

# Cowen Consumer Platforms for the Next Generation Summit

## Company Participants

- Kathleen McLaughlin, Chief Sustainability Officer

## Other Participants

- Oliver Chen, Analyst, Cowen & Company

## Presentation

### Oliver Chen {BIO 15320650 <GO>}

Sustainability Priorities & Practices at the World's Largest Retailer. Hi, it's Oliver Chen, Cowen's new platform retail and luxury analyst. We're thrilled to have Kathleen McLaughlin, she is Chief Sustainability Officer at Walmart; EVP, President and Chief Sustainability at Walmart. Inc and President of the Walmart Foundation.

At Cowen, we view Walmart as a leading omni-channel ecosystem and an online grocery leader as our surveys consistently show that over 50% of all online grocery shoppers use Walmart. We have an outperform rating on the stock in a \$107 price target. Kathleen is responsible for programs and help Walmart, create economic opportunity through jobs and sourcing, enhance sustainability of food apparel and general merchandise supply chains and strengthen the resilience of local communities. Through business initiatives and philanthropy her teams work with Walmart associate suppliers non-profit organizations and others to deliver lasting improvements to economic, social and environmental systems. In last year, the company awarded more than \$1.4 billion in cash and donations including over \$975 million in food donations. Kathleen, thanks for joining us today for this important (inaudible).

### Kathleen McLaughlin {BIO 18336643 <GO>}

Well, thank you, Oliver. It's really great to be here with you.

### Oliver Chen {BIO 15320650 <GO>}

So just broadly, what surprised you most in 2020 as Walmart really became a prominent, go-to retailer for most Americans and what have your priority has been amidst the pandemic?

### Kathleen McLaughlin {BIO 18336643 <GO>}

Yeah, well, 2020 was the year that surprised us all, isn't it. So I imagine the things that surprised me and us are the things that surprised everybody who is tuning in today. So first of all as a retailer, just how critically important access to food and essentials has been throughout the pandemic and our omni-channel model just got accelerated -- any plans that we had to expand grocery pickup or home delivery just got magnified accelerated because of the pandemic and the need to provide people with options to get food and essentials including coming into a store, but also avoiding a store, still being able to get what they needed.

And so that's one. Second it was really the scaling up of the safety protocols, so how could we adjust our operations to keep our people safe, our associates and our customers all the things that we put in place, not only in terms of physical protections, but other things extending emergency, paid time off leave and a lot of other protocols to help people be safe at work and customers be safe while they're shopping. And it's really challenging in terms of just the sheer number of government ordinances, local ordinances that were extremely variable across the country even within states across counties and municipalities and so managing and network in that complexity was a surprise and challenge for everybody.

Third, just the role, how important, especially now with administering vaccines and trying to be part of that solution and help the country move as quickly as we can toward herd immunity and vaccine uptake. And then really the pandemic and just see events of 2020 including the murder of George Floyd really also accelerated the conversation and the reality of the role of business in society. And the way that we can serve and address issues, beyond the customer or the shareholder. So for example, in addition to the things I've mentioned already, just the role that we were able to play as a bridge employer, we hired hundreds of thousands of people and completely wired our hiring practices to be able to hire people within a day, so that we could not only have additional people coming to work and relieve the pressure on our associates to feel like they had to come in, if they weren't feeling well, what have you everyone to get lots of people around to alleviate that but also for many folks, we acted as a bridge employer as people might have lost their employment temporarily they can come and work for us for a while and some of them actually stayed on and have become permanent.

Associates and others have come back to working on the places, also the role that we played and continue to play with suppliers, helping to provide apps to customers for suppliers to keep their businesses going across categories, and also to help manage volatility around supply and demand. And then just in terms of even things like racial equity which we can get into a bit later in our chat in (inaudible) of April, May, June and so on, I think prompted everyone in the country to reflect and raise aspirations on what we can do to advance.

Equity and combat systemic, racism, systemic inequity in our society. And then finally just community resilience. The role that we've tried to play, not only through employment and access to food and essentials and so on but in local community response. So you mentioned our food donations we've been engaged in food security for a long time. So, partnering very closely with looks like Feeding America

and others to try to get access soon to basically address the volatility and in cases where we had overages, certain items to get them out people quickly into people's homes to alleviate huge spike in food insecurity throughout this pandemic.

**Oliver Chen** {BIO 15320650 <GO>}

Kathleen, you mentioned the role of business and society. I mean, we really do believe in the stakeholder approach to companies and thinking about fairness and equity, but what should we know about your role and society as a business and how that has evolved and as you do mention George Floyd and other factors what's important to Walmart?

**Kathleen McLaughlin** {BIO 18336643 <GO>}

Yeah, well, it's a couple things, one is in the last few years, there has been a great dialog about the role of business and society. And increasingly our recognition first of all that the only way a business can create, sustained value over time is by serving stakeholders, what we call shared value, Michael Porter's phrase we really adopt that at Walmart, you can't create long-term shareholder value unless you are addressing needs of your customers, your associates or employees, suppliers, communities et cetera. Those things can't be separated. But the only path to sustained financial value creation, sustaining success was a business, if you're doing a great job serving the stakeholders. So for us, the events in the last year have just really validated that philosophy that approach and that's really central for us. And so when we consider ESG investing the big uptick in interest in this and somewhat, it's not surprising at all to us and what we try to do is articulate for investors for others, once the ESG investment thesis in a company like Walmart and we actually think investors in general should take that approach, every company should consider things that way. What's the reason that you would invest a dollar in Walmart, if you care about climate change, if you care about racial equity, if you care about COVID response, if you care about equitable access to food, whatever the issues are that are relevant for our business, what's our ESG investment thesis, meaning why is that issue relevant for business and society. What's the approach that we try to take at Walmart to address that issue and what are the strategies that we're putting in place to pursue that, what are the results disclosing progress and so on and -- for me, in a nutshell, that's what ESG is all about. And that's what we try to convey through our own disclosures and engagement.

And a couple of reflections on that and what's really I think been shown to be true in the last year or two is already mentioned this notion of shared value that the financial value creation for shareholders is hand in hand with the stakeholder value creation. But a couple of other things to point out. One is that the challenges we face as a society right now, whether you take racial equity or climate, degradation of ecosystems COVID whatever the issue, they are so significant and so pervasive that we are now at a point that we need to regenerative solutions, solutions that actually transform the systems that we rely on.

So it's not enough anymore for our business or anyone in society to say well, my approaches to be quite sustainable. I'm just going to operate in a way, right and

minimize my impact. That's not enough if ever what you know to address those kinds of issues in a way that creates value for business and helps us make progress on those issues requires a regenerative approach, meaning, we actually have to contribute to solutions that improve the situation that renewed, that restored, that regenerate, not just who;e steady and not that requires transforming systems.

The second observation I would make that we really strongly believe at Walmart is the path to transforming systems to create those better outcomes for society in terms of any of those issues or the past that we're going to build bridges across divides that are going to unite and not get caught up in polarization or extremes. So, so much of our discussion, certainly in our country, in the US is about the extremes and the divide and polarization. Well at Walmart, we serve everybody. Our customer base reflects America and people have a lot of different views and we live in a three dimensional world, not a single dimension world. And what I mean by that is, if you take polarization on any issue, it's one dimensional, we think there is ample scope in the -- and bringing people together and transforming systems to create outcomes that are really in the interest of everybody and that's where we try to focus.

And then the last thing I would say is there is tremendous synergy in solutions where it's a false trade off to say where we can have business or society or we can sustain the environment or grow the economy, we think those are false trade-offs that the most creative solutions are at the intersection and optimized for social, environmental and economic outcomes where business is at the table working collaboratively with civil society with governments as a partner and that's where we're going to get the best solutions, that really move us towards a sustainable climate, racial equity, getting through the pandemic like you name it. And there are lots of examples of that.

So really coming back to your question in investors what would be want them to understand? It is to approach this in that way themselves. So all of the time and energy that investors put in to analyzing companies, creating the investment thesis, thinking about a financially that's great build on that now and you incorporate the Environmental Social Governance factors. It's a holistic approach and there ought to be as much energy and thought into analyzing companies on that basis and understanding the links to value creation and to addressing issues of society.

**Oliver Chen** {BIO 15320650 <GO>}

Yeah, Kathleen. So what do you find Wall Street may under accretion most about your sustainability efforts. What are you prioritizing those and what might be the hardest to achieve?

**Kathleen McLaughlin** {BIO 18336643 <GO>}

You know, my observation around Capital Markets asset managers, investors in general is that people are evolving towards this more integrated understanding and value creation. And I've just seen that even the last three, four years where when we engage teams from our investors, three four years ago, it might have been one team and then there was like ESG group that maybe would call a few weeks later. Now, it's

a single conversation and you know for us as walmart, the priorities that we have our four issue areas that we think are most relevant for us as an omni-channel retailer. So economic opportunity for our associates, for our suppliers, it includes racial and gender equity and our role that we can play and unleashing those things and advancing them through our jobs, our purchase orders our engagement community. Second sustainable supply chains and transforming supply chains to decouple consumption from environmental social outcomes basically to create much more regenerative products supply chains that are not only sustainable in terms of environment and people, but again the notion regeneration add back or better drive down emissions, restore ecosystems elevated people. Third is community resilience and the role we play locally to enhance the resilience of communities in terms of social cohesion, food security, disaster response those kinds of things. And then fourth as a global business. Aiming to operate with the highest standards of ethics and integrity and bring that into our policies and practices around things like Digital Citizenship for example stakeholder engagement and so on.

So those are our four priorities and what we try to get across to investors is, why are those relevant for business value creation and for our stakeholders. And what are our strategies, what's the progress we're making and again what's that ESG investment thesis. Why is the dollar invested in Walmart, a dollar that would not only returned to the shareholder, but would actually help make progress on things like climate action or racial equity or COVID or again any of those four big themes I mentioned.

**Oliver Chen** {BIO 15320650 <GO>}

Kathleen, what would be some highlights of things that you're measuring and tracking in that Wall Street should measure and track and see your progress as well. I mean it's a big open-ended question, but would love your thoughts?

**Kathleen McLaughlin** {BIO 18336643 <GO>}

I'll give a couple of examples, one would be around climate action and the other would be around economic mobility. So advancement at entry-level people through work and in particular at the opportunity that the retail sector has to be a springboard for racial and gender equity through work and through advancement. So on climate -- for few years now, we've been informed by the guidance of the task force on climate related financial disclosures in terms of doing a risk assessment around climate, modeling out 2030, 2050, what does it look like in a three-degree world, four-degree world. The answer is not good. And then, what does that mean for our strategies and what we need to do to contribute to a net zero future. And so our climate strategy includes science-based targets for emissions reduction. We were the first retailer to set science-based targets back in 2016. And that includes our own operations, as well as the supply chain, what people call Scope 3. So we set targets that are aligned with the Science Based targets framework. And then last year we elevated our ambition to say what we actually want to go farther and get to zero emissions, in our own operations by 2040. And so we just closed our progress we've been disclosing for over 10 years now.

How are we doing in terms of our emissions overall, as well as on a carbon intensity basis the strategies we're pursuing to drive down carbon in our own operations and through the supply chain in a program we have called project giga tonne. We now have over 3,000 suppliers engage with us to decarbonize retail supply chains and what's great about that is those suppliers, supplier, all the other retailers too, right. So when they're taking actions, it's not just for Walmart like they're changing their supply chains and that benefits everybody. And that program is very specific strategies around energy, product design, waste, packaging, sustainable agriculture, forest and so suppliers are taking actions in each of those six areas we support them with tools and programs, we help them get the ideas for how to go faster and to report through CDP to our platform.

So we've been really driving focus toward reporting, it is one of the reasons that CDP rated Walmart with an A both for our own emissions progress on climate action, but also what they call their Supplier Engagement leader board because we're trying to democratize climate action and retail sector and get everybody engaged in moving more quickly to decarbonize supply chains overall. So we just close this in some detail in our ESG reports, and are tracking and disclosing this emissions numbers as well as the specifics around those pieces of packaging and waste and energy efficiency and renewable energy and so on. So that's one. The second is around the role that we can play as a retailer around entry level workforce and developments and I'm happy to describe it as well. But let me just pause to see you or it could go into that or -- it something out.

**Oliver Chen** {BIO 15320650 <GO>}

On that question, Kathleen. We've had incoming questions on labor and wages.

**Kathleen McLaughlin** {BIO 18336643 <GO>}

Yeah.

**Oliver Chen** {BIO 15320650 <GO>}

Can you discuss your philosophy on raising starting wages and what may happen over the longer term. And how might Walmart Academy intersect with us as well.

**Kathleen McLaughlin** {BIO 18336643 <GO>}

Yeah, absolutely. So the opportunity for retail as a sector. In the broader labor market and economy is to be a place where the barriers to entry into work are minimal removed. So could we have in retail there are a lot of entry-level roles. So be a place where people get started and work. But then, whatever their starting point invest in upskilling those people on the job, so they're learning while they're earning and then creating pathways that help them advance quickly, that's the particular role that retail can play.

And it's a really important role and it does require a shift in people's approach, especially in terms of investment in human capital helping people acquire skills in ways that they can while they're on the job and get access to those career path. So that's really been our focus. It's been about access to work, stability in the job and then mobility through investment and training and career paths.

So when it comes to wages, we pay competitive wages by role, by format in the geographies where we operate. So our starting wages and our average wages simply reflect what is the local market average for that type of job in that format, in that market and what I mean by that. Well, Walmart is an omni-channel company in the US is really a company with multiple formats embedded in it, so we have our supercenter and our grocery formats.

We also have a Club format, which is our Sam's Club. We also have an e-commerce warehouse company if you want to think about that way -- in terms of our DCs fulfillment centers and so on. And the wages that we pay, both at a starting point and on average are reflective of the dynamics in those formats. So for example, Club format if you want to compared to, let's say, a cost, where we have you are wages are very similar than north of 15 for the vast majority of our people. Same thing in terms of e-commerce warehouse fulfillment center and so on, our starting wages are north of 15.

So, and it's important. I think there some misconceptions out there, some people think that Walmart pays minimum wage, which we don't we -- our lowest possible wage anywhere in the network is \$11 but then people think that's our starting wage for all of our jobs. And it's just not -- our starting wages is very completely depending on what's the role and what's the local market condition. So just to give you an example, even within our grocery format or supercenter format, we have a whole career ladder of different jobs with different skill requirements that have different starting pay, depending on what results, the already talked about the Club format and the warehouse within the stores organization.

So for example, for our digital associates, our stockers for grocery pickup and things like that. The starting, wage just can vary anywhere from 13 to 19 as a starting wage. So the starting wage is 19 for those who are also getting in the market so system important to say. So our focus is then. Okay. We're paying competitively in the local market for that job, whatever it is warehouse or Club format or in the stores and, but that's just the starting point, and what we have found for the most part people coming to us, they may or may not have had a chance to finish high school, they may be new to the country and learning to speak English, our retail job offers an incredible opportunity to get scale on the job to move up.

So our focus then is on providing a package of benefits paid time off, access to affordable healthcare, quarterly cash bonuses, which are over and above the wage, discounts and so on which I can talk more about in terms of benefits. So people are stable in the role in terms of total compensation. We have a majority full time workforce not per time as many retailers, because we recognized for many people. That's their job and the more hours we can give them the better.

Scheduling practices that provide ample notice and flexibility to trade shifts with other people or to have a fixed schedule for months at a time. So we've spent a lot of time designing those jobs to improve the quality of the job to provide the stability around total compensation and scheduling and so on.

And then importantly, the investments in upskilling and we do that in a number of ways. So in the purposes, we want to develop that workforce and provide that access to career paths for the benefit of our associates, but also for our business again come back to shared value. It's in our interest to have a highly skilled workforce that stays with Walmart, that's excited it moves up in his with us. So 88% of our open positions are filled internally, 75% of our store managers started as hourly or our management in general will be store managers in the (inaudible) and so in those job, store manager earns \$180,000 a year job.

So we're trying to see that pipeline and move people up.

**Oliver Chen** {BIO 15320650 <GO>}

Yeah.

**Kathleen McLaughlin** {BIO 18336643 <GO>}

So our investments in the Academy and training are to help people get the skills on the job in advance, so the ways people learn are on the job coaching in a whole variety of programs that people will get day to day just through their work experience and their interaction with their boss and their teams and digital tools, we have a number of apps that we use to coach people and help build soft skills as well as technical skills.

And then the Academy, which is advanced training to take on supervisory and specialty roles and then what we've done is extend that was something called Live Better U, which provides free high school completion, English as a second language and so on and then advanced degrees. So two year and four-year degrees in fields that are relevant for jobs, the retail supply chain management, pharmacy tech those kinds of things. For a dollar a day in terms of cost of the associate and there are a bunch of supports we provide and so on, because we're trying to drive to completion. So all of that is in service of really helping people come into the workforce, get the skills they need to advance into positions of higher pay or higher responsibility whatever it is that people want as their career path.

**Oliver Chen** {BIO 15320650 <GO>}

Thanks for that. Kathleen, very helpful and comprehensive. A couple more came in gun control has been a hot-button issue in the US and you've taken a leadership position also electric vehicles are quickly gaining popularity, could you just share with us some quick thoughts on those buckets of different kinds of questions?

**Kathleen McLaughlin** {BIO 18336643 <GO>}



Yeah, happy to. In terms of the gun control. Yeah, I mean we had a horrible situation a couple of years ago with the shooting, and one of our stores in El Paso, which I imagine most people may recall it was a really horrible situation and it's not the first mass shooting in our country. So it did cause us to reflect and put in place some changes to our approach.

So Walmart we have a hunting and fishing department, many of our customers love to go camping hunting and fishing, that's in the past time for many, many people. So the question was how can we continue to support those customers, but in a way that can respond to the situations that we've experienced.

So many years ago, we have discontinued some forms of firearms, so long time ago, we used to sell hand guns. we got out of the long time ago, that wasn't an issue when it comes to hunting, rifles so we had some more tactical firearms and so on that we also discontinued a number of years ago. So really it was a question of what we were left with in terms of hunting rifles and things like that ammunition, that we have with them.

So we took a look at the ammunition and we discontinued many of the items, that we didn't feel were necessary for the hunting and then we also asked our customers not to open carry which in many seats people open carry loss that as a private company, where we can put in place what we'd like to. So we asked them not to do that, because it's alarming to people to walk around and see people carrying guns, so that was an important step. And we had also raise the age, number of years ago for purchase to 21. And I think most importantly we have incredibly stringent, processes and standards to apply for licenses and to actually purchase, ammunition, firearms and so on. And those background checks we won't sell, if they don't come back clean. We've got a number of IT systems that we are sharing with other retailers quite happy to share that information so people can adopt some of things, if they would like to and so those are all important steps that we took. And it's a good example of trying to find solutions that aren't -- put in but actually are common sense and forward, even make sense for everyone.

**Oliver Chen** {BIO 15320650 <GO>}

The other question Kathleen was on electric vehicles and EV charging stations and the last one on our mind is also actually mental health, admits the pandemic and how you're thinking about that and employee welfare and any closing remarks you may have, as we're bumping up against the end of the time. Thanks, Kathleen.

**Kathleen McLaughlin** {BIO 18336643 <GO>}

Well, I'll just briefly EV charging. we're pretty excited about, because as you know that things are moving in that direction there are more and more car companies seems like every day, people talking about and moving towards electric vehicles. So I'm looking to see the exact number of that, I don't want to give you the wrong number but we have well over a thousand EV charging stations around the country and what's great about Walmart is we tend to be pretty close to major roads. So it's a pretty convenient place to come and plug in obvious whenever 1,400 in 41 states

and that's just a start. Right. So we'll see where we go, but it's great to keep -- can pull in charge their car go do their shopping come out the cars charge enough they go and that's really ideal and it's a great shared value example great for our business, great for our customers, great for the environment. So we're obviously we're incredibly bullish on renewable energy with a goal to get to zero emissions by 2040. So this is all part of that journey.

**Oliver Chen** {BIO 15320650 <GO>}

Thank you and I am curious about your thoughts around employee welfare and mental health. And it's the pandemic in many ways Walmart pharmacies are important part of the fabric of communities as well and any closing remarks you might have.

**Kathleen McLaughlin** {BIO 18336643 <GO>}

Yeah that's been another thing, I think we're all learning and still coping with if I give any are sitting here in my house I have been trapped in here, I mean lucky to have a home. First of all, let me be very clear, but I think all of us, it's different ways. It's been stressful for us. So for employee well-being, we have a program called resources for living, which is available to all of our associates, and it's a counseling service on demand and helps people with mental health challenges, among other things.

We also have a partnership with Thrive Global, which provides additional resources to our associates for mental health and adjustments to lifestyle for well being, there are number of other programs that we've been running for years one is called CP Wellness which helps people connect with each other and makes small lifestyle changes or behavioral changes in service of their mental health, physical health and so on.

And then in our clinics, which we are piloting experimenting with extending we have an integrated mental health care offering that we've been testing, which we think is really important and fundamental for physical well being as well. So it's a critical issue. I would say it's early days for many companies including Walmart, in terms of scalable solutions, but we are investigating and testing many.

**Oliver Chen** {BIO 15320650 <GO>}

Well, that was really, really interesting Kathleen. Thanks for sharing with us your priorities and also the real approach to transforming and enabling and bridging, one of the world's most important companies for sure. Thanks for your time.

**Kathleen McLaughlin** {BIO 18336643 <GO>}

Thank you very much Oliver, it's been great to be with you.

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