we're enabling those capabilities so that Walmart can be a great platform for them, just like it is for suppliers and customers and all of our associates. So, this ability of our team -- for our team to be able to mix across channels in addition to the categories they serve is really exciting as we look forward.

## A - Doug McMillon {BIO 3063017 <GO>}

John, maybe a little bit more on last mile, our current arrangements includes Spark, our own independent contractor platform, which has been scaling and growing. We also have relationships with others that do this similar type of work. You've had some experiments going on with AV here locally there is a vehicle that's running around some experience with drones now trying different things, anything more on density or how you see last mile going forward?

## A - John Furner {BIO 19351533 <GO>}

Yeah. For sure. Look, the customer is the boss and customer is number one. We've said that for years and what we have to be able to do is deliver the way the customer needs to have a delivery done or fulfilled the way they want to and it really depends on what's going on their lives. So thinking about taking a neighborhood where we have got a number of customers who are customers at walmart, who need to stay in stock or need to be delivered to. In addition the same neighborhood will have people who are looking for a gift for a birthday for that week or they are inspired by some sort of content they saw online, whether it's someone else's platform or on our platform, to be able to have density in neighborhoods is really important.

And that includes items that will come from fulfillment centers and sellers and local stores, all of that down to the experiment, Doug, you mentioned which is we have got mans that are delivering in density here locally. We need great partners like FedEx for their runs that run from fulfillment centers, straight to people's homes. And then we are experimenting with aerial delivery, including drones.

We have done COVID tests this year in communities. We have been able to launch some new items and deliver the first units sold from stores to places with drones. And so, Greg, I think the answer is, we're going to keep learning as we go. Some of these things we know are ready to scale. We have talked about mark fulfillment centers, our last mile businesses, it's over 1.5 million deliveries a week now, which is up about seven times from last year, which is exciting. And it's a really healthy blend of service providers and the Spark platform which enables people to drive on our behalf and behalf of others like Sam's Club in the future.

## A - Doug McMillon {BIO 3063017 <GO>}

Greg, like we do with our private fleet there are loads that we want to move. There are times when we use third parties to move those. I think, there'll be a hybrid approach here. Some mix of our assets and a whole lot of relationships with others to build out the entire network.

## A - Dan Binder {BIO 1749900 <GO>}

Thanks, Greg. Next we'll go to Chuck Grom with Gordon Haskett, and then to Chris Horvers with J.P. Morgan after that.

## Q - Chuck Grom {BIO 3937478 <GO>}

Good morning. Great, Thanks, everyone. Couple of questions from me. First, for Brett, COVID costs last year were around $4 billion, curious what's the embedded run rate this year and the guidance that you provided this morning? And then also how would you size up the wage costs headwind that you also announced this morning, relative to that $4 billion?

And then second for John, on related, I'm curious how you are planning the year from a category perspective, which areas do you think are going to do well and what areas of your business do you think we could see the release of some pent up demand? Thanks.

## A - Brett Biggs {BIO 17414705 <GO>}

Yeah. I will kick off, Chuck. Good to see you. So, what we tried to do with guidance this morning, we said we are trying to give you best view we can given what we know is pull you up a little bit to a higher level. As we get down into the individual pieces of that guidance, there's a lot of different things that could happen in the year and how quickly do the vaccines take over and how quickly do we need to continue the cleaning and maintenance that we are doing that will continue for sometime, we know that.

So out of the $4 billion, there was a number of one-time bonuses that obviously is in that number and then there is a run rate in there. So, we do have a run rate going forward, obviously we have run rate on wages, getting into the details of that is not something that we're prepared to do this morning. But it's taking all of that, and looking at the variables that could cause one to go up, one to go down and then just looking at the most likely scenario and that's what we feel like we gave you this morning on sales, and profit and breaking it down further in that, just we're trying to do that this morning.

## A - Doug McMillon {BIO 3063017 <GO>}

And probably the number one thing we need to get done is we need to get the country vaccinated.

## A - Brett Biggs {BIO 17414705 <GO>}

Yes.

## A - Doug McMillon {BIO 3063017 <GO>}

So, there's a lot of effort time and attention into how we can help scale that effort. I think John, we are maybe 22 states last week, you might talk a little bit about vaccinations and the role we're playing as you talk about categories.

## A - John Furner {BIO 19351533 <GO>}

Yeah, sure, we'll. Chuck, good to see you, and Brett, the year last year was extraordinary in a number of ways, and I do want to just thank our team for being so committed to safety and cleaning and it was an enormous lift everything from sourcing mask and like we've got today putting up plexiglass in 5,000 locations, they move mountains and we really did great job they really did a great job of prioritizing associate safety customer safety and serving communities.

Now, which leads to vaccinations. We are here ready to help all across the country we've got close to 20,000 pharmacists and pharmacies ready to participate. And we've got capacity, well over $10 million, maybe up to $14 million per month that we can help to do so, we want to help to get the country vaccinated because it gets us moving back in the right direction. And the sooner we're able to do that the better it is for the economy and every part of the country.

Chuck, on your question on mix, just think back to last year, the swings are pretty wild and they had impacts that stayed with us for some time. Last year in February, we saw people buying more OTC, in March, it was a big run in grocery in the stock up phase and then the general merchandise really took off at the end of April and into the second quarter and which resulted in a very, very high number of out-of-stocks and we really struggled with conditions and in stock for a couple of months because of the surges.

So, reflecting on what's happened this last quarter, it was a strong quarter growth was up 8.6% and they're also really proud of the team that the plan we put together, they were able to not only beat the -- the plan that they had but grow at that level. While being closed a day, we were open last year. We closed on Thanksgiving Day and that had an impact. We were just short of $100 billion for the quarter and I think that just a few more hours probably would made the difference.

But if I had to make the same decision again, I'd make the same decision and I would close for our associates who needed some time off. But in this last quarter, mix was pretty balanced, the food business, the consumable business are stronger. Health and wellness had a great quarter, and general merchandise also had a great quarter, which we saw nice share gains in November, December in general merchandise. So, what happened late in the quarter was a more balanced mix of categories than probably what we saw back -- different points of the year last year.

## A - Dan Binder {BIO 1749900 <GO>}

Thanks, Chuck. Next we'll go to Chris Horvers with J.P. Morgan. And then the Paul Lejuez at Citi.

## Q - Chris Horvers {BIO 7499419 <GO>}

Thanks. Good morning, and thanks for all the information. So, first, a question for Brett, and then I'll have a follow up on PhonePe. So, in the 4% plus sales contract beyond this year, how do you think about the Walmart U.S. comp? And bigger picture, historically, you've been sort of a mid single-digit type earnings grower, is the message today that with faster sales growth and the potential for more margin expansion that we could be thinking about more like a high single-digit type earnings algorithm long-term?

## A - Brett Biggs {BIO 17414705 <GO>}

Yes, Chris. Good to see. As you think about the 4% given the size of the business in US, you're not going to get to that number with pretty good growth in the US and you're seeing a lot of the capital that we're putting forward in fulfillment, innovation, automation, making sure that we can grow the top line in the US as quickly as we can. That's what we want to do. But having said that, International still being a big part of the business and having now a higher growth mix inside of International, that also helps as well.

On the profit side, as I said this morning, we expect over time to grow operating income faster in the sales and that's what you should expect from us, as investors. There is a lot of different ways to do that. One of the things that I believe will look a little different going forward is the pieces on gross margin and higher-margin businesses. These evolving and growing new businesses we have higher margin mixes, general merchandise business getting stronger, helps mix that out as well as our contribution margin gets better in eCommerce that helps us well. So, it's all these pieces starting to come together that gives us the opportunity to grow operating income faster than sales, which has been a little different than we've been in the past few years.

## Q - Chris Horvers {BIO 7499419 <GO>}

Understood. And then as a follow-up on PhonePe. Can you talk about, we have longer-term thought process there on the strategy. Are you thinking about this as an opportunity to scale it globally to take some of the learnings back to other markets. And so thus it's a longer-term commitment, or do you see this over the long term as a monetization that provides fuel to reinvest in the core business. Thank you.

## A - Judith McKenna {BIO 4806787 <GO>}

Hi, Chris. Listen PhonePe is an amazing business in its own right. It's -- Doug, and I were just reminding ourselves, it's just four years old and this time last year, when we were talking to all of you, I was wowed at the fact I could say it was doing 0.5 million -- 0.5 billion -- sorry, 0.5 billion transactions a month. And now I'm talking about them doing a billion. I think that just tells you the scale and the way that it's growing. We are really excited about what the long-term future for PhonePe looks like. They are continuing on that strategy, which is send, spend, grow, and manage. And we're supporting them through that strategy, as well.

This has been a year where they consolidated and really thought about India. It's been a remarkable year in India overall and digital adoption in all its forms have stocked on, in particularly, on digital payment. So, they are very much focused on the Indian market. At the moment, what the future looks like, they are helping us, advising us the markets like Mexico. But at the moment we want them to focus on India.

The thing I think that we did this year which is interesting for them is we did a partial spinoff for them. And the reason for that is we have two amazing business with Flipkart and PhonePe and what we were trying to do is set both up to maximize their potential in the long term. So, they can both build value. They can also really think about having dedicated capital which helps growth opportunities. Now, PhonePe is monetizing, as it goes through this. Like have you heard consistently today, it's got an ad tech platform, many of the new areas such as mutual funds and such as insurance are accretive to them. But they are still in a growth phase at the moment. And one of the things actually that we shouldn't overlook and what we did this year is that we have now been able to create their own ESOP for that business which best aligns them and the management team to what the future for them will look like. So, we are -- we are very much interested in the long-term for them, but, yes, there will be a lot of learnings around the world.

## A - Brett Biggs {BIO 17414705 <GO>}

And this time last year when we were talking to all of you, I was wowed at the facts, I could say it was doing half a million -- billion, sorry, $0.5 billion transactions a month. And now I'm talking about them doing $1 billion. I think that just tells you this scale and the way that it's growing. We are really excited about what the long-term future for PhonePe looks like. That continuing on the strategy, which is send, spend,grow, and manage and we are supporting them through that strategy as well. This has been a year whether it consolidated and really thought about India.

It's been a remarkable year in India. Overall in digital adoption in all its forms of stucked in particularly in digital payments. So that's very much focused on the Indian market. At the moment, what the future looks like they're helping as advising us in other markets like Mexico. But at the moment we want them to focus on India. The thing that I think we did this year, which is interesting for that is we did a partial spin-off for the -- and the reason for that is, we've got two amazing businesses with Flipkart and PhonePe, what we were trying to do is set both up to maximize the potential in the long term.

So they can both build value they can also and really think about having dedicated capital which helps those growth and opportunities now PhonePe is monetizing as it goes through this like you've heard consistently today. It's got an ad tech platform. Many of the new areas such as mutual funds and such as insurance are accretive to them, but that's still in the growth phase at the moment. And one of the things actually that we shouldn't overlook and what we did this year is that we have now been able to create their own ESOP to that business which best aligns them and the management teams to what the future for them will look like.

So we are very much interested in the long term. For them, but yes, it will be a lot of learnings around the world.

## A - Doug McMillon {BIO 3063017 <GO>}

I think, financial services is core and then we got a great opportunity in India. We've had a financial services business, obviously in the US, Mexico, Canada, other places, and it 's so integral to commerce and creates so many different use cases and opportunities to deepen the relationship with the customers save them money, which we've done well over time. But it's been more store-centric than what the future will look like and because we want PhonePe to be focused on India, primarily, we've taken a different approach in the US, John, you might elaborate more on it.

## A - John Furner {BIO 19351533 <GO>}

Yeah. So, we announced a FinTech start-up with Ribbit Capital. We're really excited about that. I think, ultimately having a great platform like Walmart where people are looking for better ways to pay and paying in omnichannel way, just really opens the doors for us to think creatively about a marketplace of products and services that are great for customers financial well-being, and that's all possible because of the underpinning of our ability to create a trusting environment where people buy their food, they get their health and wellness services including clinics from Walmart.

And ultimately, this along with some of the other businesses we talked about, which I heard in your question. We're really confident that not only we have a path forward in some of these new areas. But also, and others, we've really got to path to scale, things like the ad business. It's a sizable business that's growing fast and has a lot of room to scale and just putting us at the center of the question, why is it possible you have suppliers, you have sellers and you have customers all looking for ways to connect.

So, suppliers need services to reach customer group, sellers need to reach customers and sellers need to buy from suppliers. And at the center, that was the reason that we decided to rename our business which was we referred to previously is Walmart Media Group to Walmart Connect because it connects those three parties together where they can get on with it and have a great business together.

## A - Dan Binder {BIO 1749900 <GO>}

Thanks, Chris. Next we'll go to Paul Lejuez at Citi.

## A - Doug McMillon {BIO 3063017 <GO>}

Hey, thanks guys. Lots of attention on wages tends to be on the SG&A piece of the equation, but I'm curious if you could talk about what you see from a top line perspective in seats where there has been some wage pressure in recent years. Do you see a sales lift in those areas. And then separately, just curious how you're thinking about the top line drivers in 2021 from a store over eComm perspective, traffic versus ticket perspective. And I'm sorry if I missed it, but did you comment on what you expect in terms of e-Comm profitability in 2021 versus 2020. Thanks, guys.

## A - John Furner {BIO 19351533 <GO>}

Probably a few things in there to unpack, so. Maybe, let's start with the associates at Walmart and for years and we've been really proud of the fact that we provide career opportunities, and over 70%, almost 75% of our manager started as hourly associates. I started as an hourly associate in 1993 and we're really proud of the career ladder. And as we step back and looked at Chris, what's really happened in the last couple of years in store specifically, we're seeing that the work has changed because the way the customer shops has changed. So when Doug was talking about starting to pick up, back in the US due to its probably six years ago or so run 2015. That was a pilot an experiment. It's now a sizable part of not only how customer shop, but it's what we do every day.

So, we took a step back and looked at the store and broke the store into really four big work groups and the announcement this morning is to invest in two of the most critical work groups as we look over to the next few years and that's stocking the store, maintaining inventory levels, and I'll talk about that in just a second. And then our digital business, we're referring to it as the omni business, but it's really the pickup and dispense business, which includes dispensing to customers' cars or to delivery drivers. And so that's the way the customers are going to go. We're going to stay ahead of it. But when it comes to inventory availability. We've got to be right each and every day in stores for the in-store shopper and the picker who is trying to put in order together and dispense to a customer. And last year, different parts of the year, we had times of the year where we were proud of our in-stock position. We had other times where we had extreme pressure in the supply chain and that would include availability, surges in business, we had the stock up phase, which left us in a position of out-of-stocks for a long amount of time.

And so it's the right time for us to invest in those groups of associates and create a great career map for them. So that they not only want to come to work and stay with us, but they see future opportunities, including being a store manager, being a regional operator or being the CEO of one of the businesses. So, what we're trying to make sure we're doing is invest in a way that it's really clear to an associate who starts at Walmart this week, what their opportunities are and how they accomplish it.

## A - Doug McMillon {BIO 3063017 <GO>}

Wage inflation, generally speaking is good for us in every country where we operate, it's good for us in the United States if a market is going up. It's also good for us if our associates wages are going up and they have more disposable income. We're obviously the first place they think off, many of them are working there every day. So, we do want to see wages go up. We just got to get the pace, right. All things considered and as it relates to eCommerce, Brett, do you want to comment on that?

## A - Brett Biggs {BIO 17414705 <GO>}

Yeah. So, as we said that's been moving definitely in the right direction. We reduced losses this year significantly in the eCommerce business and it's such an integrated part of our business. You did not mishear. We did not give guidance going forward on that. But you can imagine with the growth in profit algorithm that we laid out this morning without continued progress in that, it would be tough to grow operating income faster than sales. So, that should give you some indication of we assume that progress will continue.

## A - Doug McMillon {BIO 3063017 <GO>}

We just these days think of it as an omni P&L even more than ever. So, we're -- I think Brett's done a nice job explaining here today. All these different pieces and variables and we look at it holistically and as we've shared before, we've got a cadence that we work through to manage the financials to decide where we're going to step on the gas, where we're going to be more conservative. The eComm P&L we won't lose sight of will still track obviously GMV sales, contribution profit by category, the fixed costs. We've got great visibility into that. But the customer relationship pulls stores and eComm together. Generally speaking, we're thinking about, this is a holistic and omni business not in SILOs anymore.

## A - Dan Binder {BIO 1749900 <GO>}

Thanks, Paul. That's going to conclude our Q&A session. We do appreciate all of your good questions. Doug?

## A - Doug McMillon {BIO 3063017 <GO>}

Yeah, I'll just close by saying thank you. I mean, we know so many of you and appreciate the time and attention you paid to the company, hopefully most of you are aligned with our view, we're building this for the long term, we're going to manage the short term. There have been times these past few quarters where we've been able to have a positive surprise to the upside, we're going to go to work. We're going to execute. We're going to build for the long term and manage the short-term as we go and you guys can give us feedback and hold us accountable based on the actual results. So, we'll get back to work. Hopefully we'll see a little bit of a warmer temperature around this part of the world and get all of our stores back open and get customers back in them and build from there. Thank you, all.

## A - Brett Biggs {BIO 17414705 <GO>}

Thanks, everybody.

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