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Walmart, Inc. (WMT)

Bank of America Merrill Lynch Consumer & Retail Technology Conference



CORPORATE PARTICIPANTS

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

MANAGEMENT DISCUSSION SECTION

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

Okay, everybody, we are going to get started with the keynote lunch presentation. We are, obviously, very pleased to have Brett Biggs, the EVP and CFO of Walmart stores here with us today. Brett's been with Walmart since 2000. He's had several key roles there, EVP and CFO of Walmart International, CFO of the Walmart U.S. division. Obviously, he also worked as both the CFO and SVP of Operations at Sam's Club. He was SVP of International Strategy and M&A. I'm going to leave some of the roles out because the list is really long, but I wanted to highlight some of Brett's other interesting roles. He's on the board of MANA, a nonprofit focused on children's malnutrition in Africa. And he serves on the Board of Trustees of the National Urban League and the Board of Regents at Pepperdine University. I'm going to leave some other boards out as well, but Brett is obviously very busy. So we very much appreciate him making the time to be at our conference.

I also want to thank Dan Binder and Kary Brunner from Investor Relations for being here as well. So let me turn it over to Brett for some brief comments before we go into Q&A.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

All right, thanks, Robbie. So I have to put up the forward looking statement slides, so that our attorneys are happy. If you're an attorney in the room, that will make you happy that I put that up. And I might make forward looking statements. You're probably hoping I make a lot of forward looking statements. We'll probably keep those rather limited, but appreciate you having us here. I was telling Robbie, this is starting my fourth year in the role. And my first conference in this role three years ago was this one. It was my first conference as the CFO. And I was going back last night, looking at what I said three years ago. And a lot has changed in three years, both in the retail industry and certainly with Walmart. We were just starting three years ago to talk about online grocery. We weren't talking about Jet at that time. And so there's a lot that's changed, but it's been good. It's been a fun three years.

QUESTION AND ANSWER SECTION

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

Well, let's start with online grocery. You guided to another year of, I think you guys said, 35% growth in eCommerce.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

eCommerce, correct.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

eCommerce expectation for this year. Can you kind of walk us through with the main drivers to that is and the confidence level in that?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.



Yeah, it would be different things. We're still driving a significant amount of growth in online grocery that's part of our eCommerce number. So we have just over 2,000 stores that have online grocery. That will go to around 3,000 by the end of this year. We have 800 stores with delivery. That will basically double by the end of this year. So there's online grocery continues to be a big part of what we're doing and how we're satisfying that need and that desire from our customers to really give them an omni offering. Certainly, another big part of the growth will be in general merchandise and so what we'll ship to your home or what you could pick up in the store as well.

The brands that we've acquired over the last several years with Jet, with Moosejaw, with Bonobos, those are a good part of our growth as well. And we continue to evolve in having more and more brands online. So, we've done partnerships, as you've seen, with Lord & Taylor, Advance Auto Parts. We've done deals with Ellen, with Sofia Vergara. We continue to bring home and apparel brands onto our site, which is good from a assortment standpoint for the customers and getting them more to use our brand more often. And then, certainly, from a margin standpoint, it helps as well, so a lot of pieces of that growth number.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch



And can you remind us? On the pickup customer, when you convert somebody to a pickup customer, what happens to the way they spend with you guys?

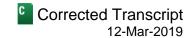
Brett M. Biggs



Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. For us, the real sweet spot is getting people to come in store and buy online. And when we do that, we get at least a 2 time multiple of how they're shopping with us. If they're shopping with us online or just in store, we get about more than a 2 time multiple with that customer. And online grocery has been one because of the NPS, I think it's the highest NPS of anything I've seen inside of Walmart in my career. And so not only do people like shopping and using online grocery, but it's changed, I think, the dynamic of how the customer looks at our brand.

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And so if they like that that much, well, if they weren't shopping with this online, maybe they'd give us that chance to shop online that they weren't doing before, but it's been a great brand halo for us, online grocery.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

Does grocery pickup become everything pickup at some point?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

We're adding more and more assortment to that pickup experience. And over time, we'll continue to add more and more. A typical supercenter has 120,000 or so SKUs. We don't have everything today that we can put into that basket. And we've got to make sure that we can pick it efficiently, we get our in-stocks correct. One benefit of online grocery has been it's continued to get our physical inventory better and our ability to make sure we have the product in stock, it's helped with that because if you tell the customer you have it in the store, you actually need to have it in the store when they show up. But I think you'll see more and more items in that basket, both for delivery and pickup. Will we get the entire supercenter in there at some point? I hope we do. There's things like apparel that are a little more tough to do from a making sure you have the size, color, assortment always there for the customer, but our goal is to get close as we can, that whole supercenter.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

And when you get someone to do grocery pickup and you obviously see that lift in their total spend with you, what kind of lift does it do to your pure eCommerce business, your sort of buy online ship direct to home? Do you get a benefit or a lift there from that same customer or...?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. There is a benefit. That kind of thing gets a little tougher to track. You can track it, depending on what tender types people use. It's a little bit a little bit tougher to track on that. But again, if we can get that customer to try that online experience with us and they're in our app, and they like what they see and they enjoy the experience, then certainly, we're going to get some benefit of next time they want to buy a men's shirt, they might say, hey, I'll check out Walmart or bonobos or someone else before I go look elsewhere.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

And then, delivery, you're expanding that to 1,600 doors, I think you said, this year.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

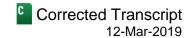
Correct.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

The key partners that are helping you do that and how much of that will be you guys doing that yourselves?

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Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

We have several partners today. And it depends sometime on the geography of where we're doing it. We're doing some of it ourself, through what we call our Spark offering. And so we have some of our own associate delivery. I think over time, you'll see as use associate delivery, potentially crowdsourced delivery, the various delivery companies. And it may depend on the strength in a certain area. We'll want to stay flexible with how we do that. There'll be parts of it that we may want to do ourselves. Over time, we may do all of if ourselves. I'm not sure, but we're going to stay flexible on how we fulfill that need with the customer.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

Want to ask a few things about the fourth quarter, the 3.3% ticket growth was impressive. Can you kind of walk us through the components of that growth, if that type of ticket growth can continue and why? Was inflation a factor at all?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Traffic and ticket, when you look at traffic and ticket each quarter, it's a little bit tough to get a handle on it if you just look at it one individual quarter. I think you've got to look at it over a period of time. So we'll have times where ticket looks better. We'll have times when traffic looks better. Sometimes it's we had a worse flu season last year and it's better this year, so you have less traffic coming to the store. Or fuel prices are one thing, they're less the next quarter and so we look at both of those. Ticket is growing some today because the mix of our business is changing some. So as online grocery continues to expand, you have a bigger basket with online grocery. You have ship to home with eCommerce. You potentially have a bigger basket there as well, so that can change the mix of traffic and ticket.

Inflation was not a big part of what we saw in Q4. There's some inflation. You really have to look at it, as you would know, category-by-category to have that inflation/deflation discussion, but it wasn't a meaningful number for us in the fourth quarter. But we are seeing a bit of mix shift in our business from the channel in which it's coming.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

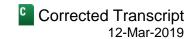
A lot of people want to ask this question. So the CPG companies are passing all these price increases on. And have you been hearing this from your vendors? You know, are your seeing cost increases show up in your stores or even at competitors? And how do you think about cost increases versus retail price increases at Walmart?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

They don't let me buy merchandise. There's probably a reason for that. But, again, it's a really specific category-by-category discussion when it comes to that. We're certainly going to have suppliers that are going to want to push through cost increases. We understand that. And there's some input cost increases that they're seeing. When you have the kind of comps that we're having right now and you put that on top of a \$320 billion business, if you can get a 3% or 4% comp, you're showing \$10 billion of growth in a year. And so it does give us the opportunity, I think, to ensure that we're getting the right costs for the value that we're building for that supplier.

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So we'll have those discussions. We want to help suppliers with their own costs. And we've done that forever in helping the suppliers be more efficient with their own costs. And so it's all of that discussion that happens.

Now, some of the discussions we were having, particularly two or three months ago, we were getting a lot of questions around tariffs. If you were to have a large tariff increase on a product, almost certainly you're going to see price increases flow through to the customer. It's not what we want to do. We're very mindful of our price gaps. We're very mindful of our price perception. We feel pretty good, in general, about our price gaps.

And all of that goes into how do we price our products at retail. And just because you get a cost increase on something on product X, you may not pass that cost increase on there. You're going to mix it out with the other parts of your portfolio. And that's what our merchants are so good at doing, is making sure that it all adds up at the end to where investors are happy.

Very dynamic and we're better at it than we were years ago. We're just much more strategic, much more thoughtful about price.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

I'll just say it this way. Will digital fulfillment always be gross margin dilutive or is there a silver lining somewhere?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

I think there is still a long way to go in how eCommerce develops. There's over the last three years, certainly since we purchased Jet, we understand that business model to much greater depth than we did even three years ago. And so, as a executive team, we spend a lot of time not just looking at eCommerce, but looking at the total business and the decisions we want to make and what's the implications for gross margin, for SG&A, for operating income two years from now, three years from now, four years from now, to try to get that to balance out.

I think it's going to get harder and harder over time to even answer that question, because the lines are going to continue to blur with our customers about how they shop in-store, how they shop online. If I'm fulfilling order X, is it really, is it fully online? But if they're coming to the store to pick it up, what's the real margin on that product? It's got to add up in a total. We certainly keep track of what the margins are in this channel, in this channel, but we've got to make it add up. I still feel really good about the ability to get profitability to where we want it long-term in eCommerce, but how we mix that out with the store over time, I think we've just got to give ourself options for that to play out in a way that's customer-friendly and investor-friendly.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

So there was an article that came out – is it last week or two weeks ago, about Amazon may be getting heavier into the grocery, buying a regional grocer potentially. I know you saw the article.

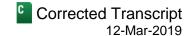
Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

I did hear about that.

Robert F. Ohmes

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What went through the management team at Walmart's brains when that came out?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

The first thing probably and it's always gone through my head, is that we have great assets. We have over 5,000 stores in the U.S. And it feels like that we have competitors now that are native to eCommerce, that are saying, hey, I need a store base. We have that. We have it. It runs well. We know how to run it. We're in great locations. And so, something that five years ago, people were talking about, hey, what are you going to do with all these supercenters and now it feels like they're asking, oh, hey, these supercenters, those are actually kind of useful, right?

So, to me, it's validating to our strategy and it's validating to me that we already have those assets in place that others are trying to put in place. eCommerce is challenging. Running a physical footprint is also really challenging. And we're really, really good at this. And we're getting better on the eCommerce side. So I find it validating of our strategy.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch



We saw some really cool stuff at your Analyst Day, some automation things, robots, stuff like that. How quickly can some of these things become meaningful or scale or...?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.



Some of the time it will depend on the technology itself and the scalability of the technology. When we lean into something, because of our size, you're going to have to have the supplier of that technology that can really ramp up with you. And so, to some degree, that is a gating factor. There's things that we try, though, that work really quickly. Scan and Go would be one at Sam's Club, that very quickly we found out that this is something the member really wants and rolled that out incredibly quickly, about as quick as I remember anything we've done. Online grocery is the same thing.

We weren't even hardly talking about it three years ago. And now, we're going to have 3,000 stores with online grocery. And that's not as simple as just flipping a switch and saying, you're an online grocery store. There's a lot of work that goes into getting that done.

So where the technology is there and where the scalability is there and the prize is there as far as efficiency, either efficiency on the cost side, or efficiency in growing sales of the box, we're rolling out things pretty quickly now when that happens. You're seeing us where we can roll out things in a year or two. There's some that's going to take longer to scale. And some of that's just with the supplier technology itself, but where it's working and where we can, we have the capital to go do that.

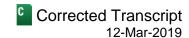
Robert F. Ohmes

Analyst, Bank of America Merrill Lynch



Okay. I want to ask about some of these alternative revenue stream opportunities. I think Doug has spoken about how Walmart could grow some adjacent businesses and things like that to generate new revenue streams. Any color or examples you can give us on that?

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Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

And October's, I believe, the first time we had talked to investors about its ecosystem. And it's certainly how you've seen some of our competitors grow up: Alibaba; Amazon; JD, which we have an ownership interest; have grown up kind of with this ecosystem. And while we haven't necessarily been as maybe as intentional about it, when you put our ecosystem up on a board, it's pretty good. We have a lot of businesses in adjacent areas. We have a big healthcare business. We have a big financial services business. So we have businesses where we have driven revenue. Financial services would be one, with what we do on money transfers [ph] and not. (15:24)

I think as a company now, you step back and say there are things that we do really well. And it always will be, but we tend to say, okay, how do I use that to become either more efficient internally or grow my own sales versus could that make a business?

I think we're a little more thoughtful now about could you make a business out of something. You've got to be careful that you can still stay focused on what you do really well. And that's serving the customer in store and online. We need to do that. But there are things that we can do, and none of which I'll talk about today, where we could have opportunities to do that.

Advertising would be one, though. Advertising, it's a decent sized business for us. We can we can make inroads in that business. I think we'll always want to find a good balance, the right balance for us with our customer, that your site is still efficient, that it doesn't get cluttered, that we continue to own the real estate on that site, but where we can and involve advertising in a way that makes it congruent with what our customer wants, we'll do that. So there are ways for us to do things differently than we have in the past.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

And I've seen some sponsored ads on your website. Is that relatively new or how long have you guys been doing sponsored ads?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

We've had advertising for a little while on our sites. We've had some things even, go back to the stores with our Smart Network and other things, so we've had some advertising in our stores, some on site, but you're probably noticing it a little bit more than you would have in the past. And we have a group that that's what they do is work on that.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

And another sort of ancillary business is the third-party business on your website. There was a time where you were adding a lot of SKUs and really growing that. I think you guys slowed it down a little bit last year. Where is that business on your website at?

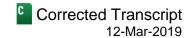
Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

We have still about 75 million SKUs in total that's third-party, first-party. We went through a period, as you mentioned, starting two years ago, we needed to get our systems right first to make it easier for sellers to come



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onto our site and make the experience good. We got that to a good point a couple of years ago and that's why it ramped up so quickly. You saw us go from, I want to say, under 10 million SKUs to around 75 million SKUs. You'll see that continue to grow. I do think there's an optimal number of SKUs somewhere out there. It's not 75 million. It's more than that. I don't know if it's 500 million. And again, it gets back to this balance with the customer, making sure the shopping experience is right. Too much choice can be as confusing for the customer, as frustrating as not having enough choice.

And so, over time, we'll find the balance that's right for our customer, but it's more than 75 million SKUs.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

I'm going to shift to, since you are the biggest employer and retailer in the U.S., are you seeing any changes in the tone of your customers? How's it feeling out there these days?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

I think it still feels good overall. I made this comment when we came out with our fourth quarter earnings. December, just the general environment in December, it was noisy, with tariffs or the stock market and other things. And you always have a concern that consumers will, even if they're not fully understanding everything, they're seeing it will just it will feel noisy to them and will change how they spend, but what we've seen the consumer, still feel good. Wage growth appears pretty good, really at all levels of the market. Fuel prices are tending to remain pretty steady. So, that's generally an upside. So, overall, I think the consumer's in pretty good shape.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

Are there anything you can tell us about impacts from SNAP or tax refunds that could affect you in 2019?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Well, in fourth quarter, we called out that there were some pull forward of benefits and that benefited us some in the fourth quarter. We'll see how that plays out in the first quarter. And we'll talk about that when we get the earnings at the end of the first quarter. Tax refunds, you're reading the same things I do. Early in the process, we were reading that it was lower. Feels like we've caught up some in that process. I think there will be a little bit of difference between middle income and lower income, how they see those tax refunds go, based on child credits and tax brackets and other things like that.

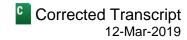
The first quarter, you've always got tax refunds in the first quarter. You have Easter going one way or the other. Depending on whether it's early or late for us, it's always in the first quarter. So that's helpful. It's a little later this year. But I think everything from a tax refund standpoint feels pretty similar than versus what we've seen.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

I'm just going to pause to see if there are any questions from the audience. If not, I will keep continuing.

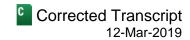
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Brett M. Biggs Chief Financial Officer & Executive Vice President, Walmart, Inc.	A
Your questions must be perfect.	~ ,
Robert F. Ohmes Analyst, Bank of America Merrill Lynch	Q
But please raise your hand if anybody wants to ask Brett a question, he is here. Back	at your Analyst Day, the
Brett M. Biggs Chief Financial Officer & Executive Vice President, Walmart, Inc.	Α
You have one back over here, actually, back behind you.	
Robert F. Ohmes Analyst, Bank of America Merrill Lynch	Q
Oh, great.	
So you talked a lot about online and mostly the U.S. business. Is there anything you convironment in India and how you feel about the regulations around Flipkart and that s	•
Brett M. Biggs Chief Financial Officer & Executive Vice President, Walmart, Inc.	A
Yeah. We've been in India now for 11, 12 years. I've been going to India for 14 years, the market there. And there's so much to be excited about in that market. Someone a and I said there's still 1.3 billion people in India and there's still a great growing middle penetration continues to grow very, very quickly.	sked here about regulations
So all of that, nothing has changed in why we wanted to go into India, is certainly what predictability of the market and the level playing field. Those are the two things that we that we're looking for, but the customer is there for us. The opportunity is there for us. excited about what's going on there.	e really want in any market
Robert F. Ohmes Analyst, Bank of America Merrill Lynch	Q
Maybe as a follow-up on India, can you talk a little bit about the, what is that, the Phor	nePe?
Brett M. Biggs Chief Financial Officer & Executive Vice President, Walmart, Inc.	A
PhonePe, yes.	
Rohert F. Ohmes	

Aspect of the business you own over there, because it's semi-separate from the retail business and some of us don't fully understand what that is, and what the opportunity for growth is there and...

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Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. We were talking about ecosystems a minute ago. When you look at ecosystems around the world, one of the things that's been fairly consistent, particularly in China, is you've seen a payments business be a big part of

that ecosystem, and, again, particularly in China, and that's you're seeing that in India as well.

As we looked at buying Flipkart, the PhonePe business is really interesting. I was over there two months ago or – yeah, two months ago and got a chance to spend some time, some more time with that team, which is a very good management team, very forward looking, aggressive, everything you would want in a business like that. So, our belief is that payments will be a big part of anything that happens in India, and particularly how mobile that society is. Mobile payments will be big in India, similar in ways of what you've seen in China. So to have a business that's one of the leaders in the market in payments is a nice asset to have.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

Can I get you to talk about the competitive environment, just how it felt in 2018 and how it looks to you heading into 2019 here?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

In the U.S., specifically?

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

Yeah.

Brett M. Biggs
Chief Financial Officer & Executive Vice President, Walmart, Inc.

It's been competitive ever since I've been with Walmart, starting in 2000. The competition is different today, certainly with online. And go back 15 years ago, you didn't have the prevalence you have today of dollar stores. ALDI has grown significantly on the discount side in the U.S. So there is more and more competition. I think that's made us better.

One of the things that hasn't changed about Walmart, in 19 years that I have been with the company, is our DNA. When I came to the company, I viewed this as almost paranoid. When I would sit in meetings, I would hear us talk about competition like we were going out of business. And that paranoia, that healthy paranoia, is still there today. We talk about things at detailed levels. If you had Greg Foran here, he would talk to you a lot about all the price comps he does and all the shopping that he does. We're every bit as competitive and I think the healthy paranoia we've always had as a company.

So competition is different. We've had to change. If we did the things we did 10 years ago and did the same things today, we'd be in a very different position than we are.

Doug has done an amazing job in his five years with the company of helping this company change. He's such an interesting CEO in that I think he's been with the company 28 or 29 years. And that's typically not the type of CEO you would have to come in and be willing to change everything, because he grew up as part of that company. But

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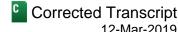


other than the DNA of our company, he really is willing to consider anything that we need to do to get better for our customers and get better with our shareholders.

I grew up in mergers and acquisitions inside of Walmart. And when I came to the company, we wanted to own everything. We owned 100% of everything. That's how we operated. Today, you see us consider partnerships and joint ventures and agreements with different types of companies than we would have considered even five years ago. So the way we're approaching business is very different. And I think it just gives us, that along with our financial strength, gives us a competitive advantage that is I think going to be very, very long run for this company. So the competition is better. But we're also better.

Robert F. Ohmes Analyst, Bank of America Merrill Lynch	Q
There's a question back there.	
	O
Thanks for taking the question.	
Brett M. Biggs Chief Financial Officer & Executive Vice President, Walmart, Inc.	Α
I lost where you are, sorry.	
	Q
Out in the back.	
Brett M. Biggs Chief Financial Officer & Executive Vice President, Walmart, Inc.	A
Got it. All right. Sorry. Thanks.	
	Q
So I think, one of the things that we've heard from some of your vendors, we've observed, I think, is that they stop supporting their brands and their margins over the last few years. So I guess two questions for you related that they shifted resources and maybe didn't support the categories as mand then second, if that	r categories as they focused a lot on to that, one, has your observation been
Brett M. Biggs Chief Financial Officer & Executive Vice President, Walmart, Inc.	Α
You're talking about their own categories?	
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Walmart,	Inc.	(TMW)
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Their own categories.	
Brett M. Biggs Chief Financial Officer & Executive Vice President, Walmart, Inc.	A
Okay.	
	Q
So you know like whether it's advertising or the things that vendors	
Brett M. Biggs Chief Financial Officer & Executive Vice President, Walmart, Inc.	A
Okay.	
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...and branded manufacturers do to drive growth. So did you sense that there was in some instances not enough support to drive categories? And if so, what did you do in response to sort of make up for that gap?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. I can't speak probably very well to your first question. It's probably if Steve Bratspies were up here, he would say it's very specific to individual vendors, so that's a tough one to answer.

I can answer the second one, the second piece a little bit, which is, particularly in U.S., we've been a house of brands and I think that will continue. I think that's what the customer wants in the U.S. I will say private label penetration's probably grown more than I thought it would in the U.S. as a whole.

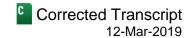
I've spent a lot of time in the UK, as probably many of you have, and half your products there may be private label. And I've always said I don't think the U.S. will ever get to that point. I still don't. But we're seeing more private label acceptance maybe with this generation that's growing up today than with my generation.

So what it's given us is an opportunity to get better in private label. Sam's Club, we went to one private label with Member's Mark. We used to have, when I was at Sam's, 12 maybe. I'm guessing, but something like that. Now, we have one and it's a really big brand and it's significant with our members.

Walmart's penetration of private label has grown fairly significantly over the last several years. We have an infrastructure in place that we didn't have five, six, seven years ago. And what it gives us is the ability when a customer wants [ph] great value, they want to equate, one, an apparel brand, (28:09) we can build loyalty with that brand and we do that.

If there is a price point or a value point that we don't see in a certain category with a branded supplier, it gives us a chance to fill in that point. It's always a balance between how you deal with the brands and still giving your customers what they want from a private brand standpoint, but we have the infrastructure now to fill in those holes that we didn't really have five or six years ago and it's good from a margin mix perspective as well.

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Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

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So, Brett, can you talk about what I think was a bit of a change for Walmart, where I think, more recently, you started talking about stores as fulfillment centers? And I don't recall you talking about them that way, even as much as recently as even a year ago. What changed in that strategy and maybe also loop that into you're also not really growing store base in the U.S. anymore? Can you help us understand the strategy shift on those two fronts?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.



Right. Not growing the store base has been a pretty big cultural change for us. I remember years where we would open or convert 300 supercenters in a year.

If you go back five years ago, we were spending \$13 billion, \$14 billion a year in CapEx. We are at about \$11 billion today, but with the \$13 billion or \$14 billion, we were 50%, 60% of that was new stores, at least, maybe two-thirds of that was new stores. Now, on \$11 billion, less than 20% will be new stores and most of that's outside the United States. So it's been quite a big shift in how we allocate capital.

There's been a lot of good come from that. As you have fewer stores that you open, there is fewer managers that you need. There's fewer people you need to train. There's less strain on your logistics system. So I think it's helped us become more efficient. As we've quit rolling out so many store openings each year, I think there has been some efficiencies. I know that there have been some efficiencies that we have gained from that. We're going to talking more about fulfillment, our stores as fulfillment centers, how we think about it really hasn't changed.

We've always thought that that could be a big asset for us over time. When you look at what's happening with the ability to serve online grocery with a store, the ability to deliver from a store is these forward deployment points that you're seeing some of your competitors try to build out and we've already got it. We just got to use the asset in a different way.

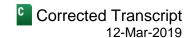
I got a lot of questions this morning in some of the sessions about how we see the use of those stores. I believe five, six, seven years ago, we were getting a lot of questions about is the supercenter format going to be an asset going forward with a question mark at the end. I don't get as many of those questions anymore because I think people now can see and investors can see what you can do with those assets, so being able to use those stores for grocery delivery, pickup. In the future, we'll have more services in those stores, for certain. And we have permission from our customer in areas like healthcare. We have permission from our customers in areas like financial services, that we'll have more services in those stores.

We'll allocate probably more room to pickup and delivery than we do today. I still think there's going to be large numbers of categories that people will want to shop in a store for a long, long time. I think there'll also be opportunities for us in the future, particularly in more rural areas, for our supercenters to really be the community hub. In many cities and towns, they already are the community hub, but there could be ways for us to use those stores even more to serve as a focal point for that community, so a lot of ways I think we can continue to use those stores.

Robert F. Ohmes



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Let me ask it this way. How would you like the investor community to think about the International business? There's a lot of different things going on.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

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Yeah.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

India's losing a lot of money, expected to for a long time. There is Brazil. Maybe walk us through how you think we should look at International?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

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Yeah. Half my career has been in International. It's where I grew up with Walmart. So, I have a good understanding of what we're doing there. I would want investors to know that we're focused, that we have some areas in International where we really can grow. Canada's a very good market for us. Walmex, probably one of the best retailers in the world and they continue to grow different types of formats, informal market converting into formal. There's still a lot of growth on the table for Walmex and they're incredibly profitable, great management team.

We've talked specifically about China and India. And when you look at basically a third of the world's population lives in those two markets, there is a lot of reason to be excited about both of those markets and what we can do, both with stores as well as online, particularly stores in China.

So I think they should think about International in those big buckets to start with, which is North America and then China and India. And when you look at just those pieces, that's big. It's a big business and it has really good growth opportunities. And there's other markets that play a role inside that portfolio, but they need to play that role, but we're going to stay really focused. And you saw us take a decision in Brazil last year. We've been in Brazil over 20 years and we took the decision to exit being the majority owner of that. You've seen what we've worked to do in the UK. So I'd expect that you should expect us to continue to stay very, very focused when it comes to International, but there are great growth opportunities there. You must be asking all the obvious questions, Robbie.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

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I am. I am. And feel free to ask a question if anybody has any. On the sourcing initiatives, can you sort of update us on anything new going on? I actually get questions about what you're doing in blockchain? I don't understand what the blockchain thing is. Can you just explain...

Brett M. Biggs

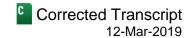
Chief Financial Officer & Executive Vice President, Walmart, Inc.

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We're learning.

Robert F. Ohmes

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...the blockchain thing and I think you might be – you're working with I know Microsoft is one of your partners on things, anything you can enlighten us on?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

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Yeah. One of the first uses we had with blockchain was on food safety. And we were somewhat of a pioneer in that. And I think like any technology, there is lot of technology available. There are places where you want to lead. There's places you don't want to be on the bleeding edge of technology. And so you've got to find the right use case. If you wanted to try to find 100 use cases for X technology, you can go do that, but it can be inefficient and the technology may not be there to go do that.

So we're looking at all kinds of technologies. Blockchain is one of those. And if it's any way that we can make ourselves more efficient internally or a different way to serve the customer, we're going to do that. We're very thoughtful about privacy, very thoughtful about how we use data, how we make sure data is secure. I have a fairly good size of the tech environment that reports up through me. So I'm becoming more and more conversant about all things technology. But there's still, there's so much we can do going forward. And there's so many exciting things out there. I think, at times, we just have to wait for technology to catch up a little bit with what we'd like to do and not get too far ahead of it. But where our customer wants it, definitely being leading edge on where our customer wants it.

You asked about blockchain, so now they know you're probably getting to the end of your question list there.

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Analyst, Bank of America Merrill Lynch

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No, I have more, but...

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

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You have more...

You skimmed over quite quickly about the UK. A lot of press articles suggesting that you might look at the private equity interest in that state. How committed are you to a UK presence and do you think those actually being a little bit of a detriment and a waste – not a waste, but taking a lot of management time for such a small part of your business?

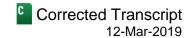
Brett M. Biggs

Chief Financial Öfficer & Executive Vice President, Walmart, Inc.

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Yeah, I mean, it's fairly small in regards to Walmart, but it's a big business. And ASDA's been a great business for us for almost 20 years now. We're disappointed, as you can imagine, with the provisional findings and we're working our way through those. They'll be more that comes out, I think, at the end of April, as the way the process plays out. And we'll go from there. We'll see what comes out at the end of April. We're working through what we need to right now. And our assumption is we were going to be in the UK market anyway. We were going to have an ownership in Sainsbury's. We were going to be in the UK market in a big way in any case and so we'll just let it play out.

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Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

So back to your point on CapEx, if you were to think about the non-store CapEx a few years ago versus today, it's increased significantly. So how do you know you're not over investing?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

That's a great question. And we spend a lot of time as a management team talking about that and with our board. So the nature of our capital has changed quite a bit. And even as you post-audit how we're doing on capital, post-auditing a store is fairly easy to do. It's kind of a finite unit. You can look at what sales and profit were and know how you were doing. As a bigger portion of that goes to remodels now and within that remodel number, it's not just the typical remodel, it's investments in customer experience, investments in making sure your broadband is large enough inside the stores, all of those kind of things. We're investing a lot in technology and in eCommerce.

So we do have to be more thoughtful about when we're investing in a technology that we have a really well thought out business case. Like I said, a fair amount of the technology group reports to me. And as people bring technology in, there's some things you're going to do for compliance and other things you need to do that and then the ROI is just what's good for society, that's the ROI or what's good for the business long-term.

But everything other than that, we talk a great deal about what are the expectations. Is this going to improve sales, how, why? How are we going to measure it? Is this going to make us more efficient, if so, when? How does it go into the budget? We're very disciplined once we make a tech decision and say, well, this is going to help us on X, Y, and Z, that when it comes around to budgeting for the next year, that that's actually getting in the plan, what we said we would do.

But it is a little more challenging than just having store-by-store-by-store investment. Having said that, I think there's so much opportunity that we're creating for the future with the investment that we're making today, that we've got to make sure we don't constrain ourselves too much on the capital side. We want to be thoughtful about it. We're always asking ourselves is it too much? Is it not enough? And we measure ourselves. And where we see things that aren't working, I think we stop it quicker than we used to. When we see things that are working, online grocery would be one of them, that we roll out much more quickly than we used to, but we're quicker to the decisions to try to ensure that we're ensuring the right level of investment. That's a great question and it's something that Doug and his leadership team, we spend a great deal of our time on that topic. And time will tell if we invested the right amount.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

Brett can I get you to talk about the pharmacy business and what the strategy is? I can't remember if it was a month ago or whenever, it looked like there was some disruption between you and one of your drug distribution partners. And then all of a sudden, it seemed to get fixed. What is the strategy there?

Brett M. Biggs

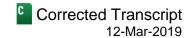
Chief Financial Officer & Executive Vice President, Walmart, Inc.

It's a dynamic environment, healthcare.

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Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

How should we think about it? How should the investment community think about the Walmart pharmacy of the future?

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah, pharma, and I'd look at pharmacy as a piece of a broader discussion on healthcare. Healthcare has changed quite a bit. You look at retailers that have gotten into PBMs. Some have gotten into insurance businesses, so it's changed pretty dramatically. Again, with our customer, we know that we have permission to be in that space. And it's broader than just the pharmacy and OTC business. We have permission to do other things. And you've seen us test clinics over time. We're testing diagnostic labs in a few of our stores, so we're continued to evolve there.

I do think when you look at the scale of Walmart and places where we have really made a difference to society, you look at sustainability, you look at some of the things we've done around women's empowerment, what we did with \$4 prescriptions back probably 10 years ago now. There are things that we can do that can literally change how people live and it's the cliché save money, live better, but we actually mean that. And it's part of what we think about every day is how do we help people live better. I do think healthcare is one of those ones, where because of our scale and the permission from our customer, we can make a difference in how people consume healthcare. And I believe over time, that will be a bigger part of what we do at Walmart.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

We have time for one more question. If the audience doesn't have one, I do. Okay, I'm just going to throw you an exit question. What's the one thing? You came all the way up here to New York. What would you like the investment community to take away from Walmart being at our conference today?

Brett M. Biggs

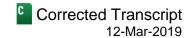
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. It's so telling, I think, the change in retail over the last three years. And it's exciting to think what the next three years are going to hold. I tell people when I came to the company in 2000, we were, I want to say, at about \$160 billion in revenue and Walmart was done growing and there was nothing else for Walmart to do. And now, we're 3.5 times the size we were 19 years ago.

When I look forward to the next 19 years, I think the opportunity for this company may be greater than it was 19 years ago. I don't know if that translates into the same numbers or the same growth, but the opportunities, they're even bigger, I think, today because of: eCommerce, because of the assets that we're developing there; the store base, which I think people questioned five years ago, I believe is a tremendous asset. And you're seeing other competitors do things that would tell you that is a tremendous asset.

The ability to put those two together in a way that serves the customer very differently and I think we're only scratching the surface of what we can do to make that happen for a customer. When you pair that with the mission and the culture of our company, and you pair that with our associates and you pair that with our financial strength, we generated almost \$28 billion of operating cash flow last year, \$514 billion of revenue. I don't think that formula can be beat. I don't. I wouldn't trade places with anybody. When I look at the assets we have in

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place, the management team we have and the competitiveness of that management team with our financial strength, I think we're being underrated and underestimated. That's my view.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

That is a powerful statement. With that, I want to thank Brett for being here today.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. Thank you.

Robert F. Ohmes

Analyst, Bank of America Merrill Lynch

And Walmart.

Brett M. Biggs

Chief Financial Officer & Executive Vice President, Walmart, Inc.

Thank you.

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