

Barclays Consumer Staples Conference

Company Participants

- John Furner, President and Chief Executive Officer, Walmart US

Other Participants

- Karen Short, Analyst, Barclays

Presentation

Karen Short {BIO 20587902 <GO>}

Good morning everyone. My name is Karen Short, and I'm the Staples and Hardline Retail Analyst at Barclays. Today, we are very pleased to once again welcome Walmart to the Barclays Staples Conference. Not needing any introduction, but with more than \$560 billion in global sales to state the obvious Walmart is one of the largest global retailers. This point cannot be emphasized enough given how much momentum they currently have and growth that they have and had with them. But equally important, the list of actually successful global brands is very short, and clearly Walmart would be included and would be at the top of this list.

So with us from Walmart, we're pleased to welcome John Furner, Executive Vice President and CEO of Walmart US. We do also have listening in Dan Binder, Senior Vice President of Investor Relations and Interim Financial Planning and Analysis; and Kary Brunner, Senior Director of Investor Relations. Unfortunately, no live Q&A, hopefully this time next year, we'll be in-person doing this. So, I will just be conducting the fire side, and there is also a Safe Harbor statement on Walmart's website, which you can refer to.

So with that, I think we'll open it up to questions. So John, who would have known in February of 2020 that you would be taking over the range of Walmart US in such a turbulent time, but obviously, you know as things start to settle then you can fight back a little bit on the last year and half.

So I guess, I'm going to just start of asking what do you think the greatest opportunities are for the Walmart US business? And where do you think you're ahead of the competition today? And what are the biggest areas of opportunity?

John Furner {BIO 19351533 <GO>}

All right. Good question, Karen. Good morning. Thanks for having me. Well, let me go back to -- I guess, November of '19, when I moved over from leading the Sam's Club team to Walmart US, probably been a quite a long list of things that I wouldn't

have anticipated happening at that time that have happened in the last two years. And I think the biggest lesson from all of it is the need to be able to be flexible and ready for a changing consumers, which I think we all knew that going into the pandemic. It was clear that over time, of course we all know for looking at history and the future things always tend to change, but the rate of change clearly accelerated in March of 2020, and beyond at a rate we haven't seen before.

And the best way to describe it is, it feels like we just skipped a few years of transition as customers became more digital and became more omni in nature in terms of the way they shopped with, and that helped us in really accelerate. In bringing the two teams together, we had an eCommerce team, that was base in San Bruno, California. We had a regional team for stores that was largely based in Arkansas, and those two have come together. And the way we think about the customer is understanding where the customer is going, understanding customer intent, managing that with artificial intelligence to help them and Walmart match each other's intend to catalogs. So that we can be more anticipatory.

And going forward, I think the customer changes will continue to accelerate. There is nothing, I would see today or in the last couple of years, it would suggest we're going back to where we were or landing in a spot, that's temporary because of how fast the ships have been. So I think we're all looking forward to what the new normal may be, and what we are doing actively and aggressively in the business, which I think is --to answer your questions is where we're well positioned as the businesses scale with momentum which we're excited about the momentum the fact we're in 5,000 communities with the local presence we've got a capital plan. We talk to our investors about back in February to expand our capacity to be able to serve customers more flexibly with automation and fulfillment centers, and our store network.

And then finally, we are aggressively reshaping our P&L. We've got a core retail business that is strong and has momentum and then we have other areas that we're expanding and are exciting to see the progress. Examples, Walmart Connect that roughly doubled in the last quarter, had the ability to connect buyers, sellers, suppliers and customers all together is a really great position for us to be in, and that will enable us to serve customers in the way they want to be served over the next few years.

Karen Short {BIO 20587902 <GO>}

And, when you think about all these other exciting opportunity say Walmart Connect marketplace, fulfillment services, how do you -- I don't know if you can put in, kind of rank order where you see the greatest opportunity? And where -- how do you see the growth rate going forward, because I think you've been asked us today like does the growth rate kind of have to start to plateau or is some -- are some of those going to meaningfully accelerate going forward and actually be meaningful contributors to your P&L?

John Furner {BIO 19351533 <GO>}

Yeah. Good question. I know you'd ask that. And it's hard to say, if you would -- which you'd prioritize because they are interdependent. Having a strong marketplace means more sellers on the platform and more customers, and more customers and sellers mean more opportunities for advertisers to use the platform they're building.

So they really all work together and been able to scale all those simultaneously is really important. So, I think being able to push all these initiatives and parallel is important. As far as scale, certainly a percentage growth on a big number obviously results in big dollar share and some of our businesses are large and at scale, but others are relatively small and being built.

And then within the business units, there are areas like healthcare where we you may hear us talk about building health business, where we already have a large healthcare business all across the country, our pharmacies and our professionals that are serving communities each and every day.

So in some ways we're building on top of the big base, other places, we're building from something that's much smaller. And then our core retail business than we are growing on top of a large retail business in the way we think about that is it relativity based on where the market is. So having trends in things like food and consumables, where we see units shares -- unit share growing faster than dollar share is a good thing.

So, we've taken this longer term view of share in the scale business is really important for us.

Karen Short {BIO 20587902 <GO>}

Yeah. So speaking of share. Obviously the dollar and the comp doesn't tell the story, as you said it's about the actual tonnage and the units. By you obviously, picked up a lot of your momentum this year that may have trailed behind a little bit last year from a share perspective. So now as we look today, who do you think you're gaining share back from? And how do you see that playing out going forward into the next several quarters?

John Furner {BIO 19351533 <GO>}

Look, maybe what we do is go back really the last year first, and when the shutdown happen in March of 2020, we did a number of things that solved the top line, obviously to take care of customers and safety and that included closing stores at night, with many locations were 24 hours, and we moved all the way from 7 in the morning to 8:30. We restricted the number of entrances because we were obviously wanting to make sure we were compliant with things like social distancing. We closed some of our services like optical and tire.

So, we really narrowed down the offer to the core grocery consumable business which definitely slowed us down. And then customers at that time were shopping in

channels that they probably hadn't before and many were just moving to whatever is closest to their home.

So as things have begun to somewhat normalize to where we were, I think we still have a lot to work through with the Delta variant, the pandemic, and we're going to continue prioritize safety and customer service. Overall, other things, all this is going on, the formats that we're closer to home have been where we've seen some of the sales increases in the second quarter and the first quarter.

So, it looks like the momentum in Walmart is picking up as you said, through the first couple of quarters and we're having about where things were in the first few quarters. And also closing the second quarter with inventory levels up 20% over a year ago, plus a single position going into some really important seasons. We've great plan to serve the back-to-school season, which is underway now. We've got big holidays coming and we were positioned well coming out of that quarter to be able to serve customers going into the back half of the year.

Karen Short {BIO 20587902 <GO>}

Okay. And actually, so on that note, then the price gaps at least from what we've seen, have never been wider. This is a grocery comment, but, I guess the question is how do you communicate the value that is there with Walmart price points relative to some of the competition, I guess again, this more grocery questions. When seemingly value still hasn't become that much more important to the consumer given how much stimulus and dollars there are just floating around?

John Furner {BIO 19351533 <GO>}

Yeah. There are couple of things, they have been important. First, our customer value proposition, we think about price, assortment, experience and trust. And for 59 years, and the 28 years, I've been a part of the organization, every little price and having price leadership has always been the core of what we do.

And you know that comments important because as we expand the offer into adjacent services like healthcare, financial services, or we focus on things like Walmart Connect, Walmart Plus, we won't ever lose focus on the core retail business and the core retail business is successful because of the relative values that we can offer versus our competition and the value comes from leverage of things like the supply chain and fixed costs and all care, and all the things we've talked to you about over the years.

Those won't change and throughout all of last year, we maintained the pricing levels at what they were. Certainly saw a number of promotion stop around the market but we maintained price positions where they are, and in terms of costing and inflation and all the things that could happen to us, we will stay disciplined and our merchants have such a broad range of categories and the interest in their portfolios that merchants can mix their own portfolio within their department.

We can mix our categories within our departments. And then building density in the local markets for delivery and offering delivery-as-a-service like we announced a couple of weeks ago with GoLocal. And we can do things for other small businesses and communities and really and make the most out of being local and close to 5,000 communities around the country.

Karen Short {BIO 20587902 <GO>}

That's helpful. And then maybe just thinking about inflation a little bit, obviously, that's comes up with every single conversation. Maybe, how do you see inflation today, and I guess I would ask that cost in relative to retail inflation versus cost inflation, and I don't know if you could maybe parse that out from a consumable perspective versus a non-consumable?

John Furner {BIO 19351533 <GO>}

Yeah, sure. The easiest answer would be the share numbers and the trends you're seeing in food and consumables where unit shares are growing faster than dollar shares. So, we think about things like dollar. We refer to it internally as penny profit versus margin rates. Now, you know the P&L, you see some strength in margin, but that also includes other income activities like Walmart Connect.

So the core retail margins, we want to maintain price gaps ensure that customers have a value and they can trust that they'll have the value in a basket of goods when they either shop from Walmart digitally or they buy a basket of groceries inside the store. And so as the supply chain pressures continue then of course we're dynamic we've been chartering vessels, we've been securing containers, we have our own private fleet here in, inside the country that we can leverage and shortages.

So back to something I said at the beginning since March of 2020, we have been really focused on building flexibility and been able to -- yeah ensuring that we can use our supply chain assets, including our stores and fulfillment centers dynamically to serve customer demand.

If we can -- we can understand in turn meet demand then what you can really depend on the Walmart team has -- they have a lot of capabilities in terms of being able to optimize costs, which they have been doing for a long time and they're great at those things. Ultimately supply chain costs are what they are, and they tend to flow, but growing volume on our base the advantage that it gives back to the customer is that our ability to leverage fixed costs, create room in the P&L, that can reinvest in customer proposition.

Karen Short {BIO 20587902 <GO>}

Okay. And then I guess how are you thinking about, I guess broadly inventory and then the promotional environment as we are into the back-to-school and then the holiday season? And I guess, I ask it partly from the supply-demand perspective, where there probably still will be some shortages on the supply side. So maybe kind

of leads to me think that the promotional environment will be much more muted even for more extended period of time into the even '22, possibly? Any thoughts on that?

John Furner {BIO 19351533 <GO>}

Yeah, sure. I can't speak for what other retailers will do, but we decided late last year and early this year is, it was quite obvious that the consumer balance sheet was strong at that point and we assumed it would remain strong for some time. So we really took a step back early this year and decided what it would take in terms of purchasing and what we call open to buy with our merchants to position us well late in the first quarter, second quarter and beyond.

And so we took a more aggressive stance on inventory, which led to then the closing the second quarter of the inventory levels being up 20%. Throughout the first two quarters, we've had a significant presence of our Walmart Rollback program in stores and online and we'll continue to maintain those kinds of promotional activities. As I said earlier, one of the things I used to do, when I was a buyer and our merchants still do today is if you get cost inflation coming through, you can actually mitigate it by taking prices down and higher margin items with rollbacks to mix within categories.

So, I think important for us is that the relative value gaps are in a position. You mentioned food, which we're proud of but we work hard in those every day. We want to meeting relative value gaps. So in any situation whether customer is budget sensitive or time sensitive they can trust that they'll get a value when transacting with Walmart.

Karen Short {BIO 20587902 <GO>}

Okay. And then this came up in the prior meeting, and I think I've been asked it many times, but you know, provide just kind of how you are now thinking about e-com profitability broadly, because obviously, your Analyst Day in February 2020, you had indicated that the loss is on a dollar. And I think the margin basis had peaked, and then we obviously saw this massive acceleration in e-com which would have helped the profitability. But can you kind of frame how you're thinking about that specifically within the P&L?

John Furner {BIO 19351533 <GO>}

Yeah sure can. What we're really doing is thinking about the business in total. In July of 2020 just four months after we had talked to you in New York, we merged the two businesses together, and we had our e-com team and our source team come together and then we changed really from thinking about how we measure things internally and externally, and in terms of channel businesses to a customer business.

And that led to the work on the customer value proposition and ultimately, we're trying to do is understand intent in any situation whether it's physical or digital. And

then the reason that leads you do not having the clarity of reporting of the two channels is the lines become really blurred after that point. So, I'll give you an example. This morning, I ordered an express order at 8:36 on the Walmart App, and at 9:20 you run and heard the dogs barking as the order arrived, which included the items from the store. The part of the order that I place is also going to come from fulfillment centers which part of its tomorrow and there is another piece that looks like going to be in the next day.

So, the signal even though it was an e-com order on the app, it was fulfilled partially by the store and fulfillment centers, and so there is not a lot of value to spending just a lot of time trying to break out then internally. So, we're looking at the total profitability but the important thing is over the next few years is the balance of profitability that's coming from for margins at retail and then the other items that are in the P&L like Walmart Connect or data monetization, marketplace.

So we have a number of opportunities that can really mix well together ultimately what it's all trying to do is make sure we understand customer intent and could we match our catalog with intent.

Karen Short {BIO 20587902 <GO>}

Okay. And then actually on that note, there has been some changes, I guess on the app, and then there has been some consolidation that's happened. Can you talk a little bit about what still to come? What's already been accomplished? And what's still to come from an app perspective and a consolidation perspective?

John Furner {BIO 19351533 <GO>}

I can, and I'm glad you asked. A couple of years ago we had two apps, we called one the orange app because it was orange and it represented grocery shopping, and then we have the other app, which called the blue app, because it was blue, and it was our Walmart eCommerce business. And our both worked well and served a purpose for the time they were there. And but they did create some friction for customers.

And the analogy, I would compare it to is, if you went all the way back to the late 80s, early 90s, we had grocery stores, we had GM stores, some of those came together, we had the Supercenter. And it was really our CEO, David Glass, who scaled the Supercenter opportunity through the 90s. And so we've been managing something we call Project Glass, which is the consolidation of the orange and the blue app in honor of David's legacy and what he did for the company.

And last year, we put both of those apps in one tile. So you'd have one Walmart tile, but you still had to pick either shopping eCommerce or stores, and up to about last week we had about 10% of our traffic on one single shopping application with universal search with universal checkout.

It's a great experience, and we are now scaling to traffic now and hope to have it in front of all users by the end of the month. So we're making a lot of progress there, but that actually is what enables like the transaction I had this morning where I needed a few things from the store and a few things other places and you search, you put it all in one basket, and then transact to one time and then the supply chain team in the background will optimize the best way to give to the customer, meet the customer promise.

So more to come there, but I'm really excited about the re-platforming. And I say that because of the customer experience. The customer deserves to be able to in or anything that they need from Walmart, and we should figure out how the film the background. We always say to ourselves internally, we never want to show our customer our old chart and what the blue app and the orange app, as it pretty clearly showed you, the orange chart which you're dealing with.

So we want to take that visibility away from the customer and be there for anything that they need from us.

Karen Short {BIO 20587902 <GO>}

Okay. And then, thinking just about your -- I guess your core customer, and I realize you mirror kind of the top general population, but I would argue that your core customers probably not going to be as flushed with cash as we get into 2022, and would argue that puts Walmart in a very good position.

But you know, and mostly because, I would say the your core customer doesn't tend to save as much as maybe a higher income demographic would. But how do you think about the state of your consumers, we get through to the end of this year and into next year, like from stimulus year-over-year comparison perspective, but also child tax credit?

And then maybe we could -- we snap into that as well, because the change is coming along the pipeline on October 1 on that?

John Furner {BIO 19351533 <GO>}

Yeah. I think in general, you said it earlier that the overall balance sheet is strong amongst customers across the country. The way we think about the customer that maybe at the core or in income, where our brackets aren't as high is more will be back in the workforce in the next few months and real incomes are a big benefit for shopping in addition to stimulus.

So I think we're ready to be flexible in any direction. The price gap that you mentioned earlier could be even more important at that time. So going into that timeframe having maintained it throughout the last couple of years, but we were thinking about the entire time to the pandemic is we don't want to do anything, that would ever erode customer trust, it's taken years to build the trust they have in the business and many teams before me and my team. So trust was always top of mind

and we probably throughout the pandemic we prioritized safety, serving communities, managing results as we needed to in the building for the future. I think for the team there was a nice job of balancing those and always focused on trust and safety at the beginning.

Karen Short {BIO 20587902 <GO>}

And, how do you think specifically about SNAP, because I know the headlines are 25% increase starting October 1, but I don't -- that's not only the reality sequentially when you're talking about dollars in the pockets of consumers year --on a year-over-year basis. So, maybe can you just help frame that a little bit.

John Furner {BIO 19351533 <GO>}

Yeah. I think you're describing it well. The headline makes it sound higher than it is because there were other benefits that are running out. So we'll know more at the end of the quarter, how -- I don't think we're not thinking of it is a 25% increase. We'll focus on making sure we're in stock and price right and ready for customers. And then the results reflect how well you execute and the values here on the retail.

Karen Short {BIO 20587902 <GO>}

Okay. And then maybe just an update on, how you're kind of envisioning Walmart Plus going forward, but then also an update on like 3P versus 1P in general, where you are inventory levels, where you are on sellers, on marketplace? And how you see that evolving?

John Furner {BIO 19351533 <GO>}

Yeah. I think, back to the point, that have been a dynamic and flexible. Inventory is positioned well versus the year ago and we continue to add sellers to the platform. Our Walmart fulfillment services offering continues to expand and we're bringing in a more capacity, and all those answers go back to a decision that we communicated earlier this year, which is to expand our CapEx program to build more capacity for eCommerce which ultimately, an eCommerce capacity does include stores because of the fulfillment that happens locally all around the country.

So, the supply chain investments will build capacity for all channels and then have strong marketplace is important having a number of a large number sellers is important. Those things together obviously fuel the Connect business which connects the buyers, the suppliers and sellers together in the platform.

So the Walmart flywheel, as it all comes again there it's mutually, I could say that mutually reinforcing in a way that's unique to Walmart because of our digital, national and local presence.

Karen Short {BIO 20587902 <GO>}

And then I would be remiss not to bring up the wage increase that was just announced. So maybe a little background on the decision to make that announcement. I mean we can all do the math on how that might impact your P&L from a basis point perspective, but just wanted to see if you could frame that a little bit.

John Furner {BIO 19351533 <GO>}

Sure, sure. Our associates have done an amazing job in the last couple of years, serving communities. And I've always said if you want to be inspired just view Walmart stores and talk to a couple of Walmart associates here are in the midst of a national -- a natural disaster and a truck driver and you will see the backbone of how the country can run.

I was just in Louisiana, last Wednesday and saw exactly that. It's just amazing to see the resilience of people and communities how they come together. And like we've always said, we'll have a competitive proposition for associates. You can get your college education, working at Walmart it's paid for by Walmart, there are benefits available, wages are part of it. Digital products, while at the workforce also are part of it, because it helps with productivity and in many of our stores there are 4.5 acres. So buying devices that people can use on the sales floor and being able to get right to the work is important because it saves a lot of time walking.

And then ultimately with wages we'll be competitive the market. It's a really large country and wage rates are different all across the country and we were really proud of the third investment we've made in our associates this year, the last year, the last four months.

Karen Short {BIO 20587902 <GO>}

Okay. And then maybe just because you did bring it up, but Walmart GoLocal. Can you maybe just give a little bit of background on what the genesis of that was? And then, how to kind of trying to frame the fact that like are you worried may be helping your competitors and some cheaper firm[ph] or maybe just any color you can give on that?

John Furner {BIO 19351533 <GO>}

Yeah, happy to. It's actually really good example of kind of the definition of a platform aggregator. So, we have customers who are shopping at Walmart. We've built our local business, our local delivery business pretty substantially in the last two years. Obviously, it accelerated the last year when the pandemic began and our drivers who are contractors that are working on what we call the Spark platform, and one of the keys to serving the driver as well as having enough work that they stay busy and they want to stay in the platform.

So, we have not only the Walmart business is being delivered but that service can be offered to other retailers, or other stores or other kinds of businesses in the local

market that keeps the drivers busier which that we know it's important to them. And also lowers the cost of delivery, when you can -- what we would call batch orders together, so you'd have more than one order in a vehicle.

At times, that can be more than one Walmart order but if you perishables in the car, then that will limit the number of Walmart orders can go to a single vehicle. So, they will be able to go to other retailers, other stores and these can be small local businesses. They can be chains, but ultimately what we're trying to do is make sure the customer has access as it means they want and provide a benefit to not only in the Supercenters, for other retailers and markets.

And it's especially important Karen in some of the smaller mid-size markets that we're in, where some of the large platforms just don't operate or they don't operate at scale. So, we think it's a unique position for us and having other retailers, where we are complementary assortments is ultimately great for the customer.

Karen Short {BIO 20587902 <GO>}

And actually, can you just remind me have you given the latest number of how many Spark drivers you have?

John Furner {BIO 19351533 <GO>}

Well, it's growing on every day. We haven't communicated the number recently, but the progress of the platform and what the team are working on, well just say they are making a lot of progress and the growth within the company was the first step, and then been able to offer this to others which will have more to talk about the near future was really the second step of this.

Karen Short {BIO 20587902 <GO>}

And then, I know part of the flywheel is -- it hasn't really buying that much of you time recently would be you know healthcare in general and Walmart health centers. So maybe give us --take us a back and kind of frame how you think about that as an opportunity? And I don't get the sense that you're trying to de-emphasize it at all. You just had a lot of things going on.

So, maybe a little color on how you see that evolving? And how you see that actually I guess, add on to the actual store, how that changes the behavior within the rest of the store from an attachment perspective, I guess?

John Furner {BIO 19351533 <GO>}

Yeah. You said that very well and framed it well. We haven't deemphasized it, there have just been a number of things happening, it including initiatives and things in the external environment that we've all been managing like we're really excited about healthcare, the aspiration it goes back to the founder and the founder got into healthcare in the late 70s which is turned into an outscale healthcare business that

we have today in the pharmacies and optical in thousands of locations and other services.

And as you know, really well late-'19 or mid-'19 we opened our first clinics in Georgia, we've expanded into locations in Illinois, Arkansas or back to move into the state of Florida. So, we're still expanding and growing also really excited about the opportunity for omni healthcare customers will be able to access seeing a position one of our recent acquisitions, and then pass the point of seeing the position. We've got the ability to fill from the stores. We get the ability and a number of states for pharmacists to practice at a much higher range of their license, which has been really inspiring since vaccinations begin.

We have pharmacists and techs all over the country administering vaccines, immunizations, some diagnostics in states where it's allowed. So yeah, I think the future of healthcare like many things, and it could be healthcare or getting your tires changed or getting a cake ordered, the app and the physical environment being local all connected together will be a really important way that we'll be able to serve customer's needs.

Karen Short {BIO 20587902 <GO>}

Okay. And then maybe just one last one on that. I mean, I did see your Dallas, Georgia facility. How would some of the more recent openings be different maybe from the earlier one -- like earlier ones that you've open?

John Furner {BIO 19351533 <GO>}

Yeah. They are similar in terms of the setup in the flow, and Dallas is the largest clinics that we opened and what we want to do in the first one was open with all services that we thought were relevant and then learn from there. And this is a learning journey where we're still have a relatively small number of clinics open under 30 at this point but as we expand we'll continue to refine the offer. Dallas and the other sides like (inaudible) and in some of -- are really encouraging in terms of consumer demand and the number of patients, who were looking for healthcare solutions that were accessible and affordable and delivered in a quality way.

Karen Short {BIO 20587902 <GO>}

Okay. Well, I think we are at time now. So, operator I don't know if there is count down here, or how you want us to end, that it is passed the 11:50 mark. Thank you, everyone. Thanks for listening, and thank you Walmart for participating. We really appreciate it. And hope to see by next year.

John Furner {BIO 19351533 <GO>}

I agree.

Karen Short {BIO 20587902 <GO>}

Okay.

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