Raymond James & Associates 44th Annual Institutional Investors Conference

Company Participants

- John David Rainey, Chief Financial Officer

Other Participants

- Bobby Griffin, Aalyst, Raymond James

Presentation

Bobby Griffin {BIO 20417938 <GO>}

Well, good morning, everybody. Thanks for joining us at our 44th Annual Institutional Investor Conference. For those who don't know me, I'm Bobby Griffin, cover Consumer Hardlines, Retail here at Raymond James. And this morning we're pleased to be hosting a fireside chat with Walmart.

With us from the company are EVP and CFO, John David; Senior Vice-President and Investor Relations, Steph Wissink; and Senior Director of Investor Relations Kary Brunner. First, all three of you guys, I appreciate the support and thank you for being here, you guys been long supporters of this conference.

I'm pretty sure everybody in this room knows what Walmart is, but just quickly, if anybody doesn't. It's the world's largest retailer, over 10,000 stores, over 600 billion in revenue across really multiple countries in the world, 70% of the revenue comes from the US between the Walmart US concept and Sam's Club with about 30% from the international locations.

So with that, we'll kind of dive right in. John David, thanks again for being here though.

John David Rainey {BIO 17599063 <GO>}

It's good to be here. Thank you.

Bobby Griffin {BIO 20417938 <GO>}

So clearly a lot of cross currents in the environment right now, but Walmart delivered another solid fourth quarter. So maybe just to get us started. Can you talk about some of the initiating takeaways and what you're seeing from your consumer and kind of where the consumer is today?

John David Rainey {BIO 17599063 <GO>}

Sure, well, clearly the consumer is being discerning, given some of the inflationary pressure. We see a shift from general merchandise to grocery. We've also seen a notable shift in terms of share gain for us in grocery. I think very importantly, we're seeing convenience really resonate in this environment as well. One of the things we talked about on the last conference call, earnings call was that our scores were, consumer mindshare around convenience we're actually on par with price right now, which is a first for us and so we're quite excited about that.

But, yes there is obviously, people are projecting each day like when and if we'll go into a recession, we're very cautious, we recognize that there's a lot of uncertainty in the environment right now. But I think importantly, we're a company that positioned well in any type of environment. If the consumer is going to continue to be pressured with less disposable income, we think our value proposition resonates. On the other hand, if we get into a better economy that has more growth behind it, a lot of what we're doing really placed to that importantly around convenience and some other things that we're doing in that area.

Bobby Griffin {BIO 20417938 <GO>}

I'm going to maybe dive in a little bit more, you guys with the last quarter release fiscal 2024 guidance, kind of what it -- inside that guidance what's assumed from -- kind of some consumer behavior, even inflation side of things. And then as a second part, always retail investors remember that the inventory challenges that happened in calendar year 2023, so how is the team planning from an inventory standpoint this year?

John David Rainey {BIO 17599063 <GO>}

Sure. Well, our guidance assumes that inflation or let me put it this way that prices stay high. We're not necessarily suggesting that they continue to increase at the rate that they have, but the overall price levels will remain high. And so that puts us given our categories with inflation, a little north of 3% for us for the year. And then it's very dependent upon category, food is persistently high and particularly when you look at year on two year stacks, general merchandise has started to actually deeply in some categories and then we're seeing some disinflation in other categories.

But to your point on inventory, we feel like we're in a much, much better position with our inventory relative to where we were a quarter ago, but certainly relative to 9 months ago. Our inventory level was flat at year end and actually down 3% in the US. There are still some problem areas, I'd point out electronics, home, apparel, continued to be ones where we're seeing the effect of discernment by the consumer, where they're being selective with some of those higher price point items, because more of their disposable income is being spent on food.

Bobby Griffin {BIO 20417938 <GO>}

And then we're going to come in the last two quarters, I think in 4Q roughly 50%-ish or nearly 50%-ish of grocery gains were higher income customers, maybe even a little higher in 3Q. Can you talk about what you're seeing from those customers on the shop and the other side of the store and then I think more importantly is, what opportunities are there to retain those customers? Because some of them might be newer to Walmart?

John David Rainey {BIO 17599063 <GO>}

Sure. Well, we have seen about 50% of the share gain was with higher income consumers in the last quarter, in the prior two quarters that was north of 70%, so really excited about our value proposition resonating with them. But to the point, I mentioned earlier Bobby, convenience really matters. And I'll give you an indication of one of the growth areas of our business, but it's delivery from a store. We talked about this a little bit on the earnings call. Delivery from store has tripled in volume, almost tripled in volume over the last two years and in the month of January was well over $1 billion for us.

And that tells you that consumers and our value proposition is resonating with them. And again convenience is something that appeals to every income demographic, and so we're certainly leaning into this area with a lot of the investments that we're making, a lot of the changes in the business mix that we have leaning more into e-commerce and things like that. That I think will hopefully enable us to retain that consumer over the long-term.

Bobby Griffin {BIO 20417938 <GO>}

And Walmart is also -- obviously, 60% of sales or so from grocery, but a huge General Merchandise business too, there's many different categories when there, we've seen some pull-forward behavior in the pandemic obviously. But when you look inside the categories, you're starting to see some of the durable goods maybe show some signs that we're getting through kind of what I would label as maybe two over-earning phase and starting to level out from a demand point?

John David Rainey {BIO 17599063 <GO>}

Well, there still pressure as I noted in certain categories of General Merchandise. And if you look at the impact to our P&L last year, probably the two biggest almost pronounced areas were around markdowns and the mix change in our business from GM to grocery. That persist or continues into this year, not to the same magnitude on a year-over-year basis, as what we experienced last year. But we're certainly expecting that to continue and that's a hard thing for us to figure out, because that's somewhat dependent upon consumer behavior and how they react to higher inflationary categories.

But pulling up a little bit, I would say this is a big opportunity for us going-forward. We are more dependent on our grocery sales today than GM. But one of the things that we're doing is with our expanding marketplace and growing that. That allows us to sell more third-party merchandise, to have more assortment, which tends to carry a higher-margin at least in the US in grocery. So again this is another way that the composition of our P&L will change over-time.

Bobby Griffin {BIO 20417938 <GO>}

And then for -- and then I guess, maybe to switch gears. Let's move on to another very important topic, supply-chain for Walmart. I guess, maybe first to start is kind of recap where we are in the supply-chain today? And costs coming down, containership cost coming down and we're getting back close to -- I don't want to use the word normal, but somewhat close to normal again and then we can kind of build-off that?

John David Rainey {BIO 17599063 <GO>}

Yes, a lot of the supply-chain pressures that we faced last year created some one-time costs that are somewhat tailwinds this year. Certainly, when you look at categories of supply-chain, shipping, trading [ph] whatever it is, we've seen as much as a 50% decrease in some of those categories. So that all gives us -- benefit to our P&L probably more pronounced in the first-half of the year, on year-over-year basis than the second-half of the year as things started to correct a little bit more. But I think supply-chain is sort of a bigger area that we're investing in and when we talk about supply-chain for us like, the back of our stores, what we're doing in our eCommerce fulfillment centers things like that, we're investing a lot to drive some of the benefits over the longer-term.

Bobby Griffin {BIO 20417938 <GO>}

And before I may move on to that. I mean it seems like we have some puts and takes obviously within 2024, you guys supply-chain costs coming down. I think there's a LIFO headwind that we're going be facing as well, cautious consumer, anything else before we kind of move into some long-term initiatives that you'd like to maybe flag to keep in mind?

John David Rainey {BIO 17599063 <GO>}

Yes, so we continue to invest in our associates. We announced another investment about 6 to 7 weeks ago, certain of our associates within the US. That has some year-over-year pressure, but as the appropriate thing to do for our business. You noted the tailwind of supply-chain mix continues to be. I think the biggest uncertainty for us, because of its dependency on what happens with consumer behavior. But longer-term, we're focused on what we can execute on and what we can control. As I noted, I think we're a company that stands to do really well at any type of economic environment.

And I think some of that is obscured this year, by some of the pressures in our business. But we really like what we're seeing in our business and what the next few years hold.

Bobby Griffin {BIO 20417938 <GO>}

And then, maybe I switch to go back to the supply-chain side of things and really kind of the future of it. From an automation standpoint, if and when I think about, I think about you guys kind of the back into the stores, the near kind of the DCs, the eCommerce fulfillment side of things. So maybe, let's talk about each one kind of what's changed and what excites you about the opportunity on each side of it?

John David Rainey {BIO 17599063 <GO>}

Yes, well above all things of first impressions coming to Walmart, eight or nine months ago. This is one that stands out to me as quite notable. And specifically, what I'm referring to is, how advanced we are in some these areas and these investments that we're making have considerable improvements for not only our cost, but the way that our associates work. If you take some of our eCommerce FC, like we take a 12 step process down to a five-step process. This is better for our associates, less manual labor-related to that. It's also more efficient and the more that -- more efficiency we get there, it actually improves the economics around our eCommerce channels.

So that's quite exciting. But for me, when I look at something, I'll give you an example like a Perishable DC. And we make a certain investment around automation there and we have projections around the improvements that will make in terms of throughput, cases per hour. And what's exciting for me, is since we put these in-place, we're actually seeing that the throughput is significantly better, almost 50% better than what we had assumed in some cases that directly translates to a higher IRR or ROI related to that. So these are investments that benefit not only our associates, but the investor well, as we see our the efficiency comes through our P&L. And the ones that we actually frankly want to do more, because there's a very-high return on these things.

Bobby Griffin {BIO 20417938 <GO>}

And then we're kind of maybe use a baseball analogy number, what inning are we at in for these investments in? One of the questions we get a lot is, is a table stakes is to keep costs under control or does it actually flow into the bottom-line where we kind of changes the algorithm maybe in the business?

John David Rainey {BIO 17599063 <GO>}

Yes, we do think it's the latter that this has the opportunity to significantly improve over the coming years. We've made a lot of investment over the last several years, we'll continue to invest in these high-return areas that have a very clear payback. But I think we're in a different spot than we were 5 or 10 years ago, where we clearly had some gaps that we needed to address, whether it'd be in pricing or investments in our associates. And so as we sit here today, we'll continue to invest, but we're at this inflection point, where we are beginning to see the benefits of these investments.

And we hope that you will be able to as well in terms of operating income growth at a higher-rate than sales or return on investment increasing again. I think the last year has obscured some of the progress here. Notably, I talked about the mix change in our business that affects that. But we're seeing good improvement this year and quite excited about what next year and a few years after that goes.

Bobby Griffin {BIO 20417938 <GO>}

And is some cross learnings. I guess, across the different geographies are as well as business as you know, finally whether do things more efficient within Walmart US that can translate into international trans into Sam's Club understanding that Sam's, different business in terms of packaging size and stuff?

John David Rainey {BIO 17599063 <GO>}

Yes, there's a lot of learnings from each of the businesses. I'll give you an example Sam's, they do a fantastic job with their scan and pay technology. Roughly one in four customers that shop at Sam's shop by scanning their items individually. That's a great digital penetration and fiscal footprint and I'd argue probably as good as anyone that you see out there. So excited about those learnings, there is a lot of automation that Sam's is doing in-stores.

We're in clubs rather, where we're going, we've got automated bots that are going down the aisle and basically checking whether things are in-stock or out-of-stock what needs to be replenished. And that just provides a better overall experience for the associates that are working there, (inaudible) introduced on that more mundane those mundane task. But also drops to the bottom-line as well. Internationally, we have a lot of synergies in the supply-chain area, particularly what we're doing around purchasing as well and so trying to leverage the best of all these various segments to make the whole ecosystem better.

Bobby Griffin {BIO 20417938 <GO>}

I think is a great segue into kind of the profitability of Walmart and kind of where that can go in the future. So I mean, I guess maybe first, let's take a step-back, coming off a year of -- one of the lower Walmart US margins, we've talked about some of the headwinds, but then I guess, what is the path to rebuild on some of those headwinds and then we can dive into I think really the more exciting part of some of these alternative profit streams that you guys are developing?

John David Rainey {BIO 17599063 <GO>}

Sure. Well, there is two big areas that I think if I were investor would be a big part of my thesis to invest here. One is the improvement in unit economics that we're making by some of the supply-chain automation, which is appreciable where we've got a lot of the fixed-cost in-place. But the other areas, which you alluded to Bobby, with the business mix change of our company changing over-time. Today, the vast majority of our overall profits are attributable to in-store brick-and-mortar in the US.

If you fast-forward five years, we're much less dependent upon that as an income stream than some of these other faster-growing parts of our business.

So, as we began to grow marketplaces more, have more sellers come to our platform that are showing third-party merchandise. We have a fee for that, if we fulfill that, we also have a fee for that as well. The more we are doing that more advertisers want to spend advertising dollars on our platform. Certainly that resonates with consumers right now. These are faster-growing higher-margin parts of our business. That just mathematically, change the composition of our P&L to where our operating margins want to go up over-time.

Bobby Griffin {BIO 20417938 <GO>}

And maybe, let's say, this one is a little bit more open-ended, but there is a lot of unfamiliar, let's dive into couple, you've the global ad business fulfillment services, membership. There's a health-care initiatives as well? There's probably some payment opportunities too. So maybe which one or two excite you the most and then I'm sure, I'll have some follow-up questions on that?

John David Rainey {BIO 17599063 <GO>}

Yes, so they all exciting and they're actually hard to isolate because of the inter dependencies in all of them. And the common thread to all of them is a greater digital engagement with our consumer. I think that's where we have not advanced as much as others perhaps in the past. We've built our business over 60 years, which has largely been a physical footprint. We've got 10,000 stores across the world, half of which approximately or in the US. But if you consider the future of retail being omni and we certainly are big believers in that. That physical footprint is an enormous advantage, where we have just taken in the US, almost 5,000 stores that are within 10 miles of 90% of Americans.

Going back to this first point around convenience, this really resonates with consumers and it allows us to have these distribution points as consumers lean more into e-commerce over-time. So they're all very interrelated and if you take advertising, the more eyeballs that are coming to your digital platforms, the more advertisers want to spend money. Advertising margins typically range in the 70% to 80% range. I think for a lot of companies and so this again is a faster-growing part of our business with a higher-margin, which changes the composition of our P&L over-time.

Bobby Griffin {BIO 20417938 <GO>}

I guess really two follow-ups. One, Walmart is always been intently focused on the customer, lowering prices, giving the best-value. So how do you scale these businesses with that in mind, where it works in that way? And two, how do us investors kind of grade the progress of these businesses flowing into the P&L?

John David Rainey {BIO 17599063 <GO>}

Sure, we're happy to talk a lot more about this at our upcoming Investor Day next month. And so we'll give you a glimpse into some of the progress here. But our value proposition has always been around saving money and living better. And I think very clearly, we've demonstrated, the save money part has certainly over this current-period that we're in, as consumers are flocking to value. The living better means a lot of things to, that gets into convenience in some of these other areas that we're focusing on. That allow us to tap into a demographic that is maybe a little different than what people have historically thought is the one that skews towards Walmart.

So we'll continue to monitor progress with numbers of sellers on our marketplaces, the number of SKUs. We've got over 400 million SKUs on our marketplace right now, which is quite exciting when you think about the growth that we've seen there over a period of time. The example that I gave earlier with perishable DCs and just -- I'm sorry, not perishable DCs with scheduled delivery growing tripling in the last couple of years. These are data points that I hope gives some indication of how our progress is just going in these areas.

Bobby Griffin {BIO 20417938 <GO>}

And then as you're starting to really scale, as you're starting to see more outside company has come and want to partner with them, then you take the membership for example, we saw Paramount come in, are you starting to see the Walmart, what are the 230 million customers a week, does it so pretty big dataset covenant there?

John David Rainey {BIO 17599063 <GO>}

Well, in the battlefield that we're on, I think scale really matters. I think it really, really matters and both in terms of distribution for consumers and things like that, but scale, but gets efficiency in this area. When you think about some of the efficient or some of the investments that we're making. And you're right, our customer-base covers a lot of America and so people want to partner with us. And my understanding some of the changes that we're making to appeal to a much broader customer demographic than we have historically.

When we look at some of the advances we made in Sam's recently that skews towards a more digitally inclined demographic, a younger demographic and so we're quite excited about what we're seeing in these areas of our business.

Bobby Griffin {BIO 20417938 <GO>}

And when you look at these business is starting to become a bigger piece a party to get sets up the enterprise to be able to kind of grow the EBIT faster than sales and a wider variety of economic environments than maybe historically?

John David Rainey {BIO 17599063 <GO>}

Yes, so we've been public with this algorithm for lack of a better term, of having 4% sales growth with operating income higher than that. We're not immune to the economic pressure, so it's tough to say that. Yes, we can absolutely commit to doing that in any economic environment. I don't think any company can say that. What we're seeing though is that, we're positioned to succeed over a multi year period with those types of numbers. I think and we'll talk more about this at Investor Day, but the opportunity is far in excess of that, particularly on the operating income line. When you look at the returns that we're seeing around some of these investments that we're making.

Bobby Griffin {BIO 20417938 <GO>}

And I guess I wanted to follow-up on your comments from the last call about growing the absolute dollars of free-cash flow. And I guess maybe put that in the context of capital spending or are some of these capital investments starting to hit what I guess you deem as an inflection point with ROI is really starting to accelerate?

John David Rainey {BIO 17599063 <GO>}

That's true. And to me that's like a really exciting thing as a CFO, because many times when you undertake a big capital investment, you're kind of holding your breath to see, is it going to have the returns that we had expected. And what we've done, we've already started some of these capital investments. And as I noted, like what's the perishable DC example, we're seeing the returns that are actually better than what we expected, which give us conviction that we need to scale these things and it will have the payback that we want, so quite excited about that.

Bobby Griffin {BIO 20417938 <GO>}

All right. And then maybe, we got about 10 minutes left, so a couple of other topics. I want to hit, also it came (inaudible) talking about Sam's. Sam's has been put in some pretty impressive performance starting to grow units again. So maybe talk or what you're seeing there and kind of what the opportunity is to start growing clubs again?

John David Rainey {BIO 17599063 <GO>}

Yes. So we are quite proud of what Sam's has done over the last 3 years, for 12 consecutive quarters we've had double-digit comps. And we just noted that we're expanding our stores again with 30 stores that we're adding over the next several years or 30 clubs, I shouldn't say. And look, when you had three consecutive years of double-digit comps. I think that supports making a metered appropriate investment in this part of the business. We'll be disciplined here, we're not going to get-out over our SKUs. This is a multi year investment, but there are so many things that are going so well in Sam's, I talked about the scan and pay technology, there's many other examples of that where we're just, we're quite pleased with the progress that we're making.

And I think it demonstrates that the value proposition around Sam's is really resonating with customers consistently. This is not just in a defined period over the last 12 months where we've seen higher inflation. This is consistent performance year-after, year-after-year.

Bobby Griffin {BIO 20417938 <GO>}

And then let's talk about international for a little bit. First, it seems like a lot of the heavy-lifting on the international portfolio may be behind us. So we've exited a few markets and wanted to do kind of agree at that and see it the same way. And then two, for the hyper-growth markets, how does the team approach balancing; a, the long-term opportunity that these markets can lead to with the China, India, verse the near-term pressure could be to invest in that market in kind of weight adjusting those returns?

John David Rainey {BIO 17599063 <GO>}

Well, first I'll say, just broadband and capital allocation. And this is not necessarily with respect to international, but with the entirety of the Walmart ecosystem. We're always looking to maximize valuation and the return on the dollars and so that includes divesting as you've noted that we've done some in the past. And investing in some areas and we will continue to be very disciplined with both those going-forward to make sure that we have a portfolio of products and segments that maximize the valuation of the company. So I think that's very important for us.

You noted, China and India, really excited about both those markets, excited about what's going on in our other markets as well. But those are two markets that certainly are faster-growing. India we have Flipkart and PhonePe, I was in India just last year, right after I started Walmart to meet with those teams and understand what they're doing. And both really exciting opportunities, both have large portions of market-share there. And I think the opportunity and what I guess believe India is going to be the largest market in the world this year surpassing China, it's a really promising opportunity in the future.

Bobby Griffin {BIO 20417938 <GO>}

And then I think Sam's (inaudible) some really strong success in China. China is reopening, I think you're seeing a kind of a shift in consumer spending there. Maybe towards consumables like we've seen here in the US, can you maybe talk about a little bit of what you're seeing in the early stages of the China reopening?

John David Rainey {BIO 17599063 <GO>}

Yes, so it has been really good. Our Sam stores in China are two of our biggest and best stores in the entire club network. Quite impressive with what's going on over there and a huge opportunity. And that really appeals to the value proposition, but they are slightly different than what it is here, appeals to little different customer segment as well that resonates.

Bobby Griffin {BIO 20417938 <GO>}

And then time maybe for one or two more topics. But ESG focus for everybody, but I think one thing that does get losses the actual amount of time, Walmart does take into focus on its associated with that stuff. So I guess, maybe two-part question here is, kind of what are some of the near and medium-term initiatives and what are one or two things that maybe we as investors are missing from the ESG front end that Walmart's intently focused on?

John David Rainey {BIO 17599063 <GO>}

Yes, while ESG encompasses a lot of different areas, but being the largest private employer in the world. Certainly, I think the area that's we're talking about and most notable is around our associates. And we've made a lot of investments there and the focus has been on hourly wages. But we're quite proud of the complete suite benefits and compensation that we provide, our associates and the way that we view this as we're providing careers not just hourly jobs. We're a people led business, we focus a lot on some of these supply-chain automation investments and the technology that we're doing. But fundamentally, we are people lead and we believe that that's been a differentiator for us. And we will continue to invest appropriately in our associates to make sure that, that continues to be a differentiator for us.

Bobby Griffin {BIO 20417938 <GO>}

And maybe kind of where we are labor environment? It seems like every couple of months we see a retailer announced some type of a wage increase of where we are kind of in that kind of ongoing pressure more in 2023, maybe a little less than 2022, you got any comments around that?

John David Rainey {BIO 17599063 <GO>}

Yes, six or seven weeks ago, Bobby, we made an announcement about some investments that we're making in our associates within our US stores in certain geographies to make sure that they're being paid appropriately for the work that they have. And this is going to be an ongoing focus of ours. We'll have wage investments virtually every year. I can make sure that our people are compensated appropriately and this is a cost of doing business. I mean, fortunately for us, because we're balancing that with these other investments in our business, we can still do that while seeing dollars fall to the bottom-line and margins growth.

Bobby Griffin {BIO 20417938 <GO>}

Okay. And then maybe in closing here, I've got to two or three minutes left, but relatively new here to Walmart, joined from an outside firm. Just kind of what excites you most about the enterprise strategy. And I guess, I'll put it in two-parts, most analysts always like these two important questions. Let's talk about what excites you most of the next 12 to 18 and then maybe the long-term as well?

John David Rainey {BIO 17599063 <GO>}

12 to 18 months there is, look there's a lot of uncertainty and I don't think anybody has got a very clear picture of what's going to happen. I think that we're positioned really well, because as I noted, we're going to benefit in virtually any environment. And so I feel like we're safe and secure in that sense and the downside is pretty limited. But longer-term and look, this has a lot to do with why I came to Walmart. I've got a ton of conviction in the path that we have. I am a believer that retail is going to be omni, even more so in the future. And when you think about the set of assets that are required to be successful as an omni retailer, having that physical footprint, but also a strong e-commerce presence and very importantly, having scale I think is a differentiator for us. And I like the assets that we have in the cards in our hand and we're looking forward to plan them.

Bobby Griffin {BIO 20417938 <GO>}

Very good. Well, I appreciate the time. Thank you again for the support and look-forward to watching the progress.

John David Rainey {BIO 17599063 <GO>}

Alright. Thanks, Bobby.