

Bernstein Strategic Decisions Conference

Company Participants

- Brett Biggs, Executive Vice President and Chief Financial Officer
- Unidentified Speaker

Other Participants

- Unidentified Participant

Presentation

Unidentified Participant

We're going to draw a little attention to a slide that we need to pay attention to because it's super fascinating, and it is the overlord over every word that we say protected by this right here. So, what I wanted to do today is first give Brett some time to just kind of rapid us about what's cool about what Walmart is doing and I'm going to use our overall questions we've been using for every meeting which every analyst is asking, which is this, what are you guys investing in now that you're most excited about having the most potential over the next five years?

Brett Biggs {BIO 17414705 <GO>}

I'm assuming you didn't mean I need to rap.

Unidentified Participant

No. Just be casual with it. Make it easy. No, no, I wouldn't .

Brett Biggs {BIO 17414705 <GO>}

Yes. It's a really exciting time at Walmart. And it's -- I've been in this role now for 3.5 years. I've been with the company 19 years and I've never seen a time with more change -- more change with the customer, more change in the environment, but it lends itself so well to where we're going. And the investments that we're making that I'm most excited about which is most of our investments is related to omni, right. And how do we take, what we do really well inside our stores and what we do in e-commerce now where they're growing in very large e-commerce business and put them together in a way that only we can do right, the financial resources we have and the capabilities that we have that we can do things differently than other competitors can. And I'm super excited about those investments and I'm sure we'll get to a lot of those, sometime during the hour.

Unidentified Participant

We definitely will. And I think that's -- I think that's right. One of the constructs we use is, we just bother to walk through a kind of a strategy as solutions and a staff framework and so we'll kind of put our questions in that bucket. So because Walmart in our world view is a price and convenience retailer in a primary format, you guys have plenty of formats but let's start with the price. One of the things that's important is, we always know Walmart is going to invest in price, it should, it should forever, it always has, it always will. But is there kind of a return hurdle for investment, there's an old line that the last refuge of a scoundrel was patriotism. And for me the last refuge of a mistake for a merchant was price investment. And I just wonder if sometimes there isn't a moment where Walmart would go, yes, those are price decreases we probably shouldn't have done. Does that ever happen? Or is this culturally not appropriate for that ever to be considered?

Brett Biggs {BIO 17414705 <GO>}

As you say, we're always going to lead with prices. That's what we've done from the time Mr. Sam started the company till now. And over the last several years we've been more I think intentional how we talk about price investment, three years ago we said we're going to invest several billion dollars in a price we've done that, it's been some of the GM side probably little more focused on the food and consumable side.

And for us having a really just steady investment in price is what we want to do and in a way that our customers see it, we're more strategic about it than we used to be. And I think more disciplined about it. We have the idea and I know you'll ask what it is? I'm not going to tell you what price gaps we like. But we have an idea of what price gaps we'd like to have with various competitors. And when we get to that point, we're thoughtful and making sure that we're doing what's right for the customer long term but also what's right for our shareholders and finding that balance. So from our term perspective, it's really taking those price investments which lead to good comps which we've had really good comp sales and combining that with everything else we're investing in and making sure the total works. It's -- I think you can make a mistake of looking at one type of investment and saying, I need X return there versus stepping back and say we're going to make all these investments and I need X return on all of it. Yes, I think that's more how we look at it.

Unidentified Participant

And one of the things we've been working on before we left was traffic elasticity. This idea that if you just do price elasticity you can miss it but if you understand the baskets you need to get the traffic lift that's powerful and it turns out that the equation in that basket is not just price right, it's the same investments made in service and other components. So I'm with you in terms of how that functions, is it also true that in some cases and I guess this would go, I don't care what the gaps are but at some point you hit a price gap that's appropriate and if you're going to gain extra customers, you probably have to offer them something else, because that gap is so large, they probably would already showed up. And so investments and

convenience feel to me that that's part of what omni channel does is it balances price and convenience and your opportunities. Is that the right way to think about it?

Brett Biggs {BIO 17414705 <GO>}

I think it's a great way to look about it. Convenience is becoming more and more important to the customer. I mean, I think the resource that we all feel a little squeezed on more than anything is time. And so making things easier for that customer is really important and that's where you've seen us lean into online grocery pick up in the store or online grocery pickup in the store. Now, grocery delivery and we've always we've been delivering general merchandise products through our e-commerce group. But it's you've got to be able to put all of that together. And back in October really for the first time external we talked about this concept for the ecosystem and how we look at wanting to have that customer inside our ecosystem. And you can't do it with just shopping, you need to do it with financial service and you need to do it with payments, you need to do it with health and wellness. And you've just got to be there for that customer in a way, that's different than what it used to be.

Unidentified Participant

And thus the price advantages especially in some of those services, I mean, it's still unimaginable be what a good deal the Walmart services, Walmart to Walmart, Walmart to world, they're just eye-popping savings for individuals, especially the unbanked. In other categories though where there's always been this tension between CPG margin and retailer margin and there's an old joke when you shop at Walmart which is you drive by this very nice set of houses and you go, oh one day, I'll be a Walmart executive and I'll have that houses like no, no, no, those are CPG houses. And that was true for a long, long time because they got so much extra margin. Should, we think about Walmart participating in that conversation still that maybe you push a little private label maybe, you get -- you ask for more shared investment. Is that play run or is there still that room for going, I wonder if we need to rebalance this relationship from time to time?

Brett Biggs {BIO 17414705 <GO>}

It's always going to be a balance and it's -- it changes from time to time. One thing that's pretty different than a few years ago is private label. If we look at our Sam's Club brand, members mark inside of Sam's Club it's almost 30% of our sales today where we went from a very fragmented type private label offering, 10 years ago to today just that one private label, so that's very different. Private label has grown significantly inside of Walmart, so Walmart stores inside the last five to seven years we've put a lot more investment of a great group than private label products, when we have an annual meeting or what not. And you go on the floor and you see the amount of private label products not just the amount of the packaging is great, the quality is great.

And we have more private label sales, that's a different tool in the kit as we go to our customer. Also as we go to suppliers, it's a different tool that we have. But you've got

to balance that supplier relationship. But when we have the comp sales that we have right now and you're talking about growing, it just in the US we're growing almost \$10 billion a year, it's a lot of volume and we need to make sure that we get our fair share of that.

Unidentified Participant

Right, right. And if the tools that have historically been used, Walmart had a very different attitude towards trade spend than most which is we really, really want your best price. We do not want you to convince us to take this on promotion in June if our customers want it on promotion and rollback in July. But the game seems have changed where there's other topics advertising and some of these other buckets that seem to kind of finance people's otherwise impossible to close price gap with you guys, is that something that's also part of the conversation we saw advertising come back in-house for you guys relatively recently?

Brett Biggs {BIO 17414705 <GO>}

Yes, we've -- I mean, we've always been I think you said it well, we've always been a group that if we can get everything into the initial margin, that's what we would like to do because we -- it's less complicated, it's easier for us, it's easier for our customers to understand. Realizing though that suppliers are going to approach things differently we have dollars and we don't want to completely lose, we've got to make sure that we get those dollars. So there's different things that we will do in cooperation with those suppliers.

Advertising is a new and developing market, it's a decent sized business for us, we think it can be bigger. We'll be thoughtful about how we -- how we do advertising. We're going to want to make sure that our customers know that when we come to them with a product that it's a product that we feel good about, and that's -- it's our space, the sites or space just like our store is. And so we want to be in control of how we merchandise to that. But we think there are opportunities in advertising.

Unidentified Participant

Got it. So we were looking advertising years ago and one of the folks on our team had done some soft conversations about in-store advertising which E.Leclerc has been considering. Hershey's wanted to not have that stupid plastic separator between your groceries and my groceries on the supercenter belt and they went to have a Hershey's bar, that was looked like a Hershey's bar at point of purchase as advertising and they went to pass a lot of money per store to do that. Are those things on the table? Again you control it, it's customer space but it is even that ultimately on the table you think somewhere down the road?

Brett Biggs {BIO 17414705 <GO>}

I think you're in a point of time with the environmental competition with customers. I don't think you want to sit back and say that anything is completely off the table other than our culture, that's completely off the table. How you deal with suppliers?

How you deal with customers? I think we have to continue to be open minded. I think those kind of things are still not really how we want to operate. And so it's not the first thing that we would choose to do.

Unidentified Speaker

Yes, you don't need. You got to have some room. So I think that's solid on where the price gap and those elements are to invest and we'll do some more chat on private label later. So on the convenience space which we kind of dabbled in, one of the things that's powerful about Click and Collect is that you're actually generating incredible volume from your installed base of stores. And because buying power for grocery has to use of relatively traditional supply chain and Walmart has the absolute best way to do bulk, that's pretty powerful. But is there an operational speed limit that you run into for in-stores. A lot of European stores once they get to 10% or 15% of sales in-store Click and Collect, you just couldn't shop anymore. It kind of destroyed the value of that. Is there a sense of that stores can't be the only solution or there's at least something has to be done differently?

Brett Biggs {BIO 17414705 <GO>}

Yes, we're aware of that. We're about the third year into some of our online grocery stores and so we're learning where those speed bumps might be, that will be helpful as we bring more and more stores online. We're very thoughtful about ensuring that we don't disrupt the experience in the store for our customers that are shopping there. And typically you see in most markets I think you said it which is picking stores tends to be the most efficient way you start in this business. I think over time there's opportunities for whether it's dark stores, whether it's depots, other different ways in which you could pick, you can do that.

Our stores being as close as they are to the customers is a big advantage for us. And so we want to make sure that we are able to take advantage of that but we're going to be really, really thoughtful and make sure that we're considering all the different options of making that happen.

Unidentified Participant

One of the questions we wonder is you could have a ton of dots and you're close to a lot of customers. But when we used to do that math because this used to come to my team. How many -- what percentage of the population is close to so many dots? We got a lot of people served by the New Jersey Supercenter, that's not -- you're not really serving Manhattan with the New Jersey, but it's enclosed in the percentage right? So sometimes I worry that as many dots as you have which is great you might need a couple more at some point to get to that less little density certainly cities but even in some of the areas where the growth wasn't as high. How do you guys think about that? It's not -- you're not going to build bunch of the supercenters, neighborhood markets seem to be throttled back, but could these other formats be those fill in dots at some point?

Brett Biggs {BIO 17414705 <GO>}

Yes, I think they can be. I mean it's -- as you mentioned there's a lot of dense areas where supercenter isn't going to work necessarily because of the size that you need or other challenges. But there are new ways to serve those customers now that weren't there 5, 10 years from now -- 10 years ago because of the prevalence of the Internet and how people shop. So I think there are more opportunities for us than there were before. We've -- Jet's been a great way for us to serve customers in New York City for instance, right. And so we're using Jet more and more as a dense urban type brand. So, I think there's just a lot of different ways that we could tack that but there are ways that didn't exist 10 years ago that now potentially do. And I would guess that people in New York and other places like that would like our low prices.

Unidentified Participant

They sure would. Yes, this place has the worst retail I've ever experienced and I don't know how people live here. But besides that the thing that's fascinating to me about this incremental dot idea is there's so much share left in grocery. Lot of times people be like all these coming and that destroys grocery, a, they've been here forever. But, b, there's still 20%, of share in the hands of independents. And so to me there's still lot of room for that. Do you guys still see grocery as a share space and not just we're defending share with what we're doing?

Brett Biggs {BIO 17414705 <GO>}

Absolutely. We continue to grow share in grocery and a lot of that is coming from things that we can do that competitors are going to struggle to do. So now there's a lot of groups that are doing online grocery. There's many of them that are doing them really well. One thing that we can do that they can't is the assortment that we have in a Supercenter. And today, we still if you order online today and I may get the numbers wrong a little bit but probably 40,000 or 50,000 general merchandise type items that you could order with your groceries in that basket. That clearly isn't the entire Supercenter. And over -- I think the very near future you're going to see more and more of that assortment come online to where maybe it's not the big screen TV or apparel is a little bit more challenging but where you can you -- can we get more and more items into that basket. And that's just something that our competitors, most of them can't do but they don't have the assortment store.

Unidentified Participant

Yes. And so when I turn with that to this idea of the French model versus the UK model. So the French model of online grocery largely with the market leader of E.Leclerc is a standalone pickup point. And the UK model is picked from stores and that's because there's still enough land and low density in France and my opinion is France and US are a heck of a lot closer together. They think they're the best country in the world. They don't speak any other languages and they don't travel outside of their own country. So it's the exact same place. And when David Glass and Sam Walton went to find the supercenter they found in France. They knocked on half four and figured it out and transformed hypermarkets to supercenters. So that's where

Walmart started with standalone drive through four years ago inside of Bentonville and they've kind of become the UK model. Is that debate settled or is the French model still something that would be under consideration by the engineering team?

Brett Biggs {BIO 17414705 <GO>}

I think it's long moved on from whether it's the French or the UK model. I think now we're developing what the Walmart model is going to be and it's going to depend a lot on what the customer wants. They're going to signal over time how they shop in our stores or how they shop online grocery. We survey a lot of things as you know and we're going to know what that customer wants to do. We'll find them that right balance of how they want to shop in a way that makes sense financially for us to deliver to them in that way. But I think whether it's France or the UK is probably long gone. It's now, what is that customer had been but one that may be really different what the customer wants in New Jersey and we've got to be able to do both.

Unidentified Participant

And the supercenter magic you emphasize which is to get a bundle which is what made that work right? Because there's a lot of hesitance in the old guard among ever entering grocery, and that's because they weren't sure they would get enough attach and then they got that.

Brett Biggs {BIO 17414705 <GO>}

That's a pretty good decision, we got the grocery.

Unidentified Participant

Pretty good decision, it turns out to be right. The basket that I remember in my head which I'll tell investors about is one of the first times the drive through was turned on in Bentonville I was still within inside the four walls. We hadn't realized that someone might use it as a pick up store even when it wasn't ready. So someone ordered the kayak and their beer and snacks for a float trip and the associates were like where this kayak come from? And someone drives in and they get their beer and snacks, they're just like where's my kayak. So they got a kayak, put it in the back of the truck, got their beer and snacks, put it in the back seat we hope and drove off to do the float trip, that is a not replicable basket.

I mean -- and if you can get there do you think that in the way the supercenters essentially closed out the competition target could not catch up they got to 300 super targets they can close it. Is that kind of the game like we've got an omni channel solution that it's probably maybe Amazon that can stay with us and that's about it?

Brett Biggs {BIO 17414705 <GO>}

I think what you see particularly relating on grocery, I think there are things that we can do because of our supply chain and are -- now our 30 plus years in the grocery business that there's some that can't do. The ability to think to replicate that basket on all with the kayaks, but the ability to replicate that basket is going to be challenging because of the assortment that we have. And customers want -- there's 80% of needs that will get fulfilled by X number of items and it's not 100 million. But there's also a long tail that today we do have 100 million items and it's fulfilling some long tail so you're going to have to be -- you have to get the core of the product, you're also going to have to be have the long tail as well.

Unidentified Participant

Cool. That's very powerful. And you mentioned cities, I think it's okay. The last thing I want to add on convenience is, as we've seen investments in Flipkart and even China, should we think about that competition? Obviously geography is different, obviously development levels are different. But is the place that you're going to go with that at the same -- is it kind of the same idea that you're ultimately going to get to this bundle that others can't replicate?

Brett Biggs {BIO 17414705 <GO>}

Those are really different markets. And China is very different from India. India is very different from the US. The thing that's common is grocery is going to lead pretty much in every market, that's common around the world. The infrastructure is very different in those markets but we do want to be the low price leader in all these markets and we want to be able to deliver the assortment that allows you to be top of mind with the customer. Some markets that may be 50 million items, some markets that maybe 300 million items. I think that's the assortment amount is going to be part what varies between the countries. But price convenience and assortment and the old rules of retail are still pretty much in effect, pretty reasonable.

Unidentified Participant

Pretty reasonable. And let's hold Flipkart to the side for a second. I know there's some debate about that. But it's a big bet, do you need another big bet like that in China? Or do you think you guys are pretty getting down the road there?

Brett Biggs {BIO 17414705 <GO>}

We've made some pretty big bets in China over time. It's been more of a time with the amount of stores that we put there and then the 10% interest we took in JD, the interest we took in JD Daojia. So we've made, I think some maybe not as big at one time bet as we did in Flipkart but some sizable bets. Sam's Club is continues to be an unbelievable format in China.

Unidentified Participant

Yes, with Costco, if they could get a map, they'd probably go do that too.

Brett Biggs {BIO 17414705 <GO>}

Sam's Club has been a great opportunity for us in China. So, we've said China and India are major focuses for us and how we attack those markets or serve customers in the market, I think could be different and it may or may not require a sizeable bet.

Unidentified Participant

Got it. The other one that comes up a fair amount is shipping. So the one day shipping announcement was in my thought very well crafted, well done. Yes, we're already there. Here's our numbers. But the mechanism for that will it still include a fair amount of network providers still UPS, USPS, FedEx? Or is this kind of notion that scale for retailers will get so large that the frankly do their own delivery. Kind of where is your thinking on that? And we saw the tests, that was cool that Marc Lore and others were thinking about. But how should we think about the shipping responsibility you think you'd take on?

Brett Biggs {BIO 17414705 <GO>}

Yes, we're trying a lot of different things, we've partnered with pretty much anybody that delivers. We've had our associates delivering, we have our own small crowdsourced delivery company. And I think different things may work in different parts of the country it may not be one solution. But, I think all of those will work over time and I don't think we feel like we have to get ourselves in a position where we say that's what we're going to do and go do it. There could be a point in time where we get to a scale and say okay that looks like the answer maybe we do scale up there. But right now, really just keeping our options open. There's a lot -- there's just a lot of options out there.

Unidentified Participant

The analog that has been brought to me I think can make sense is Walmart has an incredibly powerful transportation team with its own drivers and trucks but it's not all the volume. You're good enough to make everybody honest but you don't take all the volume, so you can exploit that dynamic and having that. Is that probably close to what do you think the world would look like in delivery? You may have your own to keep everybody honest but you probably won't take the whole volume in-house?

Brett Biggs {BIO 17414705 <GO>}

I think there'll be some things that we do on our own. I think there'll be things that our customers will do. I mean -- I think we found out that potentially customers that come in a store and can earn a few dollars by taking a package to their neighbor that they may want to do that and we win, they win. So, I think there will be some things we'll do ourselves, I've no doubt about it. But the idea that we do everything ourselves is probably unlikely.

Unidentified Participant

Yes. And I like the way you frame that. It's what the customers and more broadly believe because in that first format in Bentoville, customers asked to take stuff to their neighbors within the first three weeks because they realize well I'm going there anyway. No big deal.

Brett Biggs {BIO 17414705 <GO>}

Yes. It's a very neighborly place.

Unidentified Participant

It's a neighborly place, I'll give you that. There are other ones. Queens is nice this time of the year, don't worry about it. I'm going to shift this to assortment and service real quick. But I do want to know and I have some cards here but do you have cards in your seats, please feel free to write those questions, hold them up in the air, they'll be collected and I'll get them all and will run to those at the very end with those cards were.

Brett Biggs {BIO 17414705 <GO>}

I was wondering what those conversation.

Unidentified Speaker

Okay, they're magic -- they have important questions. These are just the warmups. On assortment, you guys have done a very good job of being clear, I think we don't want to do all of the items because there is a long tail, even in the long tail there's a long tail of of that, I think that makes a lot of sense. And in some places where you've done your one day shipping it's relatively small number of items. How do we think about where that break point will be for one day shipping valid items or even the break point for 100 million enough we don't need more than that.

Brett Biggs {BIO 17414705 <GO>}

Yes, I'd say it's still in development. And I keep coming back to it, it depends on what the customer wants but it really does depend on what the customer wants. I think -- well we have more than 100 million items which is basically we have today, I feel certain we'll have more than a 100 million items. Does it need to be 500 million, I don't know. I do think there is a tipping point and same with inside of Supercenter, there's a tipping point to where you have just might have too many of one thing and you can confuse the customer with different price points. And so we've got it, we're trying to find the place where it's optimized to get the assortment we need but it's not confusing for the customer. And we'll work it out. And we'll -- maybe different, different categories, maybe different, different geographies. And over time it'll likely go up and down.

Unidentified Participant

And when you say it depends on the customer, it's not a dodge because one of the places you guys made a ton of investment was customer insights, I mean there was a whole team that was literally gold, customer insights for all its purpose, right? And it still functions and does that. Do you think that micro segmentation that that enables, is that really a new capability, right? Is that -- there's that's an old idea, I think one store at a time. You're almost getting to where you can think one customer at a time. Is there a right way to frame it?

Brett Biggs {BIO 17414705 <GO>}

Yes. And it's got the one customer at a time again you've got to do that in a way that feels comfortable for the customer as well when you get into privacy and other things, it's got to feel comfortable to them that you know about them what they would like you to know about them and in a way that's helpful to them and so that's a balance we'll keep trying to find as well.

Unidentified Participant

The other direction of assortment is not to go to price that's good on a lot of items. The other way is to run a Sam's Club model where you run a really good price on a smaller number of items. And Sam's Club going through the changes, it's done. It felt like it was a refocus on that core mission. Is that right way to think about? Is -- over the next three to five years, do we think about Sam's Club doing something different internationally or is it going to kind of get more on plan in a way?

Brett Biggs {BIO 17414705 <GO>}

Yes, I've spent three years of my career at Sam's and it was always the question, the debate was what's the right SKU count, right, inside of the Sam's Club to make it the most efficient and how many where do you make decisions for members and where do you let them make their decisions for themselves? But it's a very efficient model and needs to be and most of your profits should come from your membership. That's how a club works and we've gotten away from that a little bit. I feel like the last couple of years and particularly with John, we've gotten back into the old club model and Costco has been incredibly successful at doing that.

So, I feel really good about what's lot about what's going on at Sam's Club. I think they've always been improved, but I think they've got a really nice fix on the model right now.

Unidentified Participant

That's pretty strong. And I do want to follow-up a little bit on private label. So we know Sam's Club has done a really good job with Member's Mark -- I mean with their equivalent. One of the changes that we're struggling with is as you add private label inside of Walmart generally, there's this notion of how much of the problem do you take on. Private label used to be an opening price point defense. All the arguably, though they have a low price, they're not really an opening price point element

they've moved up. So how do you guys think about your private label positioning versus Aldi on kind of the low end and Kroger on the high end?

Brett Biggs {BIO 17414705 <GO>}

Yes, it's an interesting challenge and we learned a lesson a bit in the UK in particular, I think a lot of the UK retailers tried to compete with Lidl and Aldi with opening price points to start with, and it was a mistake. They didn't understand the quality of the product that Lidl and Aldi had and then you start competing with them more of the mid-tier price point. When I grew up as a kid, generic was -- it was not a good product. It was not something you want to do, there was a white package, it wasn't good. This is a very different world. And I think this next generation that's coming up behind my age, they're much more accepting of private label.

So you can't compete with Aldi and Lidl with -- for the most part, opening price point private label. I think if you can get private label right, and get the packaging right, get the quality right, I do think you can compete on both ends with the same product. I'm not sure you need to have both and that's where I think we've gotten a little bit better.

Unidentified Participant

Right. Now your assortment variation store specific continues to widen, so you might end up with a private label that's your default in the store. And if it's a super high income traded store, you might end up with a different more of like or something else. Yes, exactly. So in packaging which sounds kind of micro but the first version of the rebrand of private label for great value was literally white packaging with blue logos on it, it almost looked like World War II surplus. But that was intentional because at the time the whole game was continuing to grow massive share with CPG partners. And they couldn't have designed a more appropriate private label for their share. That's all changed. So is it -- it's new people, it's new team, give us some color if you can on that changes to the privately label?

Brett Biggs {BIO 17414705 <GO>}

We have -- the team that we have in place today one there's a much larger team. I think people that have a lot of background in private label with other companies, some that grown up inside a Walmart, it's just a really different approach. When I -- when I say when I go to a year beginning meeting and you'll see the concentration of private label products, and you see the quality. And where they stack up versus competitor, I'm blown away a lot of times of what they come up with and they're excited about and they're passionate about it and it's not just this is -- it's not just this is a replacement product. This is a great product and we're going to drive volume with this. So it's really a change I think in how we view it.

Unidentified Participant

Got it. On the percentage speed limit, should we think of one if Kroger is at 30 and now holds at 40, or just go where you need to go.

Brett Biggs {BIO 17414705 <GO>}

I think we go where we need to go. We're still -- going to Walmart stores, we're still a house of brands and I think we always will be. But I think we're finding out that private label there's certainly more space for it than -- certainly than I would have thought. But again I think this next generation, the Gen Zs, Gen Ys are going to be just more accepting at private label.

Unidentified Participant

Got it. So the last bucket for us is service and kind of our strategy construct. So, store tech enablement was historically challenged because people did such an unbelievable job with COBOL and green screens that they build all this incredible stuff that all need to be fixed in the stores to get them caught up with the technology. And the gap between the super nice Hoboken office and the store is pretty wide, technology wise. How's that going, getting stores caught up to the technology performance?

Brett Biggs {BIO 17414705 <GO>}

Yes, it's evolved a lot in the last few years. Even with customers just the amount -- the amount of WiFi capabilities we have in stores because people are using their phones, some to entertain children which I can identify with. But they're just using it more. So you need that WiFi bandwidth to be able to do with customers. But when you say our associates now much higher use of tablets and to where they're on the floor versus back sitting in an office, they're out on the floor which is where we want them. And so it was a lot of investment and we'll continue to make investment. But huge pay off from the ability to get out and help customers.

Unidentified Participant

That's great. And the other thing we'd noticed, we had a retired regional come to our Consumer Conference last year and they were talking about how the service scores and departments that were historically promised for Walmart like electronics, has started to close, the competitors improve a lot. These services never the leading foot because you have to have something to do price, but that gap seems to have closed. Do you think that's real?

Brett Biggs {BIO 17414705 <GO>}

I think particularly in a place like electronics, I mean you have to compete with other retailers that do lead on service and we're not going to -- we're not going to lead necessarily on service, but you've got to be at a certain level. So if you go in our stores now, they look different, they're more friendly, it's more product out where you can play with it, touch it which is what people want to do. And then when it comes to things like being able to set up a new phone and you -- to have someone there that can help you do that quickly and efficiently and take that out, that friction out of the buying process is a big deal. And so we've -- there are places where we've invested in that.

Unidentified Participant

And some of the stores in the store concept, it's not as overly raw as maybe a Best Buy, but you have them, you have Apple pads that are with their particular spec in a particular -- and Samsung as well. Are there other places in the store where that store within a store concept when this kind of partnership with the vendor would we see those elsewhere, does that make sense in other part of the store?

Brett Biggs {BIO 17414705 <GO>}

I think you could. Again I -- for the most part we like owning our space and our customer knowing that it's Walmart, but I think that's -- it's possible over time.

Unidentified Participant

Okay, cool. So let's -- I think the strategy is very solid for Walmart. We always said it's a fabulous element of it. One of the challenges of course is when you have a great strategy but there's a lots of investment, you've got to have something you're doing solutions wise to be able to save more money than everybody else doing the same thing. And one of the topics we keep hearing because you guys mostly started this stuff was wages. So where are you guys on that journey? I think it's absolutely necessary for the associates to be rewarded with the increase in productivity. It's a good call. Where do we think we go here?

Brett Biggs {BIO 17414705 <GO>}

Yes, we've made some big commitments, go back three years ago, our starting wage is up 50% from where we were -- over 50% from where we were three years ago. If you look at our take our hourly full time wage now and benefits, we're just under \$20 an hour. So we've made a lot of progress, a lot of money put into training, that's another part, if jobs do change, we want to be part of the solution and helping associates change with that. So I'm pleased with what we've done. We're going to -- we have to be competitive, right, on wages. And so there are some places that demand a higher wage than they do in other parts of the country, different cost of living and we're just -- we're on top of that. Again, I think we're more strategic about it and we'll just -- we'll be where we need to be from a market perspective, but ensuring that we're getting the right kind of talent that we need.

Unidentified Participant

And for me from my experience in there, there was a lot of wage improvement because it was so efficient, there were changes in efficiency and supercenters and these other components full time, part time mix changed. And then at some point you need to kind of true that up, and it got trued up. From this point forward, is it right to think about it? It's competitive. But is it closer to ordinary course of business?

Brett Biggs {BIO 17414705 <GO>}

As far as to make sure I understand your question.

Unidentified Participant

So, meaning, productivity improvements have been quite dramatic. The wages have been relatively flat. Wages get caught up in a way to reflect its productivity improvements. You're still doing other productivity initiatives. So, we're getting back to that kind of like you will have wages but you've got an offset built into the way the systems function.

Brett Biggs {BIO 17414705 <GO>}

Yes, I mean, the -- I'd say the pipeline of productivity initiatives is probably longer than it's been. We're further kind of into that work and you visited with Mark Ibbotson and his team that have been incredible in doing that. And so there are times where we've moved so let's say some jobs back office in the more assured service environment. But we've taken those wages and put them out on the floor because we want more attention with the customer and there's times where you just do something different and maybe you don't need all the expense that you had before and it will just be a mix over time.

Unidentified Participant

Got it. I have to ask tariff question. You guys have 50 some off sourcing offices, if I recall correctly. You don't have to be in China necessarily but you still are for good reason. If you go to the full crazy big giant bundle of \$500 billion tariffs, I don't know how that doesn't create a problem for customers. You wrote the list, I mean you were a participant in the letter to that effect. But can you help us get a sense of if that happens, is it a sales challenge for Walmart or is it a margin challenge? Well you guys probably just helped the customer and whatever it takes and it hurt sales or where is your mind at that?

Brett Biggs {BIO 17414705 <GO>}

Just like everything we do and it's a balance. It's the exercise -- it's an exercise that our merchants are always doing. We're just taking the cost of a product, helping the supplier with the costs trying to partner with them in a way manufacturing the right part in the right place. So they do that all the time. This is the skill set they have. Obviously this puts a new element into it that they're having to work through but they're always working through that. We want to be there for our customers. We are the low price leader, we always want to do that. We'll continue to manage this in a way that balances what we really, really want to do for customers. But balance is what our shareholders need as well and it gets a little more challenging with -- if tariffs go in like you're potentially being proposed, we'll help in any way we can, with the administration to get things to where we need to get them. But it'll be a balancing act, and we'll just have to work our way through it.

Unidentified Participant

Do you think though that China is the default might in a way -- this might in a way be a way to accelerate the shift out of China in some of the sourcing categories?

Brett Biggs {BIO 17414705 <GO>}

We have great suppliers in China. We have great suppliers in other parts of the world and this is an element in that. But -- there's some products that get made in certain countries for a reason. And we'll just -- we just have to balance that as we go.

Unidentified Participant

Cool. So the last one is this core store efficiency element and the savings idea. See you guys drew attention to floor wax last time at the event which I remember because one of the associates on my team is the one who actually did that work. Well, that means that it was sitting in a pile of money for you guys to go get for I don't know four years and you're finally going to get those piles of money. Well I mean there are piles of money that are left to go find, right. There's always pile to money to go find, right? So when you guys are doing this harvesting initiative of getting more and more and more solutions out of there and it's always a balance, I'm with you. But is it the same process where this massive phase of investment and getting the organization just focused on sales, we're going to go get that money. This is going to happen and we now get sales growing again and the teams are really excited about. Is it now possible for the solutions and harvesting lever to come back a little bit more?

Brett Biggs {BIO 17414705 <GO>}

Yes, it already has. I don't think -- and I've said this before, I don't think we ever lost our EDLC culture that we weren't where we were when I came to the company 19 years ago. And it feels fun again to people to save money. I have had people come up with ideas. I was getting emails like hey we saved \$2 million on this and this is all it took for us to go do. And they're excited about it. They can see that we go do it and we -- and they see it in the P&L. The great thing about us, Greg Foran will say, if you do a small number of things and a large number, it's a really big number, and that is definitely the case of Walmart.

And so even today we're more than 300 initiatives that I get to see kind of every month. I know where we sit on those initiatives and that list some come off, some get done, some new ones come on. But this process that we put in place a couple of years ago with this our cost transformation processes feel like it's really ingrained back into the culture and supported by Doug, supported by our Board. And it just it feels like we're in a really good balance with how we drive sales which is the most important thing we need to do.

Unidentified Participant

Great. In the last -- for us is staff. So, we spent a lot of time thinking about people and I was being a little facetious. The reason that project didn't happen is because you need a way for some remodels to get done. And so you have an incredible

challenge which is you've got to allocate between 300 and 3000 various projects of capital across the entire finance organization. How is that possible? How do you handle that? How do we think about the capital allocation when you don't suffer from a lack of good ideas?

Brett Biggs {BIO 17414705 <GO>}

Yes and -- to some degree because of our operating cash flow, we're not naturally capital constrained, I mean with \$27.8 billion of operating cash flow last year. We're really disciplined -- the executive committee team as you can imagine spends a lot of time together. And as we talk through the various things that we can invest in whether that's in e-commerce or international or the US, the P&L and the balance sheet sits right with us as part of that discussion. And I think we've always been a pretty disciplined company. I think we're more disciplined than we've been in the past and the strategic direction is getting clearer and clearer all the time. So, I feel good about our ability to be disciplined about, CapEx has actually come down some over the past several years and our allies kind of flattened out. So, I feel better about it.

Unidentified Participant

Yes. Are there any bigger those kind of cost initiatives that are big enough that people would go and go wow this is cool, we can see in stores we're excited about that?

Brett Biggs {BIO 17414705 <GO>}

Yes, I mean some of the technology that we put in stores you see if you go in a store you could see I mentioned earlier all the handhelds the associates have. And that's more from an efficiency standpoint, it makes them more efficient but they're definitely cost savings. And I'm going to run back to the backroom, they will go look for something, they know where it is and all of that plays into it.

Unidentified Participant

Right. The -- how do you think about EDLC when it applies to e-commerce and omni channel. I never wanted my team to go see the nice facilities in California. There's a culture that has to be maintained and arguably separately and Doug mentioned this a little bit. How are you guys handling that kind of cultural balance of investment in EDLC and keeping the culture clash down?

Brett Biggs {BIO 17414705 <GO>}

Yes, I think a lot of it is communication. It's talking about it openly that in different parts of the world different parts of the country, you may do things a little bit differently. That's okay. And I think there's an openness to talking about it that if you don't talk about it people kind of make up their own story of why we're doing something. And so Doug and me and others are just I think very open about it.

Unidentified Participant

There's a notion in omni channel because of that whatever you're going to do it's going to lower our ROIC. And I think that's because the early versions of investment often do because you're trying to figure out what is answer is (inaudible) anything, exactly. And to me I always think the same deal. I think if you went and walked hypermarkets in 1988, there's no way you bought Walmart stock and they should have. But that's because it was in a horrible phase and by the time you get to '92, it's unbelievable what it be created. Is that the right way to think about -- it's not that you guys are abandoning ROIC goals.

Brett Biggs {BIO 17414705 <GO>}

No.

Unidentified Participant

We just got to get through this space.

Brett Biggs {BIO 17414705 <GO>}

No, I -- we talk about ROIC a lot which I'm sure would make you and others in this room happy. But it is -- it's a different business model. And we've -- we bought obviously since we're buying Jet and since we bought Flipkart, we're learning, we're learning all the time, it's a different business model than running brick and mortar. But the way you can pull together is really interesting, they have different leverage points. And so, return horizons can be different for different types of investments and we just got to -- for every investment that we make that's going to take a little longer than we like. We just need a few that pay out really quickly and we've got to balance that out.

Unidentified Participant

I like this question which is one of the early assignments was store of the future. And I think it was 2015 and I had worked -- I saw it like in 2002. And someone had drawn up a McAlester, Oklahoma store of the future and you went to the 2015 store it looked exactly the same as it did in 1995. Is there going to be a store of the future 10 years from now that really will be like whizbang Jets in New York crazy?

Brett Biggs {BIO 17414705 <GO>}

I think the shopping environment could be really different 10 years from now. And I think some of this could be driven by technology. We haven't lost focus on retail payment. And I think even you're looking at mall space today where you're seeing mall tenants bring in different types of more of an entertainment and experiences than you've seen. I think, we have the opportunity to do that with 275 million customers a week that come through our stores. And that gives us an opportunity to

interact with them in a really different way. And I'm seeing the technology now whether it's AR, VR, MR. That is just really cool and it was interesting.

Once we did the Jet deal, we were always -- we would have been as people are coming from new technologies we would have been an early call of that group. After we did Jet and as we've invested more and more in technology, I think we're starting to be the first call of a lot of those groups to where we could scale out some of their ideas and there's some things that come through the office that are just fascinating. And I think it will be fun for customers over time.

Unidentified Participant

I'm a big fan of that and I think retail team is something that is under invested in and some other formats. One of the things that people have also gone through is when you think about it in the format does a grocery have to make its money on food. So there's this question like can you just monetize client information, can you -- you take a loyalty card program, you take all of the value of that and that's how you make money. Do you think that the models really that pressured or probably still retailers can -- I don't know sell stuff for a small markup?

Brett Biggs {BIO 17414705 <GO>}

I think they'll always be able to do that. I think the model's going to keep changing. You see the ecosystems that really started somewhat in China with Alibaba and Tencent and groups like that, where you do make money in different ways and monetize the relationship with the customer in different ways, and I think that's finding its way into the US and will become a little more prevalent. But I think retailers are always want to make some make some money on retail.

Unidentified Participant

Yes, I think that's right. And -- the people always ask about the loyalty card program. And I was one of the resisters to have one. But you're getting so good at client identification, barring the creepiness factor, you kind of know what your customers are doing. Do you think that's why Walmart is not some are permanently disadvantaged by not having a loyalty card program?

Brett Biggs {BIO 17414705 <GO>}

Yes, we've never had a loyalty program in the way that most people are thinking about that and always felt like that we wanted to put the cost of that back in the price and I think that's worked for us. I think it's now it's more of how do you make the offering customized, more than a loyalty program it's customization and that's more of the focus.

Unidentified Participant

Yes. With all this omni channel, where people think about is that the threat or is it all that keeps coming up like if you go towards omni channel do you lose the efficiency of a hard discount equivalent? And if -- my takeaways we talked to a lot of store managers that their comps would go up when all that was in their parking lot and all these in your parking lot both because it's German for Walmart in Walmart's parking lot. And because they need your volume. So do you guys think you can do both that you can go upscale and hold that line?

Brett Biggs {BIO 17414705 <GO>}

I think you have to do both. I don't think you got a choice if you're a Walmart. I think you have to be able to compete with Aldi, which we do and Lidl and you have to be able to compete in omni world. And again, I think that goes back to a business like ours that has the financial resources that we have to do that just not many companies have that opportunity.

Unidentified Participant

Got it. Now, omni channel makes a lot of sense but there is a standalone first-party business in dotcom and Jet. And there's a marketplace and there marketplace participants are desperate frankly for you guys to get bigger faster because they don't want you being on Amazon and they never know when they're going to get cut off with some of the news that we've seen. Is that still a part of the plan, is that still part of the idea that yes we're going to have a first party business and a third party business and we're going to invest in Jet and equivalent that's still hoarding --

Brett Biggs {BIO 17414705 <GO>}

I think you need all of that. Third party is a great place to really to be able to invest in the tail and have the tail the customers looking for and first party allows you to differentiate yourself with exclusivity on brands that also allows a different margin mix. And I think both are important over time.

Unidentified Participant

I had actually a couple of questions on Asda, but it's a little ticky tacky but we'll get through it because it is kind of surprising with the UK regulator changed. Have your thoughts changed about the positioning of Asda's usefulness? Does it do anything to your capital allocation strategies or plans?

Brett Biggs {BIO 17414705 <GO>}

I would say that the Asda management team has done an amazing job in a very noisy period which Brexit as well as what we were contemplating with Sainsbury's. They've done an amazing job. And so we're continuing to run the business as we were. And long term, we just want to put Asda in the best position to win in that market. And we'll just continue to run the business and see where we go.

Unidentified Participant

Yes. This is an interesting question. It says if you ranked all the companies in the S&P 500 based on kind of an economic footprint construct, so not market cap but just kind of all the things that you do in the world economy and this various metrics, you guys would be a clear number one. Has that degree of scale usually there's a curse of scale. How do you dodge the curse of scale?

Brett Biggs {BIO 17414705 <GO>}

Yes, I mean there's been different I think times in our evolution where it's been more -- we certainly get a lot of attention. And so sometimes as positive sometimes not -- and sometimes when it's not, it makes you a better company. You change some things because of that and I think we've benefited times from that. You've got to keep running your play and try to get rid of the distraction as much as you can. There was a point in time back in our history where we would just run one store at a time and the rest of the world would leave us alone. It was a long time ago. And so I think to some degree we've gotten used to it a little bit. And we try to use the scale to our advantage, to our customers' advantage and with all the things we've done from a sustainability standpoint last 15 years, I think to a global advantage.

Unidentified Participant

Got it. So my last question for you is a story of two executive conversations. One is Sam Walton and David Glass make a bet about whether or not Walmart can make a whole bunch of money. And if Walmart made a whole bunch of money and I think it was 8% pre-tax profit, then Sam had to come do a hula dance on Wall Street which he does. There's another conversation where Greg Foran sits with David Cheesewright, the International CEO, and Greg is relatively new to the company is essentially saying Walmart makes too much money. And I think it was just he was hidden being, he have been a grocer for his whole life. And so there's like this notion of like oh well that's crazy you guys can make that kind of money. Is there a point at which Walmart kind of older, almost deepest culture which is to just be unbelievably good at making money? Is that still somewhere inside of the cultural context is that -- is there is version of that conversation where it's not disruptions happening. Here's a response. Let's go. But we've got this settled and now it's the appropriate time maybe that's five years, I mean it's ten years out to harvest even more.

Brett Biggs {BIO 17414705 <GO>}

Yes, I don't think -- I think that's just going to be an ongoing evolution with competition with customers. One thing I've been pretty open about is I think if you look at a retail business and you wanted to make a bet of whether retail gross margins go up or down over the next 10 years, I think most would say I think they probably go down a little bit over the next 10 years. And that's part of why I and others inside the company have been so focused on expenses. I think that is something you can manage better than anyone, we can manage better than anybody else can. And if we can get the expense rates to where we want them to be, it just gives you so much more flexibility on the margin perspective, then you can

make that decision of, how much to put in the customers, how much to put to shareholders. And we're getting there, we're making progress on expenses and I think that's more of the discussion it leads me too.

Unidentified Participant

Great. Thank you very much Brett.

Brett Biggs {BIO 17414705 <GO>}

Thank you.

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