

Jefferies Virtual Consumer Conference

Company Participants

- Kath McLay, President & Chief Executive Officer

Other Participants

- Stephanie Wissink, Analyst, Jefferies & Co

Presentation

Stephanie Wissink {BIO 17692025 <GO>}

Good afternoon, everyone. I'm Steph Wissink, Senior Research Analyst and Managing Director on the consumer team at Jefferies. Thank you for joining us for our Virtual Nantucket Conference. I wish we were on the island, but not this year, hopefully next year we will be back. It is a real pleasure this afternoon to be sharing the screen with Kath McLay. Kath is the CEO of Sam's Club, which is part of the Walmart organization. And she has been with the company for several years and she will talk a little bit about that. But I think this is a really important time for us to focus on one of the key segments of Walmart's broader business and actually one of the segments that tends to be an area of innovation, technology leadership and ultimately pretty substantial influence on the overall business size and profitability.

So Kath, thank you for joining me today, pleasure to have you. Talk a little bit about your background. You joined Walmart I think in 2015, but just help people get to know you a little bit better, share a little bit about your background.

Kath McLay

Yeah, so thank you and it's a great chance to talk to everyone today. I joined Walmart in 2015 after spending about 15 years in grocery retail in Australia. So I worked for a retailer over there called Woolworths. And before that I'd started my career in chartered accounts (inaudible) at Deloitte and then worked for the national airline Qantas and then went to retail. And thoroughly enjoyed working for Woolworths and then in 2015 made the bold change of changing countries and companies and joined Walmart originally in Strategy and Finance and then moving into Supply Chain. And then I led the neighborhood market operations for a while and then just before the pandemic, about 18 months ago, I joined Sam's Club.

Stephanie Wissink {BIO 17692025 <GO>}

You have impeccable market timing. So we're going to talk a little bit about that, joining Sam's Club 18 months ago. But just to help frame-up the size of Sam's Club

because I think clearly people are familiar with Walmart, but talk a little bit about the size of Sam's, their revenue base, the number of clubs, associates, et cetera.

Kath McLay

Yes, it's interesting. Sam's does about \$64 billion in sales. It's interesting. I worked for retailer in Australia that was about \$16 billion in sales and we used to talk about we're so big, how do we fight against bureaucracy. And then I moved to Sam's, we're at \$64 billion and we talked about we're so nimble, we're so small compared to Walmart. But really we're not small. Any \$64 billion company on its own right is a sizable company. We have about 100,000 associates, just under 600 clubs. And I think this last year, it has been extraordinary in just kind of seeing how the role that we could play in our members' lives. So it's been a really interesting news, Stephanie.

Stephanie Wissink {BIO 17692025 <GO>}

Yeah, let's talk about those numbers because you have a pretty distinct target customer. How do you think that differs broadly from the Walmart customer or even some of your other club peers?

Kath McLay

Yeah. I mean we talk about that kind of large families, three -- two to three kids, about \$75,000 to \$125,000 in income and they have a small business. We talk about them also being kind of happy posts. So quite often this target customers that we look at is the family on the street that entertains. They are the PTA mom. They are the person who brings snacks to the baseball game. And so we do really see like that characteristic is the group that really responds well to the club channel. They like to buy in bulk. And they also love the quality and the treasure hunt of the offering that we've got. So I think over the years, it's helped us to get really crystal clear on who that target kind of member is and they're really responding to the assortment that we have in the club.

Stephanie Wissink {BIO 17692025 <GO>}

That's great. I want to talk a little bit about the channel broadly and then some of the company specific initiatives that you've been undertaking. So one of the things is just really around unit level efficiency. We've heard this from a lot of retailers frankly, but certainly you have talked about it. So you recently closed about 60 clubs. So on a base of 600, about 10%. Talk about what you've done to improve the member per club, share any results that you have that might signal just about the health and quality of the membership based per unit which is just broadly.

Kath McLay

Yeah, so I think going back the number of years, we've closed 60 clubs. I think it really helped Sam's to just get on to strategy to really look after how do we get great items at disruptive prices and how do we make sure that we deliver special experience to our members. And what we've seen over the last year is an

extraordinary growth in our membership. We reported that at end of last year and then we're happy to also report at the end of Q1, it's not just the absolute number of members that have acquired, but it's also the renewal rate. It's also the plus penetration.

So what we're seeing is that the members are getting into a more sticky and loyal relationship with us and a lot of that is coming through some of the products and take [ph] that we delivered, which is I think is truly living up on that kind of creating special experiences for members. And so we're very scientific at how we look at membership. We break it down to what are the attributes that drive renewal and then we make sure we're focusing and attending to those and that we are working with members into a far more loyal relationship. So that it's not just up to like -- you're not just hoping that you get the renewal rate, but you can actually structure your way into it.

Stephanie Wissink {BIO 17692025 <GO>}

Yeah, let's come back to renewals in a little bit, but I wanted to just give you a little bit more space to talk about general merchandise because it's something we've certainly heard from Doug and the team as a Walmart and walmart.com strategy, you can talk about how that extends to Sam's? And how you think about balancing high frequency categories like food and consumables with maybe more limited time scope and limited selection SKUs in certain classifications, but really driving that treasure kind of more of a frequency of visit versus velocity of category?

Kath McLay

Yeah. So, I mean I came from a grocery retailer that was about 30,000 SKUs. I then was at Walmart like 120,000 SKUs. And here we are in this channel and format where it's like 4,500 to 6,000 SKUs. So it's really, really tight, Stephanie, and it means that our merchants need to be super disciplined in making sure every single item owns its place in the club. And so I think that that absolute attention to detail means that first of all that they have to meet a quality threshold that ensures that those items really own their place, but they also have to meet a disruptive value threshold as well.

What we saw last year was that combination really drove sales in our food and consumables area. If you look back through our results, you can see there are significant traffic and growth in that space. What we saw in Q1 this year was actually a really resurgence in general merchandise. And so I think some of that is like the flip on last year, but it's also I think a little bit about some of the stimulus money that was available and it was also consumer mindset.

So we saw that the consumer was becoming more optimistic, more willing to engage outdoors [ph]. So we saw outdoor seasonal toys and items that more indicated that people wanted to get back together into routes. And so certainly in Q1, we saw that balance come more towards the GM side than what we've seen kind of more into last year, but we're also -- we're still enjoying the growth of the food business from last year that's also transitioned over into the first quarter.

Stephanie Wissink {BIO 17692025 <GO>}

That's great. Let's talk a little bit about pricing because I know you have a pretty competitive pricing model relative to your peers on your membership. So how often do you go out and look at pure base pricing and thinking up your pricing and thinking about that value equation from a membership level?

Kath McLay

Yeah. I think, we think about pricing from two kind of different ways. So I think the first one is like people pay to shop with us. So what is the price of membership? And I think we are always looking at how do we continue to give value and full value into that equation so that the member feels like they are getting extraordinarily great value for the money they spend with us.

I think we're actually the cheapest from a membership costs in the warehouse channel, like it's \$45 per entry which is Club and then Plus is \$100. And over the last few years, we've been adding richness into the Plus, which is I think why we're seeing the migration of our members into that. We launched free shipping, we launched curbside this last year, like all of these elements are making Plus more stickier and we're seeing that come through both in our growth and up right into Plus, but also in the renewals. So I think that's one thing we're constantly evaluating to make sure we're giving great value and that we are giving great value comparative to our peers.

The other thing that we're also looking at is how do we (inaudible) with disruptive prices. If I'm going to pay the shop with someone, I want to know that I'm actually getting a great deal. And so our merchants have done a fabulous job over the last kind of year just going back and working with our suppliers in a supply constrained world, how do we make sure that we're getting access to inventory and at the same time we're making sure we're still keeping our costs low and making sure we're passing that value on to the consumer. I think it's a testament to the deep relationships that we had with the supplier base that they've been able to do all of that in this kind of last 18 months.

Stephanie Wissink {BIO 17692025 <GO>}

You mentioned the premiumization and the renewals, so I want to just spend a little bit of time talking about that. In the last quarter, I think you talked about the next increment in step up to your premium membership level, but also I think one of the misconceptions that we're seeing in the broader market is that you have this limited visibility into renewals which I think if you're a member of a club like I and I got my renewal notice 8 to 10 weeks before my renewal date and so I was able to opt in many weeks before the expiration. So may be talk a little bit about that visibility track. We're in the middle of June now. If we roll out 8 to 10 weeks, you have visibility out that far into renewals. And kind of what you're seeing in terms of that engagement level at upper tier and then the renewal intentions as you look out several weeks?

Kath McLay

Yeah, I think you can be very data led [ph] in the way that you look at renewal, like there is definitely something about the member value proposition which had some art to it and having great quality audits. But if you just look at data around renewal rates, we know like what are those kind of triggers that would tell us that we have a high likely -- strategical likelihood to get a great renewal outcome. And so we look at how many members are on with our renewal, how many members have our credit card and using it, how many members are using Scan and Go, how many members are -- has an e-com account with us and are purchasing online. And you actually like, we've got the data that tells us by increment, I know if Stephanie uses Scan and Go but she doesn't have -- she is not buying online, the likelihood to renew is (inaudible).

And so we constantly look at, okay, how do we encourage Stephanie along that loyalty part so that we can get to like a higher renewal and we've seen that kind of really big, big great fruit for us over this last year. And we're really proud of the improvement we've had in renewal and the improvement in the plus penetration as well.

Stephanie Wissink {BIO 17692025 <GO>}

All right, that's great. Let's flip over a little bit, you mentioned expenses and inflation in certain areas, so how are you managing higher wages? And then maybe give us some sense about what you're seeing in terms of inflation across categories? How do you mitigate that impact or how should we think about potentially seeing a little bit of price creep on the part of the consumer basket?

Kath McLay

Yeah, so if I take wages first and I think those two elements are like part of the fun and the challenge of these roles like as you kind of trying to what the whole equation is like. So if I just look at wages -- I think Sam's Club has been on this journey for a number of years. So they've been looking at how do we increasingly invest into wages so that we have great jobs and great careers. So we want they are at destination roles. So I am a meat cutter, I am a cake decorator, I am a forklift driver, those ones we believe a destination well, so we want to pay them at right -- it's a great take on wage.

And there are other ones which have career roles where people come in as an entry-level and work their way up through the club. And we've been on this journey over a number of years building out these right jobs, right careers. What we are now in a position where everybody is in the work group and within a work group, what you -- first of all you're part of a team, but secondly you get cross chain to grow across the other roles. And we're finding peoples productivity goes up because, one, they are making deliveries, they are (inaudible), they get to do different jobs throughout the day or throughout the week. And that increases, I guess, the enjoyment of their jobs.

And so we've been investing into wages and building out great jobs and great careers over this timeline so that we're in a place now where we're really happy with the progress that we've made. And we've been able to do it in a way that we've been able to balance out that you know as well too. And so you constantly looking at, okay, this is a destination job, have we got out of the right amount in the market, what's action is about. If we added a little bit more, will we be able to reduce the turnover. So you constantly balancing out that equation. And then the other part that we've been doing is, okay, now we want to lean into omni, I need to stand up in fulfillment team. This week last year we stood up curbside across the nation and we managed to do that last year, Stephanie, without increasing our absolute headcount across the clubs.

So we stood up these fulfillment change because we had deployed automation throughout the club, we had been able to use Scan and Go and people are using it more last year and that enabled us to free up resources to put into that fulfillment chain. So this is constant equation that you're balancing, am I paying the right amount in the market to make sure I'm recruiting the talent that's going to stay with us and will increase with us? Am I balancing at automation so that I can continue to shift around our resources and lean into further channels like omni and continue to offer value to members? And let me do that all in a way that keeps my prices right and gives a return to the shareholders. So that's been a multi-year exercise to get to where we are today.

Your second question was around inflation. I think there's been a lot in the press around inflation. There is a lot around increases in resin and aluminum and et cetera. I think our merchants have been working very closely back with their suppliers. And we have had a number of requests for cost increases. And so the merchants work back on, okay, let's look at the portfolio and let's have a look at what items we're getting from that supplier, let's work with them to see are there cost savings we can put into place across our business with that particular supplier? Is there a way we can mitigate? I think that's the best thing that you can do. If you have the opportunity to mitigate, that's great. And then in those cases where you can't mitigate, okay, how do we -- like where are we going to pass it on and where are we going to hold it and how do you do that so to keep disruptive prices, but still manage your P&L to get your return. And I think that's the equation that the merchants have been working very carefully through and be very deliberate and precise about how we manage that.

We don't want to penalize our suppliers. We want a good business relationship with them that continues on. But we also don't want to disturb set prices and passing through to the members as well too. So it takes a little bit of negotiating and hard work and some creative work to be able to find cost savings to be able to manage through all of that.

Stephanie Wissink {BIO 17692025 <GO>}

That's really helpful. Let's talk a little bit about private label because it's not something we've explored a lot, but with general merchandise stepping up, just remind us what percentage of the business is private label today and how those

margins compared to national brands? And any categories where you expect to lean a little bit more strongly into private label?

Kath McLay

Yeah, so I think private label sales is about 30% of our sales. And I would have to say I am really proud of the work that the team has done, increasing the quality of our Member's Mark formats. So again this is an area where you look at art and science. So there is certainly an art to finding great items and developing great items, but there is actually science as well too. And so the team have come up with ways of using data to ensure that the quality is at a level that we're proud of. So I just spent some time with the team this morning and that we're showcasing me -- showcasing to me the dash flow that they now have that pulls all of the quality ratings of the website. And it's all of the member complaints per million units and it's also looking at social media feeds and what people are saying. And then it's looking at who do we believe has the best item in retail across the world and how do we benchmark against that and where are we leading.

And so all of those attributes you pull them altogether and we've deranged a number of items over the last 12 months where we said that didn't make the quality writing that we believe that our members should expect. And so we're being very, very disciplined about making sure the quality of our Member's Mark is a quality that our members would feel proud of and that it's something that kind of justifies that having a lot -- having a space in the club.

Stephanie Wissink {BIO 17692025 <GO>}

That's great. I want to just jump over to technology and innovation. I actually had a chance to meet with one of your team members at an industry event over virtual here several months ago. And talking about some of the tech deployments that you've done and you mentioned Scan and Go is one of those areas where you're incubating a new experience within the Walmart ecosystem. So talk a little bit about as a leader and leaning more into tech and advancements, what are some of the successes and maybe share a little bit about some of those that you've tested that haven't worked, but just I think what we're trying to study here is just how experimental you are. And then ultimately, when you do arrive at a success, how quickly can that be deployed across the Sam's system and then potentially even the Walmart ecosystem.

Kath McLay

Yeah, so Sam's is an incubator. I think we're great at software development. So if you take, for example, Scan and Go, I mean, you are a member so I hope you use Scan and Go that I think for me is one of the most delightful things about Sam's Club because it truly does put control into the member's hands. So people get a little confused and they think Scan and Go is self checkout. It is not. It is the closest you can get to an online purchase in the club. So you basically putting things in your physical card and scanning them on your phone and then swiping for payment as you leave. And it allows members to totally bypass the front end. And I keep telling

to the team, it's felt like it was a product that we created which was waiting for a moment like a pandemic because people just absolutely flocked contactless payments and there it was ready to go.

So I think if you look at Scan and Go, with the Ask Sam, with the On Your Inventory, with the Fresh app that really looks at how do we make sure that our production plan is right, our specs are right, the quality is good. So we've got all of these wonderful kinds of capabilities and apps which have great machine learning and AI sitting behind them that has enabled us to be highly productive in the club and a lot of those have been kind of transferred across to Walmart as well too.

I think the guys are constantly playing and innovating to find what is the new thing that we are looking at. And there are things that I think are on the task of launching to scale and there are other things where it's like that's still in incubator. So we've been playing with like how do I use computer vision at the exits. So one of the things about Scan and Go is at the exit we will scan one and now we've increased to three items. But what if I didn't need to scan it because computer vision enable me to be able to identify each of the items in the top. And so there's things like that that we're playing with. And I think actually even for the member, they no longer have to scan the barcode on the product because they find they can just recognize, well, that's the package of Doritos. And so how do I take friction out of the member and then how do I make sure that I am making my associates' jobs easier and more productive.

So we've got a lot of things that we've been buying with. One of the ones at the team, we're talking about Sam we have been working on this over the last kind of 6 to 12 months is how make my associate in the club a connected associates. So how do I give them what their very next best step is. Now if you look back in retail like over the last 20 years, there was a lot of like managers in the back room looking at screens. And you're trying to work out what's the next most important thing I need to do. The truck is coming, I need to organize with my supplier that's doing a delivery. Oh, I'm out of stock of these so I've got to pull this down from the steel and put it on the floor. They constantly trying to work out what's that next thing I need to do. Well, they don't need to sit behind us worrying to do that anymore. You can actually liberate them and have them on the floor and the technology can actually work out what's the next best thing is. And it can be delivered to a handheld or to an e-things [ph].

And so we've been fine with that. We have found -- like we've got the software part of it open on, the hardware part not so much. And so it's just kind of looking and refining and partnering. And then when we track that, then how do we roll it out, so it's like other parts in the Walmart kind of enterprise as well too. So I think the Sam's Club team is highly innovative. They have (inaudible) to use AI machine learning to really supplement and augment the associate on the floor. And I think it's part of the secret source of how we're leading into kind of omni as well too.

Stephanie Wissink {BIO 17692025 <GO>}

Yes, it's a great lead into my next question which is really about omnichannel. So as you're sitting in the CEO seat, what is your dashboard on omnichannel look like? What are the key metrics that you're tracking as it relates to the different executions direct-to-home, club pickup, contactless, et cetera? How do you think about those key measures?

Kath McLay

Yeah, I think we are obviously always looking at NPS. We're always looking at kind of repeat rate and repeat usage. When we launched curbside last year, we designed it around NPS. So we did design at around a common goal or like an order growth that was like let's target this net promoter score because if we delight the member, we know we'll get the repeat usage. And that's what we saw and we saw as our NPS target was over 75. And as we've got over 75, that repeat usage just really grew and that really part of the strength of what our e-com result was coming through the back half of last year and into Q1.

So I think there is some really important metrics, but we also look at things like how do we use personalization as well. So in Scan and Go, we start applying thoughts how do I suggest to the member that every other time they've shot with this, they bought bananas and they didn't buy it today. So before you leave the club, can I remind you? And we're finding even just with that personalization that we are seeing a far greater uptick in people doubling back and buying the bananas than what you would get in a traditional online suggested order. So I think you've got to understand the member and you've got to understand what the member problem is and then how do you use tech and data to solve those problems to encourage them to grow sales.

So the other thing I think that we saw last year was like as we lend into omni, we're trying to do it in a way that delights the member that is -- that grows our membership, but also kind of in a fiscally responsible in the way we manage our P&L as well. And so I think one thing was around how do you stand up, still maintain and be kind of cost neutral from how do I use automation. But then there were other things that we also kind of looked at how do I get my omni shipping and use the club as fulfillment point. So we're using shipment club instead of just those traditionally shipping from the fulfillment centers. So, I think last year we learned a lot more about operating efficiently and effectively as an omni retailer and I think there's still a lot of opportunity to kind of grow in that space.

Stephanie Wissink {BIO 17692025 <GO>}

That's awesome. So we've -- still have five minutes to go, so I want to make sure we maximize this. And I want to think forward over the medium to long-terms, how do you think about the growth algorithm between members, spend per member, your margin progression if you see opportunity there, even just thematically, not in terms of specific numerics? But do you feel like you're at a point where this business could grow faster and be more profitable?

And then the second related question as if we're sitting here five years from today and the business is 15%, 20% larger, what do you think would have been the key drivers of that growth? Are there any risks to some of those drivers that you anticipate?

Kath McLay

Yeah, I think we don't typically talk about what is a long term growth algorithm we'll give guidance. But I think what I'd say is we're very clear on what our strategy is, right items, disruptive prices and special experience for members. And we're seeing that those three are growing membership, they are growing higher new rates and they're growing a deeper relationship with our members which gives us a lot of hope for the future.

I think as you unpack that special experiences, the area where we really wanted to differentiate was omni. And so how do I provide that convenience to my members and how do I use innovative tech to really kind of help make that experience really delightful and frictionless for the member, but also make that super efficient productive in the way that we go back serving those members. I think the thing I'm proud of is if you look at Sam's Club, all of the tech, all of the software is our software and our tech. And all of the fulfillment associates are our associates. And so I think this is a real advantage point for us to continue to grow on and lean into to build out the productivity to ensure that we continue to grow in that space and to really own that member experience. So I think this is going to be an area you're going to see us continue to lean in and grow from, but I think this last year it kind of given us a little bit of a hint of what we can do in this space and I'm excited about exploring it even further.

Stephanie Wissink {BIO 17692025 <GO>}

Yeah, it really have been complement because I think to your point, you've seen a bit of a sneak peek of what a fully integrated omni broad channel commerce business can look like over the course of the last 12 months and at least based on what we can see, it seems like the consumers increasingly engaging in club as a true destination channel across commerce platform. So encouraging to see for sure.

Kath McLay

Absolutely, thank you.

Stephanie Wissink {BIO 17692025 <GO>}

I think we're going to leave it there. We're just booming right up on time. If you did not have a chance to see Walmart today at the conference, just let us know. We'll try to get you in touch with Dan and the IR team. Thank you, Kath, for the time today. It's always a treat to get into the business more closely if we can, so really appreciate the time.

Kath McLay

No, thanks for the questions.

Stephanie Wissink {BIO 17692025 <GO>}

Yes. Thank you, everyone, and have a wonderful afternoon.

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