

UBS Global Consumer & Retail Conference

Company Participants

- Gregory S. Foran, Executive VP, CEO & President of Walmart US
- Michael P. Dastugue, CFO & Executive VP of Walmart US

Other Participants

- Michael Lasser, MD and Equity Research Analyst of Consumer Hardlines, UBS Investment Bank, Research Division

Presentation

Michael Lasser {BIO 7266130 <GO>}

Good afternoon, everybody. We're going to get started. Could I have your attention? Thank you. Good afternoon, everybody, I'm Michael Lasser, the hardline, broadline and grocery analyst at UBS. We are beyond excited to have Walmart with us today.

Walmart needs very little introduction as the world's largest retailer and what it's done over the last few years has been really remarkable, the transformation that the company's been under. I'm thrilled to be able to introduce Greg Foran, who is Walmart's U.S. CEO. Greg is widely considered to be one of the best shopkeepers on the planet and so we're really lucky to have him with us today. To his left is Michael Dastugue, who is Walmart's U.S. CFO, who's got more than 30 years of retail experience. Is that true?

Michael P. Dastugue {BIO 6969980 <GO>}

Unfortunately, yes.

Michael Lasser {BIO 7266130 <GO>}

We're out of scar tissue. With Michael and Greg today are members of the team from Walmart. Dan Binder, who many of us know. And runs Investor Relations; Kary Brunner; and Christine Allen.

I'm going to let Greg run through some business and then we'll get started on our conversation.

Gregory S. Foran {BIO 4687375 <GO>}

Thanks, Michael. Good afternoon, everyone. Great to be here. Before we get into the Q&A, I need to say that we may make some forward-looking statements during the fireside chat. So review our entire safe harbor statement on our corporate website, please.

Michael Lasser {BIO 7266130 <GO>}

You should say, we hopefully will make some forward-looking statements during our conversation.

Gregory S. Foran {BIO 4687375 <GO>}

I would say I'll make none. But I wouldn't want to put words in my mouth.

Questions And Answers

Q - Michael Lasser {BIO 7266130 <GO>}

No promises, no promises. So over the last few years, Walmart has realized sizable gains in areas of its store execution like service levels, store appearance, in-stock. One of the questions that I think is on most investors' minds is given where Walmart's come, how much more room is there to go? And maybe you could talk through what has it implemented to get where the business is today and where do you see it going from here?

A - Gregory S. Foran {BIO 4687375 <GO>}

Yes, sure. I would say that we've sort of made some good progress but the unvarnished truth is that we have not even got close to arriving. And I don't make that statement based on the facts that I want to obsess about, we've got to do more, we've got to go faster; that is part of me and how I operate and my team would vouch for that. But I also make it based on what I look at when I look at things like Net Promoter Score, what I look at when I consider surveys around the marketplace. For sure, we're doing better. But our peers are still a long way ahead of us. And so what I would say is we haven't even got close to arriving. We've got lots more opportunity to take this business a lot better and further with a whole bunch of access, whether it's in-stock or inventory or associate service, quality of fresh, quality of private brands and I'm excited about that opportunity. Lots of technology that we've introduced but this is a massive change program, isn't it? 1.2 million associates, 4,700 stores. You just do the math around that. So it's 4,700 managers, that's almost 10,000 co-managers, that's 60,000 assistant managers, because we have 12 per store. That's 120,000 department managers. So this isn't going to happen in 5 minutes and nor should we expect it. I'd say we're about 50% of where we should be. The reality is, we'll never get to 100% because we'll raise the bar. But Michael and I often discuss this and we've shared it a couple of times this morning, I get out to the stores every single week. About half the time, I'm okay with it. And the other half, I'm grumpy.

Q - Michael Lasser {BIO 7266130 <GO>}

And to further put context around the sheer size of the business that Greg runs, the sales volume, it's 50% larger than the GDP of his home country. So it's quite remarkable. Hopefully, I say that without the risk of embarrassing him. But can you give us a little flavor how this transformation has taken shape over the last few years? Has it been the mean of the population of the stores has just gotten better? Or you've really been able to have -- to effectuate change at the lower portion of the stores, brought that up and so if you can get them to look like the better stores, that's where the opportunity exists? And Michael, if you want to add that as well.

A - Gregory S. Foran {BIO 4687375 <GO>}

Why don't you start off. And...

A - Michael P. Dastugue {BIO 6969980 <GO>}

Yes, I think just kind of adding on to some of the things that Greg was talking about, if you go back about 4 or five years ago, we were opening 200 to 300 stores a year. So that was creating its own piece of the tension and stress on the organization. We had good store managers, good market managers that were having to then take on more responsibility. And I think as the organization got its arms around what we're going to prioritize, what we decided is we really needed to invest in our 4,700 stores. We made some changes. We had to make some difficult decisions to close some stores. But I believe that first holiday that I was working with you, Greg, we had 900 to 1,000 of our store managers that were first-time store managers going into holiday. So when you think about that, it's a real challenge. And so the team has really done a nice job of focusing not only the capital investment but our time investment into our existing stores and helping those store managers in terms of helping them with their leadership, getting them on process. Because it's not just about the technological innovation and investment. But it's also about getting all of the associates in the store to kind of get into this one best way which you've heard us talk about. And it's a journey. As Greg says, it's a team sport and so we all have to work collectively together and we have to keep stepping it up.

A - Gregory S. Foran {BIO 4687375 <GO>}

Just to build on that a little bit. I would say that a few years ago, it was much more about the general population and getting that up. Today, I feel that we've sort of kept up a bit of the foundation set. And what I often find now is that it's more about moving that bottom percentage and doing that quite dramatically and drastically. We're stepping up our view of what we expect in the business. I don't say this lightly. But when you've started to put in place some of the foundational things that we've done, whether it's training or academies. And you've started to move wage rates and benefits and bonuses for associates, what we've got to do now is lift that bar. And the key to running a store generally comes down to quality of the store manager. And if we don't have a good store manager, the person I hold accountable is the market manager. They're the person that has 10 stores. So we're at a point now where we're putting a lot of pressure on that group to step it up. And to get these stores that are letting us down to a level which we know they can hurt if we get the right team in place.

Q - Michael Lasser {BIO 7266130 <GO>}

And presumably, you're empowering them with the tools, whether it's price, staffing, assortment, to get to that level of where they need to be. Do you see any one aspect of unlocking the improvement of that, the cohort of stores that's trailing behind with where you expect?

A - Gregory S. Foran {BIO 4687375 <GO>}

I think that's a good point. It was interesting, five years ago, because it's coming up five years ago that I joined, I stood on...

Q - Michael Lasser {BIO 7266130 <GO>}

It's a lifetime by now.

A - Gregory S. Foran {BIO 4687375 <GO>}

Yes. I stood on the -- didn't have any gray hair. I stood on the stageâ€¦

Q - Michael Lasser {BIO 7266130 <GO>}

You still look very good.

A - Gregory S. Foran {BIO 4687375 <GO>}

I stood on the stage at a holiday meeting and felt like I was standing in front of the whole of New Zealand, because boy, there's a lot of people that work in Walmart U.S. and I said, "Can you tell me 3 things where you think we've cut muscle instead of fat. And e-mail it to me." And immediately, I could feel the e-mails coming in. I ended up getting about 2,700 e-mails.

Q - Michael Lasser {BIO 7266130 <GO>}

Oh my gosh, it sounds like one of these buy-siders.

A - Gregory S. Foran {BIO 4687375 <GO>}

And do you know, the most common thing that came through in that was can you please put the toilet seat covers back in?

Q - Michael Lasser {BIO 7266130 <GO>}

Small thing.

A - Gregory S. Foran {BIO 4687375 <GO>}

Small thing. But really important. So restrooms, public restrooms, we had paper toilet seat covers. In the interests of saving money, we'd taken those out. And you can understand why businesses get into this. I've learned something over the years. You can never motivate anyone until you fix some of these factors. So basically, for the first year, it was about fixing those hygiene factors. What are the things that you need? Okay, you need the electrician to get that plug fixed, get it done. You need that restroom remodeled, get it done. Then people start to buy into it. The

technology is great. And we could spend 2 hours talking about some of the tech in our stores, from basically Google glasses that are informing associates now how to fix the battery in a tap to improve routing paths for online grocery. But the bit that everyone underestimates, all of us included, is the change management piece. And in Walmart, boy, you underestimate that at your peril, because there's 1.2 million people.

Q - Michael Lasser {BIO 7266130 <GO>}

Yes. And it does seem like the -- one of the messages that Walmart has been increasingly offering is don't discredit the amount of innovation that you're going to see from this business, the amount of technology that we're going to leverage. Good examples at this recent analyst meeting have been some of the industrial-sized Roombas that will soon traverse the Walmart floors. Can you give us a sense for how this is going to look over the next few years, how the technology rollout is going to look? And what's that -- what might that enable the Walmart store to do?

A - Gregory S. Foran {BIO 4687375 <GO>}

Why don't I start. And then flip to you and pick it up. It's going to come even faster than what it currently has. And you mentioned the floor cleaning device, which, of course, actually communicates to our associates if we're running low with items on in-keeps in our stores while it's cleaning the store. So I just share that as a real-life example of we put something in. But then what we try and do is we connect it to the ecosystem. So we're rolling out something called FAST unload. It's no fun unloading a Walmart truck if it's floor-loaded, which by the way, we're working on solving that by creating aisle-ready palettes that will go to the store.

Q - Michael Lasser {BIO 7266130 <GO>}

And full load, it just means it's all Tetris, stacked on the...

A - Gregory S. Foran {BIO 4687375 <GO>}

Absolutely. And why do we do that? Because actually, our freight bill is more expensive than the bill for running a DC. So seats, counting our business and small number times a big number's a big number. So we're still floor-loading, what we've got to solve is actually have we done floor load. And we can create aisle-ready pallets in the store and we're working on that, it's a different discussion. But when you've got these FAST unloaders. So you unload the truck, it comes down a conveyor belt that we've set up with these 3D bar codes. But we actually know what the PI inventory is out on the shelf in the store. So instead of waiting for the night stocker to come in and fill it, we can send that down a different chute now and get that straight on the shelf. So a lot of this tech is all about connecting bits in the store so that you create not only a better experience for the customer but also for our associates. And there's lots more coming. Bossa Nova, which is going up and down and scanning aisles and checking mod accuracy, we're starting to get that operating to a point where we can start to make much better decisions on PI. Why is that important? Because it drives your replenishment. You're going to see continued work around self-checkout, to get smarter, to identify what the item is that's on there, all kinds of activity around there to help us reduce shrinkage as well. Something I've

discussed with a number of people this morning, you're soon going to be able to do a refund right at the front door of the Walmart store. We're not going to ask you to go to the service desk, we'll equip what we call now the customer host with the technology to do a refund for you right there, including cash, which will come out of the self-checkout. So we're continuously looking at customer journeys. We're looking at associate journeys and we're saying to ourselves, how do we, in a really agile fashion, take friction out, improve the experience for the customer and drop our costs?

Q - Michael Lasser {BIO 7266130 <GO>}

And Michael, how do you see the unlock here? What's the gating factor? Is it capital, is it -- what's the ability -- the organizational ability to tolerate change? How do you see that?

A - Michael P. Dastugue {BIO 6969980 <GO>}

Yes, I think it's a combination of things. I don't think capital is a constraint. I think, as we continue to test the technology, the FAST unload that you would have seen in October, we've proven that out. We're rolling it. I think we'll up to about 1,400 stores this year. And as Greg said, it's not just a productivity play, it's also a sales play because look, if we can be in-stock 100%, right, then we don't lose those sales. I do think the human element is changing the ways of working one best way. As we evolve, right, there are certain activities, certain jobs that'll go away. But new jobs will be created. And in many cases, if you think about some of the things we did a few years ago with some of the back-office activities, we took out certain roles. But then there was a new role, say, Online Grocery customer service. And so the associate has so many different opportunities to do different roles. Now what may happen over time is we may need associates that are comfortable working in multiple roles in a given day. The good news is, with all the technology and the visibility, we can guarantee an associate, in many cases, 40 hours per week. But we may need them to do them 1 activity in the morning and a different activity in the afternoon. So we're going to have to ask all of ourselves to be more flexible, to be able to use technology and to be able to handle change.

Q - Michael Lasser {BIO 7266130 <GO>}

Yes. And is this -- it's been well documented that wage pressures are continuing to rise. Is this technology unlock and the different way that you may be thinking about the store enabling you to navigate through some of those wage pressures? And Walmart was one of the first to make some wage investments and it's proven to be very successful. It seems like some of the more recent messaging has been, look, while we're going to make wage investments, it's more going to be on a case-by-case basis. And we'll be able to navigate through that. It seems like one of the ways you'll be able to navigate through that is in part through this technology deployment. Is that fair?

A - Gregory S. Foran {BIO 4687375 <GO>}

Yes and yes. So we've got a store within 10 miles of 90% of the population. I've been to about 2,000 of them now...

Q - Michael Lasser {BIO 7266130 <GO>}

So what happened to the other 2,700, Greg? You've got someone working?

A - Gregory S. Foran {BIO 4687375 <GO>}

Working on it. Nothing is created equal in this country. And so we're -- the way we look at our business is we break it down. In some cases, we'll break it down to store by store. In other cases, we can find cohorts of stores. So what happens in Liberal, Kansas is not the same as what happens in Shreveport, Louisiana, it's not the same as what happens in Long Island. So we think about that, not only in terms of wage pressure, we think about it in terms of assortment. We think about it in terms of associate benefits. So we're very, I guess, thoughtful about how we do that. And the answer is yes, technology helps unlock some of that. But probably the biggest unlock is the whole change management process.

Q - Michael Lasser {BIO 7266130 <GO>}

And I think there's been a lot of pride in the company in its ability to leverage its store expenses for, I think, 8 quarters in a row. Do you see that flowing -- continuing to be a linear fashion, or is that, it's become part of the muscle of, especially the U.S. business and so that's going to be something that should build on itself from here?

A - Gregory S. Foran {BIO 4687375 <GO>}

I think we are starting to develop that muscle out. I think it was appropriate for the first couple of years to deal with the so-called hygiene factors, to give people a reason to believe, to listen to what was on their minds, give them the tools. And I know when I now visit not just stores but distribution centers and I talk to our associates and I talk to our leaders there, often the conversation is "Actually, you've given us what we need, now we've got to get it going -- got to get on and execute." So my sense is we're handling this at about the right cadence. Is there more upside? There always is in our business. There's always things that you can do better. The bit that I always had in the back of my mind is, what it's going to take us to get to a point where effectively, the product arrives just before we need it, in just the right quantity. So I touch it once. The only other time I touch it is upon picking that order for a customer because the store is increasingly becoming a fulfillment center. But apart from that, I'm not touching it.

Q - Michael Lasser {BIO 7266130 <GO>}

Yes. So you're probably a little ways off from that.

A - Gregory S. Foran {BIO 4687375 <GO>}

Yes. It's interesting. We track now how often that doesn't occur or how often it does occur. And we've got a lot of opportunity there. But the fact we know that number and we know it by department, we know it by SKU is a good thing. Now we've got to challenge ourselves, how do we make that happen? And it's not one thing. It's not just saying well, go and fix your replenishment system. Some of it's training of associates. Some of it's thinking about where you're going to locate items. It's the

quality of the mod that's being dropped down to the store, i.e., how many facings, the quality of the shelf-ready tray that you worked with, with the supplier, because if that's is not a quality tray, sometimes the associates will take it out of the shelf-ready tray that we've gone to all the energy of getting put in and hand-stack it. So there's sort of 100 moments of truth just in that, that you've got to deal with, times 1.2 million associates.

Q - Michael Lasser {BIO 7266130 <GO>}

I'm sure the merchant at heart, one of the areas you're probably excited about is the performance of the grocery business and how successful that's been over the last few years. Which initiatives do you attribute that improvement to? And looking forward, can this growth within the grocery business be maintained, especially as competition remains pretty fierce?

A - Gregory S. Foran {BIO 4687375 <GO>}

Yes. There's a few things that have gone into the grocery improvements that we're seeing. In no particular order. And they all play a role in it, I think the assortment's improved. I'm sort of renowned, as I walk stores, of laying things like Ritz Crackers, for example, original Ritz Crackers out on the floor. I'll quite often have the buyers with me. I think we had 9 different variants of Ritz Original Crackers, from a single pack, to a double pack, to a flat pack, to a bonus pack, to a, to a, to a -- and you've just got to -- what are we doing here?

Q - Michael Lasser {BIO 7266130 <GO>}

A little too much.

A - Gregory S. Foran {BIO 4687375 <GO>}

Simplify the assortment. I think the work that we've done on pricing has been thoughtful, strategic, it's working. We like that. Fresh has been a big deal and we haven't even got to close arriving on Fresh. I still go into stores. And the wet wall, leafy greens, quality isn't good, we've out-ed the store, they haven't got their PI right, they're not rotating the merchandise. But it's better than it was. Meat's improved. The quality of our beef, our drive to get Angus, prime Angus has worked. And I know it, I buy it, I eat it, I can taste the difference. So it's a combination of things, OTIF, On-Time, In-Full, one of our favorite topics with suppliers. You'd be horrified if you knew what that number was three years ago and you'd probably be...

Q - Michael Lasser {BIO 7266130 <GO>}

Tell me, tell me...

A - Gregory S. Foran {BIO 4687375 <GO>}

Still horrified if I told you today. But it's way better than it used to be. But if we don't get the order on-time and in-full, then nothing else works. So it's a combination.

A - Michael P. Dastugue {BIO 6969980 <GO>}

Yes, I mean, I would add, the online, obviously, with the private brands, right, we've invested in the quality of our private brands. You've seen steadily an increase in the penetration. We've improved the packaging. And I think all of those things are helping to drive our Online Grocery business also.

A - Gregory S. Foran {BIO 4687375 <GO>}

Well the big one is Online Grocery. If you want to know one of the things that helps food, our food business, is when the store knows that it's going to become an Online Grocery store. Because now, you are the personal shopper. You are picking out the capsicums or the asparagus. You are the one that's pulling out the meat. And there's a really interesting statistic, which I take a lot of time understanding in every single store I visit. And what I -- and I look at as a company. What is your first-time pick rate? That's better than any OSCA score, On Shelf Customer Availability, which is a series of algorithms, which I won't go into. But what happened when I picked your grocery order for say, 30 or 40 items? How many of those items did I find first time? And so when we roll out Online Grocery, the store actually has to lift its total performance, because now, you have absolute visibility into what's going on, better than you ever had it before. Customer feedback on what was the quality of the product, how many items were substituted, did I get it on time. And that has actually had a halo effect on the entire food business.

Q - Michael Lasser {BIO 7266130 <GO>}

And what have the observations been from those stores that were first to roll out the Online Grocery pick-up initiative, even delivery of grocery? And how have you been able to apply those learnings to the subsequent few?

A - Gregory S. Foran {BIO 4687375 <GO>}

Yes. You get better at it, the more you do it, don't you? So I reflect on the fact that we really got into this about three years ago. We were fooling around a bit four years ago; three years ago we said, let's go. So we're doing just over 1,000 stores a year. 20 -- that's 20 stores a week, every single week. Bang, bang, bang, that's a big deal. This is complicated to do. We just don't turn up at the store and say, "Hi. you're an Online Grocery." You've got to train 8 associates. You've got to get permits. You've got to paint the outside of the building. You've got to build refrigeration, you got to build freezers. You've got to create staging areas. You've got to go and reconfigure parts of your parking lot and you got to do that 20x a week, every single week. And so you get better at it. And I love the way the team have just got into this with real passion. And they pride themselves. And often when you visit stores, the most coveted job in a Walmart store is to be on the Online Grocery team. And they take great pride in these statistics and how are they going and they share ideas. And I do think we've got better at it. And I'm very proud of the fact that we're building something which is very internal to Walmart. So we own, most of us. It's ours. It's our website. It's our descriptions that are on there. It's our picking algorithms. It's -- we're even working on delivery. So I think it's a good example of us actually utilizing our scale well.

Q - Michael Lasser {BIO 7266130 <GO>}

Yes. And Michael, I'm sure you're keenly focused on the profitability of that. More to the -- it seems like one of the ways that the unlock -- the profitability of the grocery business to be unlocked is as you open the assortment, particularly the more general merchandise category. How is that going to flow? And what would be the other ways that you'll make this -- just the Online Grocery pickup, since we can talk about the eCommerce business more broadly.

A - Michael P. Dastugue {BIO 6969980 <GO>}

I think right now, it's been primarily around the food and consumable business offering. And as Greg said, if that first-time pick rate can continue to improve, that includes the efficiency and productivity and there will be technological benefits as we go forward. But I think, to your point, as we think about mixing out really because at the end of the day, we all have to be merchants and we all have to think about how do we mix out the basket, if we can add more general merchandise to the basket, that clearly helps the profitability. It is hard because you're going from the food consumables area of the store to now we're potentially going up to 200,000 square feet that we're going to be picking from. We need to make sure that our PI is correct, that it's in the right spot for the associate to find. And so the good news is we've been slowly adding more and more general merchandise availability as you shop for Online Grocery. Certain times of the year such as like back to school, if you're a parent and you've ever had to do the back-to-school supplies, it's not a fun task. Being able to order that online, it's available, Halloween, et cetera. So I think you're going to see us continue to add those items to the basket to make it more efficient. There's some other things that we're investing in, some trials in terms of automation that are just now starting so it'd be premature to talk about it. But I think that especially as we get to higher volume stores, there's probably some additional productivity that we can get from that.

Q - Michael Lasser {BIO 7266130 <GO>}

Is this one of the reasons why you -- the general merchandise categories have been slower to be added or added later, is because then you expand the geography that the picker, that the store has to cover, it makes it a bit more expensive?

A - Michael P. Dastugue {BIO 6969980 <GO>}

It is. Greg likes to talk about it, we're picking a medium blue shirt, right? We need to make sure that it's on the arm of the rack that we said it was going to be. Otherwise, the associate is going to have a disproportionate amount of time finding that 1 item.

Q - Michael Lasser {BIO 7266130 <GO>}

And when you're going in and turning these Online Grocery pick-up location -- your traditional stores into Online Grocery pick-up locations, what's happening to the congestion to the store? How do you prevent the customer experience for those who want to shop in the store from being negatively impacted?

A - Gregory S. Foran {BIO 4687375 <GO>}

Carefully. And we haven't got it right. And we got into this discussion actually on Monday at our officers' meeting where one of our senior folks was saying, "I hate

shopping in the store on Sunday, trying to get up and down the aisles, you've got a big carton there." See, we pick 8 orders at once. So it's not point-to-point. So we've got to be very careful. If the store is doing x number of orders a week, that's quite different than if it's doing 4x orders a week. And so part of what we're doing is exactly what Michael just said, we're looking at what happens when you start to cap this out. And is there some automation that we can put in which may be built onto the store? In many cases, that will allow us to not disadvantage our most profitable customer, which is the one who drives to the store and does all the work themselves.

Q - Michael Lasser {BIO 7266130 <GO>}

And we got a question that seems to be -- fit nicely in this part of the conversation. The supercenter is perhaps the most brilliant concept in -- retail concept in history, store growth is pretty much done. Do you see, because of what's happening, the need for a wholesale reimaging of the supercenter box in the coming years?

A - Gregory S. Foran {BIO 4687375 <GO>}

We're certainly reimaging what we're putting in that box. And we've already taken some action on some of these things. And you'll see bits of that pop up around the country as we do remodels, the amount of space that we're putting in for some seasonal, where seasonal is located in food. We're having a look at other areas of the box at the moment. Do we really need the amount of lineal footage that we've got in greeting cards? And the answer is, let's do the work and have a look at it and see what that means. What's happening with photo processing? So each remodel gets looked at. We do about 350 to 400 a year. And increasingly, we're also saying to ourselves, as the store becomes more of a fulfillment center, what are the capabilities that I've got to now build into that store. And you've got to get this balance right, because the way that you think about a store which is about adjacencies and flows and color around your seasonal relevancy and sidelines is not necessarily the way that you talk and think about a fulfillment center, which is about efficiency and footsteps and pick rates. So getting that blend right is something that we are challenging ourselves with at the moment. So lots more changes. If you built a new supercenter today, you would do it differently than the ones that we have right now.

Q - Michael Lasser {BIO 7266130 <GO>}

How would that be?

A - Gregory S. Foran {BIO 4687375 <GO>}

Primary driver would be you'd be very thoughtful about where you're going to do your drive-through, your pickups, your deliveries and you would think about the amount of stockroom space, how your refrigeration is laid out around all those things. I think you'd think about the services that you operate in the store. We call that the fourth wall. I think this is an important part of the mix. We've been increasingly pleased with what we do with things around FedEx, for example. I like what we're seeing around that. I'm thinking about things that you have to do physically that you can't do online. It's pretty hard to get your hair cut online. So how do we think about that fourth wall and the services that we do. So those are the things that I...

Q - Michael Lasser {BIO 7266130 <GO>}

This is the point of the conversation that I'm excited about, because you 2 fellows have a good of a vantage point given your long history in the retail sector as anyone on this question, which is, you basically have a competitor out there who's using the retail profit pool, transacting goods, giving a lot of value to the consumer to attract eyeballs, to fund their profitability by harvesting profits in other ways, like advertising or selling excess computing power, because that's what turns their main economic engine, which is retail. How has -- so, as a retailer who's been solely dependent on the retail profit pool, at least up until now, do you manage through that? Because a lot of what you're doing is very expensive. And you're offering more value to the consumer. You're offering something that historically had been self-service, now basically full service. And how do you potentially expand the business model to potentially tap into other profit pools?

A - Gregory S. Foran {BIO 4687375 <GO>}

Carefully. Your description of the Amazon ecosystem is good and, of course, they have a few other things in there as well. Does that mean that that's what should -- Walmart should do? And the answer is, depends. We've got some fantastic assets. We've got a business at the moment which is doing circa \$320 billion out of some stores. We have those stores well-located to where people live. Is the name of the game to have hundreds of millions of SKUs, or is the name of the game to have a more curated assortment? Is the -- how important is media relative to that and how do you manage that in the life that you're an EDLP operator and your ability to separate cooperative funds from marketing? What opportunities are there with data? How should we be thinking about health and wellness in the space with 4,700 pharmacies? So these are all key strategic questions. I think what becomes increasingly clear to us is be the best Walmart that you can be. And there is no doubt that the customer is already demonstrating to us millions of times that they want to be able to shop where they want, when they want and how they want. So this concept of the store being more than just a goods store. But being a fulfillment center feels like a pretty safe bet here, mate. Some of these and other ancillary activities, let's work our way through those. And if they become additive. And we think we can execute well, then that feels good. As to how far you chase or not a competitor on some of the other things, that's part of how we're looking at things at the moment. So there's lots to play out in the space. I am not smart enough. And I think no one in our business would put their hands up and say, we've got the answer. We're still working through it. In my experience, as I've sort of got around the world and spoken to other people, most of us are having the sort of same conversations. So place your bets where you know you've got it right. Put a foot in the water on some of the other things and let's test and learn and some of the others, maybe you just sit back and wait and see.

Q - Michael Lasser {BIO 7266130 <GO>}

Might part of the answer be, it depends on how much your customer is willing to accept from you and the good news for Walmart is that the customer has already shown its willingness and ability to accept a lot, whether it's getting a haircut or getting a pair of glasses or doing a health check and so that gives you permission to offer them more and more? Now, with that being said, do you think your customer

would be willing to accept advertisements in the store from you? One of your large competitors in the grocery space is slowly proceeding in this area. But is this something that will be necessary for the Walmart business model over the long run?

A - Gregory S. Foran {BIO 4687375 <GO>}

So Steve and I had this conversation. We're forming a view. It's a slippery slope. Be very careful. One of the things that makes our business a bit unique is the sync with EDLP. And I was lucky that I got taught it by the person who started it, which was Jack Shewmaker. And I think many people would go out in the stand, everyday low prices, you just stick your price and you leave it. There's so much more to it than that. It's a study in its own. And trust me, it's one of the hardest things to do in retail. So that is so core to Walmart, what it stands for. It's so core to everyday low cost that I am cautious as I think about anything that could disrupt some key principles. Doesn't mean that I wouldn't test some things and I wouldn't consider it. But I'm cautious.

Q - Michael Lasser {BIO 7266130 <GO>}

It seems like Walmart may not have necessarily have -- what I want to say is, it has the luxury of some time. Because retail is still a relatively fragmented business, you have 20% share in the grocery category, that means you have 80% that you could continue to consolidate. One of the ways you'll get there is putting pressure on your competition, which it seems like you've done. You're three years into this price investment initiative. How is that being looked at internally today versus when it was started? So it seems like it's now more just part of the regular process, regular muscle, rather than having to make a grand splash. Is that fair?

A - Michael P. Dastugue {BIO 6969980 <GO>}

I mean, I think clearly it's kind of number one, we talk about. We're in business to save people money so they can live better. So that means we have to continually figure out how to provide more value to our customer. And we started, I think, about three years ago and continue to invest in price. As we talked about, we're investing in other areas to give the customer back time. We're working. We're financing some of that. We're partnering with some of our supplier partners to finance some of it. We're also working to continually figure out how to take cost out of the business to finance part of it. So it's a muscle that we continue to build. And I don't think it ever stops. I don't think you ever get to the top.

Q - Michael Lasser {BIO 7266130 <GO>}

And you mentioned this and you touched on this briefly before. But one of the questions we've gotten from the folks in the audience is share your thoughts on the growth in private label and what that means to Walmart. As an example, you've moved dairy in-house. Target's starting some new brands. What's the next segment on Walmart's mind to push in private label?

A - Michael P. Dastugue {BIO 6969980 <GO>}

Yes, I think private label is something -- it's not just a way to improve gross margin, it's a way to give more value to your customer, especially when you think about the quality of the product. And I think that we're going to continue to see improvements

in our penetration. Milk is probably roughly about 10% of our stores right now at this point. So we're learning about that business. We do think it also gives us insights to things that we didn't really understand about the milk business. I don't think, at this point, we're ready to call out any new areas but it's something that we are focused on and trying to learn more about.

Q - Michael Lasser {BIO 7266130 <GO>}

This is a tricky question. How would you describe the state of the U.S. consumer?

A - Gregory S. Foran {BIO 4687375 <GO>}

Solid.

Q - Michael Lasser {BIO 7266130 <GO>}

Solid?

A - Gregory S. Foran {BIO 4687375 <GO>}

There's no doubt that last year has been, I think, a pretty good year for the customer. And while we serve everyone in the U.S., we probably do a lot more business with people who are a little bit more financially stretched than others. And I think that, in the main, it had a reasonably solid period. One of the things that I think is important to them is the price of gas. And a couple of years ago, it was reasonably expensive. Go back a few years before that, it was really expensive. And we've had a period where it's come down. And it's not uncommon around parts of the country to see sort of USD 2 a gallon. And so it makes a big difference. But tax helped a little bit. I think prices generally coming down has helped a little bit, particularly in the staples that we sell. So I think it's been a reasonable year for the U.S. consumer.

Q - Michael Lasser {BIO 7266130 <GO>}

Another question we got from the audience is your -- and I'll add my context around it, you're an expert in the grocery space, there's been talk recently about an online competitor who's dabbled in grocery, potentially pushing a bigger presence in the grocery category. What do you think the obstacles from a new startup to create a lot of locations in trying to serve the grocery category?

A - Gregory S. Foran {BIO 4687375 <GO>}

It's all of the things that, I guess, we've learnt over the years. If you're running an online business, location doesn't matter too much. If you're going to go and build a shop, the location is everything. For those of you who shop in stores, chances are you shop at the store closest to where you live, unless they are very good at what they do. But it's the details around it, isn't it? It's the visibility from the road, it's what sort of signage have I got in it, what's the turn-in like, can I just turn in from the right? Where do I want my traffic signals? How is the store orientated on the site? What is the width between the parking lots? And I could go on and on and on about those things. But it's a little bit to my point about Online Grocery. It's great when you can develop these competencies in-house and you build this muscle. And the competitor you're talking about has built that muscle in their online business. They

know how that site, they should look, they know how the picture should look, they know what should come up. They should know how many clicks it should be before you get out. So every time you enter a new business, you've got to have that energy and that drive to actually understand all of those components that go to make it work. Let's see what happens as they get into this space. One of the things I love is I love competing. And I actually think competition makes us better. When we heard that Lidl were coming, trust me, what a galvanizing moment for the Eastern Seaboard for Walmart. We just got people fired up, North Carolina and South Carolina and Virginia. And we're going to take the battle. So we remodeled our stores and we made sure that, that was an area that we prioritize for price investment. We drove our Online Grocery business. We remodeled our financial services area and it galvanizes an organization into doing something. So I like it, bring it on.

Q - Michael Lasser {BIO 7266130 <GO>}

And speaking of Lidl. Have there been lessons that you've learned from that experience that you can then go and apply to an emerging competitor? And what's the current status of your thinking on the hard discounters in the U.S.?

A - Gregory S. Foran {BIO 4687375 <GO>}

I never underestimate them. I've been competing against Aldi for 20-plus years. And they are fierce. And they are good. They've done a very good job in the last two years of remodeling their stores, revamping them, changing their layouts, increasing the amount of organics that they're offering, gluten-free. They've driven prices down, cleverly. Improved the offer overall. So they've done that because and undoubtedly, they had a look at what happened in the U.K. where they probably reacted a little bit too slow and Lidl got the edge up on them. So I never underestimate where this is going. People love saving money on staples. And it would apply to every single person in this room. You feel pretty good if you can save \$10 on your grocery bill, because it makes you feel better when you go out for dinner on a Saturday night and spent \$200 at a restaurant. My experience of the best Aldi stores, is the best Aldi stores are often in the highest income areas in the city. So if I took you to Sydney, which is where I competed against them for basically, 15 years, their best store is in Mossman. It is the wealthiest suburb in Australia. You don't buy a house there for under about \$3 million. And parked in the middle of it, is an Aldi. And there's BMWs and Mercedes in the parking lot, because these people are smart shoppers. They know they've got great private brands, they're great quality and you save money. And by the way, that helps funded in the restaurant experience on Saturday night. So they're going to continue to expand. They're going to continue to remodel their stores. Lidl have put down 3 big DCs here in the United States, 1 million square feet, they got less than 100 stores at the moment. Guess what they're going to do? They're going to turn on the openings. They're on their third Chief Executive. So watch out, here they come.

Q - Michael Lasser {BIO 7266130 <GO>}

Yes. And you don't have to tell the people in this room about getting a good deal, they're keenly sensitive to that. It seems like part of your answer is, whatever the competitor is good at, we're going to match them on that. So if Amazon comes in

and opens grocery stores and they're very technologically-enabled, we're moving in that direction. So we'll be able to match them on that. Lidl and Aldi, they're focused on low price and private label, we're matching them on that. Not being all things to everyone. But emphasizing those key attributes. And what -- that was within Walmart's capacity. Is that the right way to think about it?

A - Gregory S. Foran {BIO 4687375 <GO>}

I think it is. The analogy I often use is a biblical one, for no other reason than it -- I feel it makes some sense. There was a period in time when Walmart was David and Sears and Kmart were Goliath. And it's always fun being David. Everyone loves David. No one likes Goliath as much. We woke up at some point, 2000 and whatever. And found out we were Goliath. And when you're Goliath, you find that there are other Davids that start throwing stones at you. And you've got to learn to deal with that. If you become immobile, you just end up taking a lot of hits. The reality is, I would say that we have about 6 Davids that we think about. These are people out there that attack us. You've got drug stores. You've got traditional supermarkets. You've obviously got Amazon, you've got hard discounters, you've got other discount stores. And we don't try and necessarily combat every single aspect that they do. But when you've got stores that sit on 20 acres, they have 2 to 3 acres, you do have to deal with the fact that there are multiple Davids in your marketplace. Some of them may not be physically there. But they're there virtually, because they're an eCommerce operator. How am I going to combat that? And so we deliberately sit down as part of our strategy work and say, what are the 20% of the things that are worth 80% that they do, that we need to deal with? And that's exactly how we think about it.

Q - Michael Lasser {BIO 7266130 <GO>}

As we reach closer to the end of our time together, I want to focus a little bit on an area that's maybe outside your purview. But you're going to have a good perspective on, which is eCommerce. And there's been a lot of talk from Walmart that one of the ways that Walmart's going to improve the profitability of its eCommerce business by its attracting more brands, more higher-end brands, to bring in that customer. What can the U.S. stores, what can the U.S. business do to improve that perception, to make those brands, to make those vendors want to do business with Walmart, to unlock the profitability?

A - Michael P. Dastugue {BIO 6969980 <GO>}

Yes. And I think if you can kind of go back to what Greg mentioned earlier, which is 90% of the U.S. population lives within 10 miles of our stores, clearly, we think our stores are a competitive advantage and we often say that there really aren't new Walmart customers. Most people are in a Walmart store at least a few times a year. There's either low penetration or high penetration. So if we continue to improve the customer experience, if we can keep improving the quality of our fresh offering, if we do a great job on Online Grocery, as an example, which by the way, has some of the highest NPS that we have, that's going to continue to -- it's going to be a great offering for all customers. It probably does over-index to more affluent customers, who would, in theory, be the customers that would be attracted to some of the higher end brands.

Q - Michael Lasser {BIO 7266130 <GO>}

And is that part of the pitch? We're rolling out all these Online Grocery pickup locations, it's bringing in that more affluent customer who's got the capacity.

A - Michael P. Dastugue {BIO 6969980 <GO>}

Yes, I would say that the pitches, what we're doing is kind of we're democratic. We want to help everyone in the United States. And a positive byproduct of that would be that it would help the brands.

Q - Michael Lasser {BIO 7266130 <GO>}

Yes. Greg, I want to finish. five years from now when you've accomplished so much more, what are we going to look back and say you're most proud of, you think would led to some of the greatest success at the Walmart U.S. business?

A - Gregory S. Foran {BIO 4687375 <GO>}

Improve the experience for our associates. And it's multi-faceted. It's not just what they're paid, it's their education levels, it's how the manager treats them, their opportunity for advancement. Walmart, sure it's this big conglomerate. And that's generally how you would think about it. Actually, Walmart is a series of neighborhoods, 4,700 of them. The store manager is effectively the mayor of many of the neighborhoods. If I took you into some of the places where we have stores, the nicest place in town is the Walmart store and the Baptist Church. We have an enormous responsibility to many parts of America, not New York and not Boston and not San Francisco. But Meridian, Mississippi; Muskogee, Oklahoma; the south side of Chicago, places probably you're never going to go. But in that town, we are the neighborhood. We employ people. We give them jobs. We feed people. We clothe them. And increasingly, they're going to have the opportunity to get access to better products online. We are, in many ways, the fabric of this country. And what you see with us is everything that is both heartbreaking and heartwarming. But that is our country and that's our responsibility. And I don't take that lightly and neither do any of my team. And maybe not in five years' time. But maybe in 50 years' time, I'd like to think that we were still filling a need. It'll be a slightly different need. But some of those fundamentals that I just spoke about will be as true in 50 years' time as what they are today.

Q - Michael Lasser {BIO 7266130 <GO>}

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