

## Baird Global Consumer, Technology & Services Conference

### Company Participants

- Judith McKenna, President and CEO

### Other Participants

- Peter Benedict, Analyst, Robert W. Baird & Co.

### Questions And Answers

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

(Starts abruptly) 18% e-commerce penetration last year. That compares to 12% at Walmart US and around less than 10% at Sam's Club and they did about \$4 billion of segment EBIT, so that's about 15% of Walmart -- Walmart total. So no shortage of things to talk about. Whenever we have Judith with us I think. However, I think we're going to kick it we're going to focus on international today but given events of the morning. I would probably get run out of the room, if I didn't address the elephant in the room here, so we're going to talk a little bit about US inventory out of the gate given the news this morning from Target, we spent some time with you guys just last week, down in Bentonville, you seem comfortable with kind of the progress you're making on clearing excess inventory. Just maybe take a minute and help our understand what the view is right now given Target's kind of comments here to the calculus change from Walmart.

#### **A - Judith McKenna** {BIO 4806787 <GO>}

Yeah, so good morning everybody. Thank you for coming to spend some time with us. Looking forward to having the conversation today about international, but I'm happy Peter has gotten stuff out of the room. And just to mention where we are from an inventory perspective. Some of you may have heard our Q&A on Friday with analysts and we reiterated what we said at the earnings and Q&A which is Walmart US was 32% on inventory at the end of the quarter.

John made it really clear that of that increase, about a third of that is actually inflation. There is another part of that which is some stocking up that we wanted to do, but if you look at that total increase about 20% of that increase, I think the way he described it is if you could snap his fingers, he would wish that we didn't have it and we're going to work through in a thoughtful way. That is pretty broad and across multiple categories.

Some in apparel, some in electronics but it's multiple categories that it covers including some seasonal, which of course, the weather will help, but that's not the

only thing and John gave the guidance Friday is that it will take us a couple of quarters to work through that and to do that in the right way. Nothing has changed for us since the update we gave you on Friday and that guidance.

Comment on where other people are, but that's where we are. And just incidentally, from an international perspective, we're about 20% in inventory in total and again we've got the same inflationary impacts and we've got a little bit that we're working through but we took some of our biggest hits in China in Q1 and then the other thing that we have is we have markets that last year like for Chile for example literally had nothing to sell in GN because of the stimulus that was there. So we're seeing some artificial lift. It is a year-on-year comparison. So I hope that gives everybody the clarification of what we said.

**Q - Peter Benedict** {BIO 3350921 <GO>}

Yeah. No. Perfect, thanks. I appreciate that. So we will now pivot to the international discussion. If we have you a few comments, I want to just maybe set the stage and then I've got a series of questions I would like you to answer.

**A - Judith McKenna** {BIO 4806787 <GO>}

Sure. You doing a nice job of setting out the scale \$100 billion business, and 23 countries around the world, four really large markets now but six primary markets, the additional markets are all made up across Africa and Central America. They, one of them reports into all Walmart Mexican business and then Massmart South African business has a sub-Saharan African countries

And those of you that know us will know over the last four years, we've undergone a pretty logical portfolio rationalization very deliberate and very thoughtful including our largest market, which is where I grew up which is Asda in the UK. We did that to be able to better resource the markets where we believe the most opportunity is and to set those markets we divested from up for long-term success and we still have relationship one way or the other with all of those markets, which is actually really healthy, and we also invested in that period. Clearly, the main investment that you will know about is in India in the Flipkart business in the PhonePe business, we've also made a number of smaller investments along the way as well. For example, a food delivery company in Massmart in South Africa. People often ask me Peter what's the role of international in Walmart and it's really simple it's long-term and sustainable growth. To be sustainable you have to be generating returns in the long term as well. as that is what we're here to do.

So growth is really important. The second thing is that we also help diversify risks in terms of around the world in the markets that we're in and then the third role that we have is a wind along the world. So I wouldn't ever underestimate how much we learn from operating the markets we do which is an advantage to the whole group, China is a great example of that. And then finally, our role is talent. So we both develop talent in the markets then travel around the world as an example of that, but also give people opportunities to run businesses end to end that they may not get if they were just into the US business. So that's a really important role that we play as well. So all of those things are true. I can talk through when we can talk about some of the

markets. Each market has a strategy because our overall strategy is strong local businesses powered by Walmart. Another way to think about that is multi-local with the advantages of global scale, and that's really been the secret to our success I think particularly through this COVID era as well because the markets are empowered.

But there are certain key themes. In the powered by Walmart that run through everybody. And so individual markets depending on size, demographic, market development, scale, formats that we run but these themes that run across Peter are things like omnichannel e-comm capabilities that we're building out, its new revenue streams such as ad Tech and some of our fintech services and those areas, it's new customer segments that we're going to like health we've got travel in India. And then finally the common theme that runs through everybody is how we globally leverage our best practice enough scale to the best effect as well. So we've got individual strategies is really important but then we have these global themes that we try to apply as well and that's really where we seeing for the last couple of quarters, we've had some really strong growth and I was really pleased to say International called out in the earnings script as having under the strong quarter. We were at 10% growth through that and that was really encouraging and I think the portfolio rationalization has really helped us focus and deliver some of those results.

**Q - Peter Benedict** {BIO 3350921 <GO>}

No, that's great. I mean, it's clear that you are the fifth largest retailer in the world, A lot there. On the portfolio rationalization or optimization, help us understand maybe what you see going forward. Is there more optimization that has to occur. How do you think about ownership structure? What's the right ownership structure for the different markets?

**A - Judith McKenna** {BIO 4806787 <GO>}

I'm happy with the markets that we're in. Each market plays a different role and just so everybody knows it's Canada, Chile, China, India, Africa, Mexico, which is Walmart's business including Central America. That's the six markets that we operate against. I think that is a good portfolio with everybody playing a different role within that. The powerhouses in there are the larger markets. It's like Walmex, I'm sure we'll talk about Walmex. It is a great business and that is 40% of our total revenue comes out of Walmart approximately and will you seem more happy with what we have, I think they play a role. Will you continue to see us do is what we've got out there announced at the moment is where it makes sense within the market to do a little bit of rationalization, we'll keep doing that. So there is, we've made an announcement recently that Walmex is going to dispose of its Cambridge food business and also do some tie up with some upstores in East and West Africa. So end market rationalization.

You will have seen in Central America that we are thinking about what is the right structure for the long term for El Salvador, Honduras and Nicaragua. So I think that is the right way to think about is continue to be vigilant about what there is and we will continue to make investments where we need to within the market. What is the right structure and we've got public companies and we're majority holders along with

minorities in private companies like Flipkart where we've got 100% subsidiary and then we got a lot of partnership that sits alongside those.

The thing to remember about international. And I think, why we are being successful is one size doesn't fit all for us and you've got to be comfortable in a world where you can have a flexible approach to what the ownership looks like to get the very best for the market. Again, I'll come back to Walmex, public company, a highly regarded in Mexico on the Mexican Stock Exchange. We are the majority shareholder on that one, and I think we get the best of both worlds for us. We have both a public ownership and they were public when we bought into them and they have the advantages of the scale that we can bring to them to help them be successful. So one size doesn't fit all, thoughtful about it. If you'd asked me five or six years ago. As I said, this flexibility wasn't a forced upon us and I think that's something that we've developed, particularly over about the last four years in terms of being much more comfortable about when we need to be in control and when we don't see and that this multi-local approach is part of that.

**Q - Peter Benedict** {BIO 3350921 <GO>}

Absolutely. And you're in a unique position to be able to see kind of consumer behavior across different markets, right maybe any call-outs, you'd like to share with folks in terms of what you're seeing consumer behavior wise across the international spectrum.

**A - Judith McKenna** {BIO 4806787 <GO>}

Yeah. Again, each market is in a slightly different position we see inflation, of course, in every market Chile being probably the highest statistically, and China is our lowest, but, yeah, I'm not sure whether that is yet or not to be able to understand the China inflation position. I think and how we are thinking about the consumer. As you heard, again, we talked about for the US, it's the same around the world, we're clearly concerned about inflation in some inflationary pressures for them and for Q1, we saw consumer confidence pretty held up pretty reasonably remittance flowing into -- remittance is flowing into Mexico, we held up pretty strongly there was no really concerning side, but we can see some of the trends that are coming and we can see the cost pressures in that.

What the real question is what we do about it and how well prepared are we for whatever lies ahead. It's not like when the pandemic hit, we were suddenly overnight and we had to react to it, but getting some forward visibility on that. We have a unique advantage in that we have CEOs and C-suite leaders around the world that have worked in some of the most inflationary environments in the world.

So, our Head of Walmart is Brazilian, our head of Canada is Argentinian and I have multiple people who have worked in other particularly Latin American markets. They have seen inflation and they have seen deflation, and what they've been doing Peter is, they have been running seminars for the rest of Walmart on how to think about this, what should you look at, how should you think about rollbacks, how should you think about supply relationships, how should you think about long-term contracts that you've got, how should you think about going into controlling what you can

control and going into every detail. The last call that we had there was a 168 people on that call and what was interesting about it was it wasn't just merchants and it wasn't just supply chain that was broad-based across every function in the organization because that's what it's going to take as we go into this era. We're also lucky to have a really good format mix and particularly, again for Walmex, remember, that's our biggest market by quite a long way because they actually operate all spectrums across the demographic there. So they've got hypermarkets, as you know Walmart's you see them here. They've got Sam's clubs, which is a slightly higher demographic and then they also have Bodega, Bodega I think is probably one of our most powerful formats in the world for Walmart, which is a discount and hypermarket from 40,000 square feet we are down to 4,000 square feet so a significant dagger in that. So that range that is already for the value-seeking customer and that gives us some real opportunity that plays into different formats and be able to respond to that.

**Q - Peter Benedict {BIO 3350921 <GO>}**

Yeah, I mean Walmart, Mexico strikes as kind of that most fully developed maybe ecosystem that firewall that's really working kind of get a focus for the rest, and it's great to hear that Walmart is being able to leverage that inflation playbook across the organization because obviously something that US companies are dealing with that they haven't had to for some time. Let's dig in a little bit to some of your other markets, India it's obviously was a big investment for you guys a few years ago, just tell us kind of how things are going in India, what your thought process are, I feel to deal with the government there. There is a lot of changes going on there, but just kind of key trends positioning how you kind of think about going to pushing in India.

**A - Judith McKenna {BIO 4806787 <GO>}**

Yeah, it's interesting, I think I was minus four weeks on the job, when Doug said to me if you heard of a business called Flipkart and dispatched me off to India and the rest is a little bit of history. Clearly invested in a \$20 billion valuation they raised a 38 last year. So clear proof of the value that's being created over that period of time and the investment case for why India and why Flipkart hasn't changed. I mean India has 1.3 billion people. It has an average age of 20 -- median age of 29 years old, very young population, digitally savvy, and increasingly and coming into an e-commerce and digital world. So the investment case is that.

What we liked about Flipkart was it was a homegrown Indian business completely focused on the Indian customer and then the PhonePe business, we believe there was a runway for a payments business in the market as well as UPI had just opened up the United Payments Interface, which is the government kind of guardrails for how payments ARE made through India that's not changed, and we've been really clear and that we've been happy at every step of the way over the four years that we've made the investment.

So they've achieved our expectations and they've delivered what they need to deliver. The way the business is, think about how that building out both of them is slightly different, maybe if I just start with Flipkart you know that. How do you strengthen core commerce, how do you create new revenue pools, and then how do

you build out the ecosystem and the core commerce and they have real strength in apparel, they have a business there called Myntra which is a standalone platform again slightly higher-end premium offering very strong, and then the core apparel business as well. They're expanding in areas like home, so that's core growth. It is really encouraging as they are building that out. The new profit pool is really interesting. They are our biggest market by a long way for advertising revenues but there are also thinking about ways that can offer software as a service, and in fact, what are the markets that we are using them for is Chile market so that building our ad tech platform for Chile, which is a really interesting development for them and that's building out the ecosystem.

They are really thoughtful about what adjacent verticals they can go into. So they've just bought a business called Cleartrip, which is travel, a good time to get back into travel primarily a domestic business, and then they've also invested in a digital pharmacy platform called SastaSundar and they launched Flipkart Health+ and that's a couple of months ago, well actually from the acquisition to the launch it was just four months which is incredible and a testament to the speed and agility with which they work. So great business, great opportunities still ahead of the been constantly hitting our expectations, and I can see in the way that they are being thoughtful about how they build that strategy out now. These are really clear steps to future value creation.

**Q - Peter Benedict** {BIO 3350921 <GO>}

And just following up on that, is the path to profitability, is it these alternative profit pools that are really going to drive that it the core Com business actually get the profitability and how important are those in this next step to monetization, speculation around IPO that those.

**A - Judith McKenna** {BIO 4806787 <GO>}

It wouldn't have been a good question if you didn't ask me about the IPO and look the path forward is seeing improving profitability in the call, but clearly, like many e-commerce businesses around the world those, so the revenue streams that come in really help with that as well in the ad tech, one is the bedroom and you can't really separate them because you cannot top one without that. So I don't see this is there is a revenue stream, here is the call. They are actually fully integrated, and I think that's the way the business thinks about it.

By the way, the advertising stream is particularly important in Flipkart because of its sellers and one of the things that are running is seller academies to help sellers get better at doing advertising on the platforms in the self-service an easy way. So this mutually enforced ecosystem that they are building out to be able to do that.

On IPO, it was actually in the original press release when we did the acquisition which we are supportive of the business doing an IPO when the time is right for it and the time is right will depend on a number of factors, not least the markets, but also the business performance. They hit our deadlines walking through that, we wouldn't have invested if we didn't believe they could become profitable in the longer term and we continue on track for that.

**Q - Peter Benedict** {BIO 3350921 <GO>}

Perfect. That's great. Let's pivot over to China because I really want to get a chance to touch on this. Obviously, how are the lockdowns impacting your operations, how has Walmart China kind of evolved to these conditions and just as part of this talk about how your approach to China is different than your approach to India because you're coming out from a different way?

**A - Judith McKenna** {BIO 4806787 <GO>}

Different demographic profile and 100% owner of the business, but we've been that 25 years. We have two formats there. We have the Sam's Club format, which we have about 36 clubs and then we have the hypermarkets format as well with 350 clubs at stores in that. So very different business profile. Still huge opportunity in the market there and I think that's really important to remember

The current situation there, I can't stress to you enough how challenging that is, you've all read about some of the lockdowns that are happening Shanghai and clearly, and I was just sharing last week, Peter, that to give you an idea of the scale of this we have five stores and three clubs in Shanghai, they would normally operate with about 2,400, 2,500 associates to run those units and if the worst we've been operating them with 170 people not per unit, I mean, in total, and the business is entirely pivoted to delivering fresh food into homes, apartment buildings, fulfilling government contracts in Shanghai. This is an amazing statistic which is they've sold more fresh fruit and vegetables in Shanghai in the last few months than they have done in multiple previous years, I mean that wasn't the focus and the entire business. So I tell you that, to give you an idea of how that business is having to think and having to scale.

Two big opportunities there. First, Sam's Club is still a huge opportunity for us, and the second is Christina Zhu, who is our CEO there is really thinking about what is the role of hypermarkets for the long term in China. They rolled to be able to play an omnichannel world is becoming increasingly clear to us. We got some reinvention to do like general merchandise offers in some of those areas, but there is still a lot of runway for them as well, particularly if you think about the integration with our partners like JD and Dada, both of whom were investors, and both of whom are a really good example of where we invest in a business if we think actually it provides strength to the call and that. So it's still a lot to do the number one priority though is to get through the next few months for that business and just a huge thank you and credit to what the team is doing there.

**Q - Peter Benedict** {BIO 3350921 <GO>}

And you mentioned earlier about kind of best practice sharing around inflation which is pretty straightforward and clear. Maybe touch on other ways that Walmart International is kind of helping, Walmart US be a better business, whether it be digital commerce, supply chain automation and the US under a big role here with supply chain automation, so I mean, what are some of the learnings that the international market can provide.

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**A - Judith McKenna** {BIO 4806787 <GO>}

So maybe think about this in three buckets. We share talent, we share best practice, innovation and processes, and we share technology. So you'll be familiar with the glass platform that the US developed. We are deploying that in Canada, and Mexico as we speak. On the automation, we are actually parallel testing with the US different technologies. So in order to speed up the enterprise total on how fast we learn and automation, Canada is testing some things that the US can start testing and they will take the best of both of them to see what the right answer is maybe have multiple suppliers to some of our automation

You've then got and this best practice sharing which is multi-provides around the world. Mexico is our leading market actually from an ecosystem build out and we've been using them as an example of how to think about payments for example and helping the business that the US has setup to the talent, I mentioned earlier, I wouldn't underestimate the power of talent in moving around. I came from the UK, which was very strong in grocery, online, pickup delivery and we use and imported all of that learning into the US when we did that.

**Q - Peter Benedict** {BIO 3350921 <GO>}

I think we may have time for one more here. So let me hit here on some of the financial stuff. Maybe talk about how Walmart International competes for capital inside of Walmart in general and then maybe talk about from a P&L perspective the trajectory of the top line. Do you think you can grow profits faster than revenue in the national business as you look out over the next few years?

**A - Judith McKenna** {BIO 4806787 <GO>}

Yeah, so you know, I'm not going to be forward-looking in what we do, but that's no surprise. You asked me this last time as well, and then how do we think about allocation to the markets. This is an are under science and we're looking for this balance between each market about where we're going to get the best returns and where we can see the biggest opportunity to be successful.

So again coming back to our Walmart business a reminder. That's a \$63 billion market capital business in its own right. Is that we know we need to go as fast as we can building out the ecosystem. So that is one of the areas where we'll invest heavily. Across all the markets, we're investing in the supply chain and we know what we need to do, but we will always take a balanced approach to it, and that's one of the beauties of this risk diversification that I talk about which is the markets push forward at certain times and others over time. So we have some calls that we protect like our remodel program, building on our e-commerce program and then thinking about our supply chain and then we flex around that depending on a lot of different circumstances, it's been a challenging few years for CapEx because like we haven't been able to remodel as many as we want to. So we got a bit of catch-up to do that, but the company overall. One of the beauties of having run international is very thoughtful about you can't underinvest in it, and honestly, that's why we've made some of the divestments that we make because we knew we would get ourselves into a position where that would be a challenge. So what is it set us up for? It does



set us up for this long-term sustainable growth, which is both on the top line and on the bottom line.

**Q - Peter Benedict** {BIO 3350921 <GO>}

Fair enough. Well, I didn't get my go forward view on the P&L. So maybe I'll sneak one in on ESG. I know that's a topic that's just of interest a lot of people in the room, so maybe we'll close out with a minute here on ESG and then wrap it up.

**A - Judith McKenna** {BIO 4806787 <GO>}

So we, and by the way to do this, particularly in some of the markets we operate ESG is critical, not just because it's the right thing to do, but our reputation in the market is critical to us being able to do business in that market. We have to have support is there and this is one of the vehicles. We can use to earn trust. Three elements to it, and you've got the planet sustainability that we focus on, you've got opportunity providing jobs and employment, not just in our business but broader into the economy and then you've got community as well and how do we support local communities local farmers in doing that.

The Project Gigaton commitments that we made are applicable in every market. They are all broken down. Canada is doing some amazing things. It is a carbon-neutral last mile delivery. It is locally sourced beef in Quebec from the Quebec area. Mexico's also eliminating plastic box, you've got them doing some amazing work from plastics and recycling and the recyclable economy as well. So every market is playing a different role in this but adding up to the total for Walmart Inc. What I really like is back to this theme of sharing best practices. This is moving really fast between markets and we're able to share that. So incredibly important priority. It's a thing everybody loves to talk about when we're together as a business and I think you're going to see some real innovation coming out of the international markets that we can share as well. India is actually is another great one for this and if you think about any e-commerce business, how do you reduce plastic packaging and how do you reduce packaging generally they are one of the market leaders for us in doing that.

**Q - Peter Benedict** {BIO 3350921 <GO>}

So, Judith, thank you for joining us this morning.

**A - Judith McKenna** {BIO 4806787 <GO>}

Welcome.

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