

# Robert W Baird Global Consumer, Technology & Services Conference

## Company Participants

- Marc E. Lore, Unknown
- Peter Sloan Benedict, Analyst
- Steve Schmitt, IR

## Other Participants

- Unidentified Participant, Analyst, Unknown

## Presentation

### **Peter Sloan Benedict** {BIO 3350921 <GO>}

Yes. Okay. Great. All right. Good afternoon, everyone. Thanks for sitting in. I'm Peter Benedict, retail analyst at Baird. And I'm thrilled to introduce our next company, Walmart. We're very fortunate to have with us Marc Lore, who's the CEO of the U.S. e-commerce operations. As many of you probably know, Marc joined Walmart late last year as part of the company's acquisition of Jet.com; prior to that was founder of Quidsi, which was purchased by Amazon. So really, one of the foremost leaders in e-commerce. And so we're really thrilled to have him here today. We also have Steve Schmitt, equally distinguished IR professional, formerly of Yum Brands. I think Steve's going to open with a couple of remarks. And then we'll just kick into a little Q&A. And if we have time at the end, we'll open it up to questions from the audience.

### **Steve Schmitt** {BIO 19791185 <GO>}

Thanks, Peter. Appreciate it. Thanks for coming and your interest in Walmart today. Just a little bit of housekeeping before we kick it off with Marc. Today's presentations may include forward-looking statements, which are subject to certain risks, uncertainties and other factors identified in the safe harbor statement of our website at [stock.walmart.com](http://stock.walmart.com) and in our quarterly and annual SEC filings.

So after that excitement, Peter, back over to you.

## Questions And Answers

### **A - Peter Sloan Benedict** {BIO 3350921 <GO>}

All right. Great. So -- well I guess we're going to start out. Doug McMillon, CEO of the broader Walmart organization, has given you a lot of leeway, it seems, to what

you think needs to be done with the e-commerce business at Walmart in the United States. So maybe talk about some of the key changes you've made since arriving late last year. And as part of that, you've spoken about the customer value proposition in that. Can you just help us understand how that is kind of guiding the way people operate at Walmart e-commerce?

**A - Marc E. Lore** {BIO 3597588 <GO>}

Sure, sure. So we just closed the Jet.com deal late September and spent really the next few months really on restructuring the organization, getting the right people in the right spots. So that we can move fast. Then really in the New Year, we focused on 2 main areas. One is getting the value proposition much improved. So that's the CVI, the consumer value prop index, really focused on making sure we have the product people want. They could find it, display all the information they need, priced right and delivered with a great experience. So really focused on the basic fundamentals. Then another part was focused on innovation and leveraging Walmart's unique assets to do some things that only Walmart can do. So on the fundamental front, we firmed up pricing.

We launched 2-day free shipping with no membership, which has been very successful. That was -- really contributed a lot to the growth that we saw in Q1, that combined with also easy reorder. So people can shop at a Walmart store. And we've got like 30 million shoppers' data in store that they can now see online in a really easy-to-reorder list with no latency. They can quickly add things to their basket. I think the combination of those 2 things really drove a lot of the growth. And was core to the fundamental experience. With respect to innovation, in addition to launching store #8, which is really focused on next-gen retail 5 and 10 years out, we launched Pickup Discount, which basically gives consumers a discount when they buy stuff not in store. So that long tail at e-comm when they pick it up at a store.

So the most expensive cost of delivery is really last mile. And so we thought, "Well if we can pull those supply chain shipping costs out of the system, we can share a lot of those savings back with a customer, give them great prices while, at the same time, driving them to the store." And we see that people coming to the store to do their pickup are also going to the store and buying food. So we've got Pickup Discount. And then we've just recently announced and we're testing associates to do delivery. So we've got over 1.2 million associates in stores. And we thought, "Well what if we -- we're sending packages to the store every day from the FC for pickup. If we actually put the e-comm transactions on that same line, I'll leverage the Walmart's trucking infrastructure." So associates are already located in the same location as the packages. We could optimize and give the packages out to the associates based on whatever route they decide they go in after work to minimize the distance of their commute. And you can imagine, with hundreds of associates, there's a lot of routes going in all direction. And so the actual distance to deliver the package is pretty small.

So we're excited about the test we're doing. We still have a lot of work to do before we're ready to roll it out. But then we also have the ability to leverage that not only to do e-comm transactions. But also do same-day delivery from the store on both fresh, frozen and GM. So excited about that. We've also done some M&A as well. And

that's really on the fundamentals front. How do we enhance the long-tail fast? And so we've picked up 3 retailers in ShoeBuy, Hayneedle and Moosejaw in their respective categories, home, shoes and outdoor. We've got access to great merchants. We've got access to relationships with thousands of brands, a couple of million SKUs with really rich product content and data descriptions, pictures. And we gave the keys to these CEOs to run these categories across Walmart and Jet. So it's really bolstered the experience in those categories and will continue to. So that's a little bit of what we're doing.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

That's great. Stepping over to the infrastructure. I think by the end of this year, our estimate is that you guys will have spent probably north -- I mean, Walmart, north of \$10 million on e-commerce and technology CapEx over the last five years. So what's your assessment of kind of Walmart's operating infrastructure right now? I mean, you come here, what gaps are you seeing? What gets you excited? What needs to be invested in over the next few years to kind of get you to the point to where you want to get to?

**A - Marc E. Lore** {BIO 3597588 <GO>}

Yes. I'm excited about where the technology is. The technology platform, e-comm platform was re-platformed a couple of years ago on Pangaea. The warehouse network, we've got warehouses of the right size in the right location with automation. This is a nice platform to build upon. I think a lot of the heavy lifting is going to be on creating really specialized shopping experiences by micro category. We've got all the details just perfected. And so we're going out and hiring category specialists focused on very narrow categories and just trying to crush it. We recently just hired, in fact, 5-time Olympic gold medalist swimmer, Nathan Adrian. And he's the category specialist for competitive swim. Nobody knows competitive swim products better than a competitive swimmer. And that's the idea, is that -- they're not all going to be Olympians, by the way. But the idea is the same, is that we're hiring experts in a very narrow field to make sure we have all the assortments priced right, merchandised right, all the stuff.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

And are those learnings going to be applied at Walmart.com and also at specialized sites? Like how do we see it? We've kind of termed it like a mass specialty strategy. It kind of feels like there's the Walmart.com, there's Jet.com. And then there's going to be these individual specialists. Is that the way we're going?

**A - Marc E. Lore** {BIO 3597588 <GO>}

Yes. I mean, the way I think about it is really there's 2 main sites in Jet and Walmart, both mass sites going after different audiences. But sharing the same back-end. So we get leverage on the retail teams, on the logistics. But from a consumer standpoint, we get access to more customers. We're sort of able to now push Jet more premium, going after the higher-income urban customer, which is not the typical Walmart.com shopper and Walmart.com with everyone else. The specialty sites are really there, yes, to give us customers if they want another -- who want to

shop with a specialty experience. But more so taking the assets that have been created by these special retailers and bringing them to Jet and Walmart. That's really the purpose of it.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

Makes sense, great. You touched on this a little bit earlier. But I want to expand on the -- your assortment philosophy. I mean, I think you guys are worth \$50 million plus, at least as of the end of the First Quarter. You were less than, I think, \$10 million even two years ago. So a big growth there. I think Jet had \$15 million maybe at the time of the acquisition. Again, estimates. But where do those numbers need to go in order for Walmart to compete the way you want? I mean, Colin Sebastian at Baird is estimating I think Amazon's got \$400-plus million. You have to go all the way there. Talk about the first million SKUs, the next \$50 million, the next \$100 million.

**A - Marc E. Lore** {BIO 3597588 <GO>}

Okay. I think, I mean, the friction for third-party sellers to sell on multiple platforms is not that much. So we're continuing to quickly add 3P sellers that are selling on other platforms. And there'll be a point at which we get to parry. There's a finite number of SKUs. So I'm less concerned about getting to parry on long-tail assortment. It's more about getting the brands that really matter. It's really focused on -- and that's what we're focused on really the top million SKUs. Top million SKUs, by our estimate, represent around 2/3 of all sales done online. So it's really getting the right products as opposed to quality over quantity.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

How does fresh fit into that equation? I mean, everyone -- there's a lot of talk about fresh as the next frontier. But talk to us --

**A - Marc E. Lore** {BIO 3597588 <GO>}

Yes, fresh -- yes. No. I think we're really well-positioned on fresh. I mean, we've got over 700 stores now with same-day pickup of fresh, where we'll pick the product for you and bring it out to the trunk of your car, where by the end of the year, we'll be over 1,000 stores with fresh pickup. So we also have Net Promoter Score that's above 80. The customers absolutely love it. That's an off-the-charts NPS score. We'll continue to roll it out to more stores. We've done the hard part in sort of building the picking operation and being able to bring it out to the car. The next step is really same-day delivery. We've got same-day delivery tests now in 10 stores and working out, working really well. But I think this is one of Walmart's unique advantages, in that we've got fresh and frozen food in over 4,000 points of distribution around the U.S., where the fresh food has gotten there in full truckload. So it's -- 90% of the countries within 10 miles of fresh food, that's gotten in the most economically means possible.

So -- and in addition, we're also doing some really cool stuff on Jet. We've got one FC servicing half the U.S. population. And we're able to Ship to Home in refrigerated boxes and coolers. And we're able to ship longer-tail products because we're servicing half the country out of one facility. So I think combination of that, plus we also announced that shareholders that we've trialed this almost shipping container.

It's like a big vending machine, where we've got fresh and frozen in there. And you can come up to it, scan your phone and literally get packages pulled right out of the machine, which could be used to put in locations where we don't have stores. But I think we have a good -- we've got a good game plan from fresh.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

Greg Foran, who runs the U.S. stores business, CEO of U.S. stores, at the meeting last week said he felt like he's moving from fixing mode with the U.S. store business into a leading mode. He feels like he can play a little more offense, I guess, is the way to say it. And obviously, the comp store sales have been great in the stores. And now e-commerce is kind of coming in. And we all saw what happened in the last quarter. Where do you see that relationship between the stores and e-commerce going here over the next few years? I mean, talk a little bit more maybe about the last-mile delivery. But I'm sure there's other exciting things you're working on again on which you can talk about. But where do you see it? Because it feels like you've got 2 organizations that are kind of coming together at the same time, ready to kind of --

**A - Marc E. Lore** {BIO 3597588 <GO>}

A big part of it. And the reason why we'd only move so fast, is the advice I got from Doug and the board earlier on, was Greg is a key person to make and build a relationship with to make sure that stores and e-comm are really like working together. And so even before I started at Walmart, we already built a good relationship. And we've been really close and making a lot of decisions jointly together about the business. We've merged the marketing and technology groups together across stores and e-comm. So there's only one marketing group. And there's only one technology group. And they report in to me and Greg. So we have one common brand. We have one common platform, one common SKU database across. Like you've seen a lot of really good things happen. And it's just the building blocks and the place for us to do some really interesting stuff together.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

You've talked a little bit earlier about acquisitions. But I mean, what else is out there that's from a capability standpoint? Or is a lot of what we should expect is you guys kind of building things internally? I mean, I'm sure there's maybe other brand capabilities, like you said, as you build the tail. But anything in terms of infrastructure or whatnot --

**A - Marc E. Lore** {BIO 3597588 <GO>}

Yes. We're really focused on organic growth. We've got store #8, where we're incubating start-ups that are ring-fenced with the store organization. We're building that from scratch. We'll be partnering with folks. But primarily organic. We're doing acquisitions, like I said, in the small specialty players that can help accelerate entry into the long-tail on Walmart. Then we've also experimented with a digital native vertical brand in ModCloth, which gives us access to product and brand that you can't find anywhere else. So that helps to elevate the positioning of Walmart in Jet and also comes with great margins and stuff. So we're exploring a little bit with the digital native vertical brands. But primarily organic. It's going to be organic.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

Organic?

**A - Marc E. Lore** {BIO 3597588 <GO>}

Yes.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

And when you say -- you mentioned turnover rate. And I mean, you're probably great -- as good a person as any to ask this question to. When we look out 5, 10 years, you've been a visionary in terms of the businesses you have created. What are we not even talking about today that in 5 or 10 years that's going to be something that everybody in this room needs to think about when investing, not just in Walmart but in other parts of the market?

**A - Marc E. Lore** {BIO 3597588 <GO>}

Yes. Well I think in order to think about the future, you have to kind of look to the past a little bit and make sure you're looking through the right lens. And so when I think back to e-commerce. And I think, what was it -- what was the real step change? If you ask the average person off the street, what is e-commerce? What was the step change? I think most people go directly, "Oh, product delivered to your door. That's the big step change." That's not really the step change because we were delivering products to people's doors for decades through catalog. The real step change was taking the physical catalog, that was expensive to ship, that had a limited number of products, that was hard to sort of search and file through, hard to get content to know what people thought, take that catalog and digitize it, expand it, add rich content, pictures, descriptions, reviews, what other people thought, make it really easy to find stuff in this catalog and make it really easy to buy stuff in the catalog.

Hand it off to FedEx, hand it off to UPS, that's -- nothing's changed. Same things happening now that it did 10, 20, 30, 40, 50 years ago, right? So if you look through that lens, you think, okay, really, the step change is about merchandise. So the merchandising step change, which is really the core of retail. So if you look through that lens and you think, okay, well, what's going to be the next step change in merchandising? How do you have a richer experience? How do you buy stuff more easily? How do you get access to even more products than you have today? I think that's sort of the lens. And if you look through that lens, there's really, I think, 2 big areas. One is conversational commerce with the advances in artificial intelligence, machine learning. It won't be long before you're able to have a much richer experience and talk in a very conversational way, where you have the -- you're talking to as much an expert in a particular product category like you would if you walked into a specialty retailer and talked to the expert on the floor. I'll combine that with having as much knowledge about what you like and don't like as your mom or dad, like in combining the power of that and be able to do that in a very conversational way, I think, takes the commerce experience to a whole another level. Then I think that's a great building block toward virtual reality.

Then we're talking 10-years plus out. But where you're able to create a much more immersive, richer, 3D experience, where you're able to see the products in their native environment. So you want to go camping. And you literally can just say, "I'm looking -- I'm going camping. I'm looking for a tent." Then there you are at a campsite, in a place where -- the lines to the places you like to camp. And you're able to walk the campsite and see the tents and ask about the different tents and get expert advice on it. You're able to see it and feel it and almost touch it. And do that or be able to be buying produce and seeing an apple and being able to say, "Show me where this apple was picked." And you're transported to the orchard. And there you are able to see the farm and able to see the people that are doing the growing and picking and ask them, "What's special about these apples?" "Oh, let me tell you. It's organically farmed and all this stuff." I think millennials will like and crave information. They don't want to just buy products. They want to know where they're made, what they're made of, that they have a soul and a mission for being. And I think that comes to life through virtual reality. But the base is conversational commerce. That's the building block for it.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

It's amazing we're having this conversation with Walmart, right?

**A - Marc E. Lore** {BIO 3597588 <GO>}

It really is.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

My last question. And then we'll turn it over to you guys to see if there's any out there. Amazon's had a few announcements over the last month and change, the shipping threshold. And then talking about going after giving a prime discount, I guess, to folks who are on the SNAP program. So just your reaction to those and, obviously, just one competitor out there.

**A - Marc E. Lore** {BIO 3597588 <GO>}

Yes, no. I mean, we're offering right now free 2-day shipping with no membership, with a pretty reasonable \$35 shipment. And we think we're really well-positioned with that value prop. And we saw what it did in Q1. So we like where we're positioned. And we'll continue to innovate.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

Great. I guess, we can open it up here if there's any questions from the field.

**Q - Unidentified Participant**

Yes. How do you guys at Walmart.com think the online part there [ph] really affected the delivery? [ph]

**A - Marc E. Lore** {BIO 3597588 <GO>}

How do you get them to start there you mean? I mean, it's really just about getting more customers to shop with you and have them come back more often and buy more when they do. And that's what we saw in Q1. We saw a lot more new customers come in. We saw existing customers shop more frequently and buy more. So at the end of the day, it comes down to the value proposition that you offer customers. And we're laser-focused. I think we've got a really good team. And we've got a really clear strategy on how to get the fundamentals better. And that's where we're maniacally focused right now.

**Q - Unidentified Participant**

Price (inaudible)

**A - Marc E. Lore** {BIO 3597588 <GO>}

It's all -- it's basically CVI. It's making sure we have the product, making sure they can find it, making sure we have all the rich content, priced right and delivered on time and fast, like those are the chosen 5 bellwethers that we're focused on. And the category specialists will really help to like iron out those finer details on each category to make it really an exceptional experience.

**Q - Unidentified Participant**

What categories (inaudible)

**A - Marc E. Lore** {BIO 3597588 <GO>}

What categories are -- you said --

**Q - Unidentified Participant**

Which categories of (inaudible)

**A - Marc E. Lore** {BIO 3597588 <GO>}

Yes. I mean, I don't think there's any one category. We're certainly focused a lot on the head of the assortment in consumables and fresh. We think that's sort of the foundation of the relationship with consumers. And we've got the smart cart technology on Jet, where we're empowering customers to shop smarter by building these bigger, more efficient baskets to pull cost out of the system. So we've got a good delivery experience, great assortment on consumables, got the ship speed there. So that's a focus and, of course, the advantages with respect to fresh. But I'd say that's probably a big area of focus. Then if I had to pick, I'd probably then go long-tail in terms of apparel and shoes, accessories, jewelry, those sort of long-tail, higher-margin categories, where we're looking at acquisitions and where we've made a couple.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

One thing that came up last week, I think, on the side conversation, we were talking about customer acquisition costs. Yes. The question was put to you like how do you think about that? The reaction was kind of like, well, being at Walmart is nice. Talk



about how the umbrella of being under Walmart has helped you in terms of from an e-commerce perspective. That's kind of a bit of a game-changer in the sense of brand awareness and customer awareness.

**A - Marc E. Lore** {BIO 3597588 <GO>}

Yes. That's good. I mean. So we're maniacal about like thinking about cash cost to acquire a customer. And then tracking the cohorts and estimating the lifetime value and tracking that really closely to make sure that we're getting the right return on marketing spend. And knowing what the true marginal cost is of every marketing dollar spent and the marginal return and looking in that by channels to figure out where we should put our dollars. And one of the things that was fascinating and very exciting about coming to Walmart was because of the massive brand awareness, the return on a marketing dollar spend is that much greater just because people know it. I think I probably didn't appreciate being at Jet how much harder it is to get somebody to shop at a low CAC, or a low cost of acquisition, when they've never heard of the brand. That's much easier to get people at Walmart. So that's been really exciting. We've been able to put some dollars to work. And there's a lot of room to do more of that, too.

**Q - Unidentified Participant**

How much value (inaudible)

**A - Marc E. Lore** {BIO 3597588 <GO>}

Yes. So I mean, I feel like we've got a good base right now. We've got a good logistics infrastructure and tech infrastructure. Obviously, as we grow and scale the business, we're going to need to make more investments to support that additional volume. But it's not a situation where we need to go back and rip everything out and start from scratch. It's actually we've got a nice foundation to build upon.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

One other question I had was, I mean, you started to talk a little bit about the Pickup Discount. But maybe talk about that last-mile conundrum or challenge, whatever they call it. And how having these stores kind of evolve the economics there.

**A - Marc E. Lore** {BIO 3597588 <GO>}

Yes. So shipping from a centralized warehouse, very easy to get 2-day ground, not that challenging to get overnight ground. We can do majority of the country overnight ground from 6 different locations. When you go to same-day, the economics become very different. You have to be within a pretty reasonable distance to be able to deliver same-day efficiently. And it gets really expensive to do it. But we're able, because of the scale of the Walmart physical brick-and-mortar, to have product that we're moving in truckload quantities, total 4,000 points of distribution, putting in 90% of the population within 10 miles of these 100,000 SKUs sort of warehouses makes same-day delivery much more economical and viable, especially fresh and frozen, which is impossible to do same-day from a central warehouse.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

And is the Pickup Discount, is that just sharing the savings that you guys are realizing?

**A - Marc E. Lore** {BIO 3597588 <GO>}

Yes. The Pickup Discount -- just to be clear, the Pickup Discount is on products, not in store.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

Right, that's not in the store. Right. That's what I was kind of thinking about.

**A - Marc E. Lore** {BIO 3597588 <GO>}

Yes. It's a long tail. And it's very simple math. It costs a small fraction to get it to the store than it does to get it to somebody's home. And we basically say, "We have all these savings. But share these savings with our customers to give them a better price point. So that we sell more products to get better value and, at the same time, we're driving traffic to the store." So --

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

That was very Walmart.

**A - Marc E. Lore** {BIO 3597588 <GO>}

Yes.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

Well if there are any more questions, speak up. There we are. Another one more. And then we go to breakout. Go ahead.

**Q - Unidentified Participant**

As it relates to one of your (inaudible) on Amazon's (inaudible) large portion of their volumes, how do you then pass through their (inaudible)

**A - Marc E. Lore** {BIO 3597588 <GO>}

Yes. So I don't really think about 3P and 1P necessarily in terms of profitability. I think you want to carry a wide or the widest possible assortment of products. It doesn't make economic sense to carry a lot of those SKUs first party because you don't have the volume. There's obsolescence issues. There's holding costs and things. And so a vast majority of SKUs, it's more economical to just get the commission and not bring them in house. But when it is economical to bring it in-house, the margins are higher than the commissions that you get from third-party merchants. So that's how we sort of think about it. It's really a math exercise on thinking about when to bring them in and when not to.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

All right. Thanks, guys.

**A - Marc E. Lore** {BIO 3597588 <GO>}

Okay. Thanks, Peter.

**A - Peter Sloan Benedict** {BIO 3350921 <GO>}

Appreciate your time. So Marc and Steve, they're going to be available on the Astor 1 room for a little breakout, about 15, 20 minutes. So head over there. Up next here will be KAR Auction Services. Cerner is in the Grand Ballroom 3. SAP is in the Empire Ballroom 1. Sanmina is in the Empire Ballroom 2. And then Lucky Strike is in the Morgan Suite.

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