Morgan Stanley Global Consumer and Retail Conference

Company Participants

- Doug McMillon, Chief Executive Officer

Other Participants

- Simeon Gutman, Analyst, Morgan Stanley

Presentation

Simeon Gutman {BIO 7528320 <GO>}

Hello, okay, thank you. I think that was Doug's favorite song and that's why we played it on. Hi, everyone, welcome to our Keynote day two of our global retail and consumer conference. I'm Simeon Gutman, Morgan Stanley's hardline, broadline, and food retail analyst. It is our distinct pleasure to welcome Walmart's President and CEO, Doug McMillon to our stage. Thank you for your participation of this event. You want to clap. Walmart has been a regular participant and Doug helped Keynote one of our virtual sessions a couple of years ago, we're thrilled to have him in person. I'm going to read a quick disclosure and going to turn it over to Doug for a few opening remarks and then we'll get into a discussion.

For important disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach-out to your Morgan Stanley sales representative, and with that..

Doug McMillon {BIO 3063017 <GO>}

Can you guys hear me? Thanks for your attention. Appreciate you being here. I'll be brief to kick things off. I'm excited about where we are. I'm excited about our future working with a great team. I think they've navigated this year well considering everything that happened and we're setting ourselves up for a stronger future. When I think about winning with the customer and member, I think the improvements that we're making in-store with pickup, with delivery, whether that's from a store or e-commerce around the world and the 24 markets that we operate in, it's making progress, so I've got some confidence in the top line growth of the company looking forward in our long-term algorithm. Same is true for the bottom line, why do I feel that way about the bottom line, and I think it's kind of three things.

First one is just opportunities to manage the business better and all the kinds of ways that we do in retail. Maybe more strategically there's a productivity opportunity with automation, particularly in our supply chain, and how that will affect store operations in particular. And then thirdly, the business model is changing and the thread that you move through as you build a first-party e-commerce business and then a marketplace and then fulfillment services and then add income and then other forms of data monetization creates an opportunity to have higher margins and change the margin mix of the business, so that we are more resilient and more profitable at the same time and that works underway, we're making some progress as it relates to that, hopefully, you've noticed that in our results as we've shared them.

So I look ahead at next year and beyond and I acknowledge the amount of uncertainty there is from an environmental point-of-view, but when I think about what we can control and where we're at, I'm excited and optimistic.

Simeon Gutman {BIO 7528320 <GO>}

Thanks. So it was about nine or so years ago, I was at the first meeting, where you took over as CEO and the strategy takes a long-time to evolve and you can't really pivot as quick as you'd like with some structural things. Walmart seems like it's made all the right steps, not all the right but many correct, fortified grocery, you're investing in membership, you're getting new customers from different income brackets, marketplace fulfillment, I want to talk about the evolution of this omnichannel strategy. It feels like the business is winning. The last 10 years was about adapting to this omnichannel, it feels like the investments are in place and you could argue we're getting towards the payback period and that big have gotten bigger and some of the winners have been -- the winners have been set out, so, curious how you think about the evolution of that strategy and if we're at a different phase now within the strategy and retail?

Doug McMillon {BIO 3063017 <GO>}

Yeah, I think we are, if you go back to that kind of 2014, 2015 period, we were really focused on U.S. Supercenters. We were operating in more markets and if you get to the center of the center and what's most important, if the U.S. Supercenters are not performing well, Walmart doesn't have a good business, and you know all the investments we made there in terms of remodels, inventory improvement, wages, and the Supercenters were in a better place than they were, then very quickly on the heels of that need to build a much bigger e-commerce business. The customer wants e-commerce. We were behind. We did the things we did to accelerate that and last year, as we've shared, we had a $73 billion e-commerce business globally in terms of revenue, but that all kind of felt like silos or channels. And what happened along the way is, we realized that the magic is in the way that you put them together and truly creating omnichannel to save people time not just money.

Yeah, it's a broader assortment, yeah, it's a variety of experiences that include pickup and delivery, but also things like the digital experience related to tier should enable the in-store or in-club experience with tiers to be better or the deli counter or the way we interact with pharmacy as a customer or a member and so it does feel like that for some period of time now the channels went away, it's been more seamless and that required us to change how we work inside the company. We finished up organizational structure changes to make that easier for our teams to execute and now I think we are truly an omnichannel retailer.

Simeon Gutman {BIO 7528320 <GO>}

Yeah, it feels like the next phase could be so -- maybe the big, maybe keep getting bigger, the pandemic validated this omnichannel platform and it feels like you have a proper offense and defense to battle the e-Commerce threat that once was. I want to talk about the consumer, diagnose the consumer, not a short-term euphemism question, but diagnosing more about trade-down, what we've seen throughout the year, there's been some fits and starts, maybe around gas prices, but what do you see from the consumer, what's happened in the last year?

Doug McMillon {BIO 3063017 <GO>}

Yeah, I didn't forecast inflation to be in the U.S., what it has been, and if you would ask me 16, 18 months ago, we were looking at mid-single-digit inflation, certainly didn't see what has ended up happening in dry grocery and consumables happened. As it accelerated through January-February, it moved quickly, and it was steeper in terms of trajectory than we expected and that had an impact on what people buy, so if you were kind of, let's say, typical U.S. household and you've been through two years of a pandemic, some of you have worked from home more and some people have more discretionary income because of government stimulus, you spend more money on home goods, you spend more money on the backyard, et cetera, you didn't get to this period of January-February of this year, and I'm talking about the U.S. consumer. And you've got gas prices headed up and you've got food and consumables taking more of your spend, and so we started seeing in around March this behavioral change, particularly with people with household incomes below 50,000, where they started really prioritizing.

So their dollars went to food and consumables, went to gasoline, the discretionary purchases, they kind of been making those, they didn't have to invest in home decor for example. They didn't have to buy a new sweater and so general merchandise sales started really dropping off and that pressure played through to higher income levels as the months went by. So you can see behavioral change now at basically all income levels in the country as people are more price-sensitive, and so they're more selective on discretionary purchases. They'll buy the things that they need. The kids will be taken care of, pets get taken care of, their partner gets taken care of, and then they put themselves last, and you can kind of see that in the ranking of how they make choices. And so I think that means that this Christmas, if you look at a topline point-of-view, we'll look better because of inflated dollars than it actually is. If you look at units and kind of the quality of the breadth of what sells at retail, as a retailer we won't feel great about the quality of this Christmas and it will come later Christmas is a day later and sales after Christmas will be strong and we'll be working all the way through the quarter, the end of January 31, to get inventories where we want and manage as we go through that. We've done this many times before. We've seen this before and we'll work through it, but it's not ideal.

Simeon Gutman {BIO 7528320 <GO>}

We use government data to try to assess reversion, especially of these durable goods, where there was some overconsumption to try to understand units. You probably have the better, the best dataset of everyone, curious throughout 2022, does it appear that the rate of deceleration in durable goods, is it stabilizing, is it getting worse or is it actually getting better?

Doug McMillon {BIO 3063017 <GO>}

Stable to a little worse is the way I would characterize that and very fluid and it -- you can look at the data and you can see flat panel televisions in Walmart still selling really well. So you can find some conflicting data points. People will have Christmas, they will buy items, but some of those flat panel televisions are under $500 now. I think we had one at $238 that was a huge television for Black Friday-related events, so they are price-sensitive and selective.

Simeon Gutman {BIO 7528320 <GO>}

And is the price elasticity there like it would be normally if you took the price of a durable good down, does the consumer respond or because we've overconsumed or over-purchased that over the last couple of years a home item, we're hesitant to buy it?

Doug McMillon {BIO 3063017 <GO>}

The latter is more true than it normally is. Things are less elastic than they would typically be.

Simeon Gutman {BIO 7528320 <GO>}

Makes sense, okay. Last quarter, we talked about higher income consumers, I think we talked about it for a few, but I think there was an exclamation point on it. Walmart+ feels or seems to be the gateway to this higher income consumer, maybe it's just the marketplace, maybe it's broadly, so first, can we just talk about Walmart+ as this gateway to getting new customers, is that a fair assumption?

Doug McMillon {BIO 3063017 <GO>}

I don't think it is. I think if you want to look at how income level shop at Walmart, the way to think about it first would be, everybody buys food and consumables -- almost everybody buys food and consumables from Walmart, but they might not buy their apparel from Walmart or their home categories from Walmart typically. The market share growth that we've seen with higher income levels that have driven our growth the last two quarters have been people making over 100 buying food and consumables and so our challenge is to have market shares that look more consistent across the whole assortment. We sell a lot of units of bicycles, we sell a lot of units of televisions, but we don't sell as much in-home and apparel and some hardlines categories as we could. So the way for us to retain -- attract and retain higher income customers and members is first to have a great assortment and great prices in those discretionary categories, so they don't need to go somewhere else and have more brands and grow the marketplace assortment as we've done.

Then secondarily, having a digital relationship, which starts to head towards Walmart+ is really important. And we've shared before, if people buy in-store and online with walmart.com, they generally spend twice as much and they shop in-store more often. That data has held over time and so that digital relationship, which could be for a pickup order, it could be for a delivery order, whether that's from a store or an e-commerce fulfillment center that's really important to us and then you get to Walmart+ and we do like the behavior we see when someone becomes a Walmart+ member. So, Walmart+ is important, but it's not a simplistic shortcut for the investment community to think about valuing Walmart. Walmart can grow sales and profit regardless of how many Walmart+ members we have.

Simeon Gutman {BIO 7528320 <GO>}

So a couple of follow-ups in that, so what would you attribute then this higher income consumer who is coming to Walmart with more velocity or frequency?

Doug McMillon {BIO 3063017 <GO>}

They're just looking for value and they're looking across categories more than they were before. And to your point about kind of past cycles and the degree to which we held on to customers, what's different now is we've got this bigger e-commerce business 370 million items in the U.S. marketplace. We've got an app, we've got pickup, we've got delivery, we've got Walmart+, we added Paramount+ to it, so there are other things in place that were not in place in the last cycle that we hope will help us retain more customers.

Simeon Gutman {BIO 7528320 <GO>}

And you said, you like the behavior of the Walmart+ customer as -- are they entering the flywheel as you'd expect, they're purchasing either consumable or discretionary, the frequency and then I'll get to retention in a second?

Doug McMillon {BIO 3063017 <GO>}

The primary reason why someone would want to become a Walmart+ member is for free delivery. And our food and consumables customer value proposition is attractive. It's high quality at a Walmart price and now you can get it delivered for free in an unlimited fashion. Our challenge is to take that frequently purchased set of items in that relationship and have it extend into more discretionary items and build the basket out over time.

Simeon Gutman {BIO 7528320 <GO>}

So the offering is about year and a half or is it two years and change or...

Doug McMillon {BIO 3063017 <GO>}

What year is it, could you start with that?

Simeon Gutman {BIO 7528320 <GO>}

2022, I think...

Doug McMillon {BIO 3063017 <GO>}

Yeah, I think we launched it in September of 2021 if I remember correctly when we were out-of-stock related to the pandemic, it was perfect timing.

Simeon Gutman {BIO 7528320 <GO>}

Right. So we've seen a chance to for retention, I'll make it a bigger question. We don't talk -- you don't disclose the membership numbers, but you progressively added features to the program, based on what you've added and the uptick you would have expected, is the membership number trending at or better or worse than what you would have thought?

Doug McMillon {BIO 3063017 <GO>}

We're not going to share that information at this time, I appreciate your persistence.

Simeon Gutman {BIO 7528320 <GO>}

How about one more at this, does the offering still get better from here?

Doug McMillon {BIO 3063017 <GO>}

Yeah. Yeah, I think the way to think about this is, we want to engineer and offer to customers that cause them to want to be members that is going to appeal broadly, and so it was helpful to add a fuel discount, it's helpful to have Scan and Go, it will be -- Paramount+ has proven to be helpful and we'll add more things over time, but in a strategic and choiceful way not just growing spaghetti at along.

Simeon Gutman {BIO 7528320 <GO>}

Okay. So 2022, thus far from an earnings perspective, it's somewhat been defined by the inventories now filled, if you look at the core business and I'm not sure there's a whole commentary, but it's probably not playing out that different other than the inventories now, so, first, how are you approaching purchasing, are you looking at it any different either to avoid the potholes, we talked about the ditch earlier or do you just go back to being more aggressive to take market share?

Doug McMillon {BIO 3063017 <GO>}

We are doing our best to think an item and category at a time and not overreact to a situation such as to go from one ditch to the other, which means that you've got to have calculated bets related to what you think Christmas next year for imported goods is going to look like. If you are a merchant for our company and your response for categories that are vas [ph] turn and consumable, you don't have as much of a challenge. You've got a shorter lead time, you can adjust, a lot of that is replenishable, that's not as complicated. The more complicated stuff is long lead time merchandise and more discretionary merchandise. For the U.S. business two-thirds of what we sell is either grown or made here. The other third comes from China, India, Mexico, Canada, so those things have longest lead time. We are generally taking a more conservative view. But asking our merchants to make item and category decisions not some general decision to be -- to be less aggressive, because we do have opportunities to grow sales and we have had out-of-stocks.

I mean, if you look at our Sam's Club business, our inventory in Sam's is up higher than our inventory in Walmart US, because Sam's has a lot more members, they're driving double-digit comps for almost three years in a row, and they need to keep playing offense. So everything needs to be a little more targeted, little more specific, don't paint with a broad brush, that's the way our merchant leaders are approaching it.

Simeon Gutman {BIO 7528320 <GO>}

And this inventory issue, it feels like it hit Walmart relatively early relative to retail and you made the decision how to deal with it, some of it marked down, some of that moved out, it seems like the problems compounded to some degree with the rest of the industry, and now there's a lot of merchandise entering into the off-price channels, do you feel, do you see that being an impediment, not trying to be a loaded question with sales outlook, but the environment could get a little muddy because there's so much excess inventory that's still sitting out there, do you see that it or not see that?

Doug McMillon {BIO 3063017 <GO>}

That's plausible, I think in our case, we finished last quarter up 13% inventory. A lot of that 13% is just driven by inflation, so inventory is in a pretty good place and what we want to do is be positioned for flexibility, and I think we're in pretty good shape as it relates to that, whether it's hard lines or apparel.

Simeon Gutman {BIO 7528320 <GO>}

And connected to that, the promotional backdrop pre-holiday, did that potential excess or over-inventory position affect it or has it been relatively stable throughout the year?

Doug McMillon {BIO 3063017 <GO>}

I can't really talk about the fourth-quarter, yet.

Simeon Gutman {BIO 7528320 <GO>}

Yeah, oh, yeah, pre-holiday. I'm sorry, I meant the pre...

Doug McMillon {BIO 3063017 <GO>}

Third quarter?

Simeon Gutman {BIO 7528320 <GO>}

Yes.

Doug McMillon {BIO 3063017 <GO>}

So rephrase that again.

Simeon Gutman {BIO 7528320 <GO>}

So during the course of the year did the backdrop become more promotional up until the fourth quarter, reflecting more inventories in the channel?

Doug McMillon {BIO 3063017 <GO>}

The way I would describe it is, there was more clearance in the market and so for us showing was now value, handling our clearance as well, managing our apparel racks well from a presentation point-of-view, those were the keys, and yeah, the market had more clearance in it than what it would normally have.

Simeon Gutman {BIO 7528320 <GO>}

Fair enough. Price, inflation, deflation, disinflation, I don't know if I can ask a lot of different questions about it, but -- I don't know if we can talk about expectation, but based on what you're seeing from suppliers now the business is progressing, I guess what can we talk about regarding price?

Doug McMillon {BIO 3063017 <GO>}

Yeah, let's break it into categories. If you start with fresh food, the pricing on proteins, dairy, et cetera, is very volatile, it's moving around quite a bit. Chicken right now is up, beef is down, fruit and veg is in pretty good shape from a price perspective with disinflation or moderate inflation. So we'll manage that like we always do. Dry grocery and consumables has double-digit -- mid double-digit inflation that feels stubborn to us. And then, general merchandise is coming down. Our cost of goods inflation for general merchandise across hardlines and apparel is still there. We still have an inflated price but it's single-digit and the trendline is coming down. GM is reacting to demand. But dry grocery and consumables, where farmer input cost, supplier wages, their own input costs have driven prices up, that feels to us like it's going to be here for a while and we're trying to figure out with our suppliers what could we do that's different that would help mitigate some of those costs, is there any waste in the system. Transportation point-of-view, can we get better at forecasting, what are we doing the packaging, how do we help the American family as much as possible on dry grocery and consumables, so that we can bend this curve back.

And unfortunately, some of those suppliers are still pointing us towards more inflation next year on top of the mid double-digits this year and we don't like that for any reason. We don't like it for families, we don't like it as it relates to mix and what that can mean for us. So we're pretty incentive to try and make that --make that turn happen faster than it might normally. And we've got good insight into commodity costs through private brands and other things. We know we can kind of penny out a P&L on an item and have a productive discussion with the supplier about what they're doing and try to encourage them to focus on market share and growth and the longer term with us. In the meanwhile, we'll allocate space to private brands and tertiary brands to degree that we need to help make this work for families.

Simeon Gutman {BIO 7528320 <GO>}

Some of the price pressures because of the input cost of labor, which is more structural, is that still a valid case to be made and wouldn't that argue that more of what we've seen in terms of price will likely get kept?

Doug McMillon {BIO 3063017 <GO>}

I think that's likely to a degree in these categories that I just mentioned.

Simeon Gutman {BIO 7528320 <GO>}

Okay. Is it fair that Walmart lagged the marketplace in terms of raising price through this pandemic cycle?

Doug McMillon {BIO 3063017 <GO>}

We are always trying to keep prices down and so, yeah, we held, we managed mix pretty well. We got a lot of variables to play with. We've got the product mix variables that we've always had and now we have some advertising income and some membership income and some other data monetization income and we're building a fulfillment services business. So if you think of retailers, the big mix game we had a broad set of variables to manage and we're now broadening that even more, which is helpful, and that's happening around the world in the various markets where we operate. And we did do some things like for the Thanksgiving meal in the U.S., hold our prices at last year's prices for a broad set of items that people could shop to avoid inflation for their Thanksgiving meal. And I think the team is still looking for more places to be able to do that to help those that need to help the most.

Simeon Gutman {BIO 7528320 <GO>}

At this point, does it seem like the business has now been repriced for the inflation we've seen or are there still some catch-up or could have been over?

Doug McMillon {BIO 3063017 <GO>}

Mostly repriced, managing price gaps as we go, but it's fluid environment.

Simeon Gutman {BIO 7528320 <GO>}

Price gaps, one last one on price. I think the message has been, your price gaps have largely held, which a lot of retailers have actually made that assertion, which now something has to give, the checks look like your prices, your price gaps have largely held, so your posture on price? And I have a second question on it later on when we'll talk about grocery, but just your current posture on price.

Doug McMillon {BIO 3063017 <GO>}

Again, on the Walmart US business specifically, but this would be true more broadly as well. We have a sense for where our price gaps need to be to drive the growth that we're trying to drive and we've managed that pre-pandemic through the pandemic and now and it's moved around a little bit, things have normalized more to pre-pandemic levels and more comfortable with that.

Simeon Gutman {BIO 7528320 <GO>}

It happens to be the next question about grocery, so there could be some disruption given potential M&A in that space, I wanted to see if you'd entertain some game theory thinking about how...

Doug McMillon {BIO 3063017 <GO>}

Probably not.

Simeon Gutman {BIO 7528320 <GO>}

Why not?

Doug McMillon {BIO 3063017 <GO>}

Can't do without (inaudible), Simeon.

Simeon Gutman {BIO 7528320 <GO>}

Right, so I was going to maybe we could go with the pros of leaning in on price. I mean the environment is going to consolidate, so in theory, if it does, you have stronger competitors, any way you don't -- doesn't sound like you've changed your thought on price.

Doug McMillon {BIO 3063017 <GO>}

We have had and will have a strong set of competition, but we're not worried about that, we can count on it.

Simeon Gutman {BIO 7528320 <GO>}

Fair enough, okay. We'll move over to marketplace -- did you want to add anything else?

Doug McMillon {BIO 3063017 <GO>}

No, sir.

Simeon Gutman {BIO 7528320 <GO>}

The marketplace combined with Walmart+, combined with physical offering, it seems like you're better equipped than ever to deal with digital thread, we kind of talked about this, do you feel like you've reached a critical scale now across your network in terms of investments?

Doug McMillon {BIO 3063017 <GO>}

There's more in front of us to do with the supply chain in particular and we're very excited about automation and I think it's going to really help us -- our store associates and help us with productivity, and specifically, what we're seeing is after a number of years of work, there are opportunities to use automated storage and retrieval systems in ambient distribution centers, food distribution centers, e-commerce fulfillment centers, and eventually market fulfillment centers next to stores. And they're all for basically the same thing, we're working with four different parties to do it, but it's all basically carts with wheels, putting away items or cases in dense deal almost like data in the cloud that does not have a human in the middle of it, a forklift in the middle of it or an empty aile [ph] like you see in an old-fashion distribution center. The items go in and they come out the other side either as a customized e-commerce order for a customer or as a pallet that has been mixed that is specific for a department and a store.

So if you and I were in a Walmart store today in the U.S., we would receive the grocery product on pallets and it's easier to work that freight, but if we were working the general merchandise receiving area and we opened a trailer, there would be brown boxes floor to ceiling on the floor and we would touch every one of those boxes, put it on the roller, push it into the backroom, put it away in somewhere in the backroom and then eventually somebody comes and picks that order, puts it on the sales floor. In the future, those orders will come in palletized arranged by layer for that department in that store. So we'll take the pallet jack, put it under the pallet, pull it to the sales floor, stock from the pallet and if anything is left that doesn't fit it will go to the back room.

It's a different process, eliminating a lot of the hours that we invest in today in the back room of our stores. That capital will take multiple years to put in place. In addition to the robotics aspect of what I've just described, there's work under underway related to the data that we've got for our supply chain and the algorithms that we used to optimize it. You can imagine that in the past, we went from an ambient network for discount stores to an ambient network plus food distribution capability, then we layered on e-commerce fulfillment centers, each one of those had different operating systems and operating to a degree in a silo. What we've been changing and have made progress towards changing is thinking all those together in a way that you can inventory optimize like you couldn't before. So if you can understand demand, get even better at forecasting with today's forecasting tools, and then have a supply chain that's got data algorithms and robotics in it, you can take costs out of the system that we have not ever been able to take out before. So that's a multiyear investment journey.

I mean, we'll share more information about that in the future, but it's something that we're really excited about. That has to happen in conjunction with the business model changing. So the thread that you mentioned that runs from let's build an e-commerce business, part of that is marketplace, we can get paid to operator marketplace and people want to buy fulfillment services, in fact, a lot of people want to buy fulfillment services and they want to have sales so they're willing to buy and add the thread that runs from omnichannel to all of those things I just mentioned is a very strong thread that is being pulled through as we speak. And so that business model remixing happens in parallel with the automation of the supply chain and ends up with a different business model, which we're excited about.

Simeon Gutman {BIO 7528320 <GO>}

I wanted to ask two follow-ups. To that first about the general infrastructure and second about grocery. You built these mega DCs, this is about seven or so years ago, I think it was the six mega DCs at the time maybe five, you picked up three more from Jet, it now feels like maybe these -- remixing these new you're building another set of DCs to -- that are bigger that can accommodate longer tail that can do everything from dry good to grocery, and correct me if I'm wrong, is that right and is the core infrastructure around becoming endless aile [ph] marketplace with all of the goods within the network, is that what's becoming a reality now?

Doug McMillon {BIO 3063017 <GO>}

Yeah, think about it this way, think about our existing buildings, not new buildings, being outfitted with automated storage and retrieval systems, step one. As we do that, we get more throughput through those buildings and we avoid the necessity of building more buildings in the future. And as we do that their space freed up, because they are more dense, you now have in some of these million-square-foot boxes excess space that you can do variety of things including sortation for e-commerce, non-conveyables, other things you can do with that space, again avoiding the need for future buildings. That's true for the ambient DC network. The grocery DC network is also existing buildings with automation. Then there is e-commerce fulfillment centers, and you're right, we had a set of buildings, we added Jet buildings to it, those buildings in most cases, if not all cases, will also be receiving automated storage and retrieval systems in the existing buildings, which helps with throughput.

And we're building a few new ones where we need them. I was in a new one in Chicago the week before Thanksgiving and it's remarkable. There's not a lot of human engagement with that product. There's still some, which eventually will work through to an even greater degree, but it is really slick and also more accurate and so you get more productivity through those investments. Each one of these, I should say, individually has its own IRR or own set of metrics, each one of those investments is embedded individually and then you get the benefit of a collective system that I've been trying to describe as a big additional benefit.

Simeon Gutman {BIO 7528320 <GO>}

And what have you learned around these capabilities coupled with grocery automation distribution, it feels like you're on the floor of the technology, the debate between macro and micro fulfillment, you're pioneering I think it's store 100, the self-driving trucks moving out to the spokes, so do we have a model yet and a profit model that's tied to all these technologies that you feel good, but you understand what it looks like.

Doug McMillon {BIO 3063017 <GO>}

Yeah, we can see all the pieces. I think the challenge that we've got is getting them together in one place fast enough so that we can measure all of the others unintended or things that weren't in the model, because you got to prove them all out. There are still 100 market fulfillment centers that you're referring to is one of several there're some other places where we're opening those and we believe that having onsite market fulfillment centers with these big parking lots we've got, and in some cases, some of the buildings we're trimming back a little bit, the 200,000 square-foot boxes and 220,000 square-foot boxes can be 185,000 still be as productive from a sales point-of-view, that gives us space to use costs that we've invested in the past to put MFCs in place and use the last mile advantage that we have a being so close to people.

Simeon Gutman {BIO 7528320 <GO>}

I know we don't talk individually about e-commerce profit and this is a sideways question to it. We uses to discuss the lever of higher mix of general merchandise being one of the biggest levers to that margin, is the cost of fulfillment as powerful, is that now -- it wasn't going anywhere, but it is now because we're using the stores more and then we're building this network, just happens the interplay between those factors in driving costs?

Doug McMillon {BIO 3063017 <GO>}

Yeah, good question. The way I would describe it is, first, the mix of sales by product category is a key driver. You want a contribution profit that includes apparel and home and those kinds of things. Another way to think about mix of sales is first-party, third-party, you want a big enough marketplace business to make that mix work. And then as you work down the income statement and you get to wages, one of the biggest cost that we have in our e-commerce business is for store-level wage investments to pick orders. We assign store picking for e-commerce to the e-commerce P&L. So as we raise store wages or we use more hours to pick orders because sales are going up that penalizes the e-commerce P&L and we manage it that way as a habit.

So if and as the market fulfillment centers take labor hours out of that system because we've automated using MFCs, and the other automation coming in the backdoor is better, you end up not needing as many hours at store level to pick quarters which further believes the P&L. And then if you keep working down the way I think about it is, the other income associated with fulfillment services and advertising and membership start to kick in and that's when you have a more attractive income statement then even our original income statement that we had as a company, which was buying and selling merchandise, having associates and managing their margin, all of that core P&L is still in place, but we've kind of -- sometimes I visualize it as three P&Ls, there's the original retail P&L, there're the new things we're building, there're GMV marketplace advertising membership, all the things I mentioned. And in the beginning that P&L loses money because you're building it out, and then eventually, it's better than the first P&L, and you put them together, you get a third one and that's our new business model and that's what we're trying to build.

Simeon Gutman {BIO 7528320 <GO>}

We're gonna go next to alternative profit, but. I want to I think it's worth repeating what you just said is that you had an EBIT margin of this business or an EBITDA that reflected a brick-and-mortar business, you've mixing it with an e-commerce one which naturally has had some dilution and both the improvement in that e-commerce side or omnichannel coupled with the alternative profit pools, you're saying gets you to a better place than when we started this whole journey eventually.

Doug McMillon {BIO 3063017 <GO>}

That's well said. I think in the midst of all that we had Sam's Club business that was growing and performing well and then the international portfolio got changed. Some of the -- sometimes I get questions from this community asking don't you need to do less though you need to focus and I'm like, yeah, we exited Brazil, UK, Japan, Argentina that's happening and so if you look at our business, our portfolio, we're actually in a different set of businesses than we were a few years ago and we kind of subtract it and then we add it back a tremendous growth opportunity in India with financial services and e-commerce marketplace business, which as we said when we bought it would put pressure on earnings for a while. And it has, but every time we raised money for those businesses the valuation has gone up and it looks like a really good business, not only from an investment point-of-view, but just from an operational point of view.

We see synergies in financial services, to some degree in healthcare, as well as in all this omnichannel core retail discussion that are causing us to work more like a global company and someway it's more like a tech company, building tech products that can be leveraged across markets more so than we've done in the past, and I think that will be more true in the future.

Simeon Gutman {BIO 7528320 <GO>}

Moving to alternative profit, you mentioned a few, we've had to write notes because there are so many of them, maybe I'll let you choose, but I was going to throw it out advertising, healthcare, fulfillment services, spark, but maybe to talk I was going to ask you to prioritize, but you've kind of have done that, but can we talk about it and maybe the trajectories within each of those businesses and how they're progressing?

Doug McMillon {BIO 3063017 <GO>}

Yeah. I think the marketplace first, and that's because it will matter a lot to customers and members to have that breadth of assortment and there is a -- there are fees associated with that for marketplace sellers did matter and it's very connected to fulfillment services obviously and in advertising. Our advertising growth globally is not just with the product suppliers we have that are first-party in nature, but also marketplace sellers. So when you can sell and add to other group, that's a bigger business, so that's important. So I think that's the sequence that would go into the marketplace, advertising, fulfillment services, other forms of data monetization. I wouldn't have healthcare and financial services in that same continuum, I think those are part of our flywheel and they connect up together, but I think of them in a different way.

Simeon Gutman {BIO 7528320 <GO>}

And when you run the business now, you have these other profit contributors that you didn't have before, do they fall into the P&L, meaning there -- it's house money now and we can reinvest in other parts or they flow in their own lines and you run the business as distinct?

Doug McMillon {BIO 3063017 <GO>}

A degree of both. So, we obviously have budgets and plans for each component, but we're thoughtful about where we set those objectives and that came up in several of the small group meetings this morning and if -- what's your prioritization is your prioritization to maximize, add income or is your prioritization to serve customers well from a retail point-of-view and those are actually two different things and our prioritization is to be where American shops. We will prioritize retail and add income will grow, but we don't want it to somehow damage or pollute the experience of shopping with us on our app or in-store.

Simeon Gutman {BIO 7528320 <GO>}

Great. Eight minutes, we're going to quickly pivot to Sam's, a little international, and mix in some Flipkart. On Sam's, there's is an investment conference, so I'll cut to the chase, which is -- it's a very valuable asset that may not be getting the proper value externally.

Doug McMillon {BIO 3063017 <GO>}

Can you fix that?

Simeon Gutman {BIO 7528320 <GO>}

I need -- we need some of your help, but does that -- is that something that it could be -- is there any monetization of this asset over time or it isn't?

Doug McMillon {BIO 3063017 <GO>}

If we didn't own it we would want to buy it and it's an awesome business and we love it, and it's multinational like it's a great business in Mexico. Sam's Club is a terrific business in China. It's our strongest brand in China, stronger than -- stronger than Walmart, and the Sam's Clubs that we've opened there have all done really well and we'd like to have a bunch more. So you could look at Sam's as kind of a global brand, not just a U.S. brand. It's a great place for people to learn. We've -- in some cases recruited talent out of there. I used to work at Sam's, John Furner used to work at Sam's, we trying not to turn over Sam's merchants too fast, but it's a great place for people to grow and develop and it's just a really awesome business.

Simeon Gutman {BIO 7528320 <GO>}

Fair enough. We'll go to international, a lot of the portfolio has been called or pruned under your leadership, are there key markets in place, and then I want to talk about a couple of the key markets.

Doug McMillon {BIO 3063017 <GO>}

Yeah. The key markets would include Mexico, Canada, India, China. Walmex [ph] is a fantastic business, multi-country, high-growth rates, profitable, they are further down the line in some instances with customer centricity and members centricity, just really a big fan of our Walmex [ph] business. Canada has always been a terrific business and I think we've got a good opportunity there. We're still down the list of the top retailers in Canada. And then India is amazing. I was there in July, I think it was in the momentum that we've got in both PhonePe and Flipkart is tremendous, strong teams. I think a bright future there and their synergy flowing back into some other markets in terms of what they can bring to the company. It's not like we run these in silos entirely. And then China, as I mentioned, the Sam's Club business is terrific. Walmart Supercenters have been performing better. Our team has done a great job navigating the environment in China with zero COVID as a policy and just really proud of them.

Simeon Gutman {BIO 7528320 <GO>}

And what's your patients or tolerance on these highly populated markets, India for one, you have some high-growth, great business in PhonePe and then Flipkart seems to be continuing to perform well and there is tremendous opportunity. I guess what's the trade-off between waiting to do something external like monetization versus sticking in that business for several more years absorbing for losses or whatever the P&L looks like that we don't know officially, how do you think about it?

Doug McMillon {BIO 3063017 <GO>}

Timing matters. The teams that are leading those businesses are really capable. They've been with the business for a long time and they want a path towards long term large cap sustainable business, so they think about things like profitability, and what we've said is, we want to get the timing right, and that's one of the reasons why people like me go to the market to listen and to hear them as they think about timing for different structures. And as we've said, we're thinking about different structures and at the right time we'll make that happen.

Simeon Gutman {BIO 7528320 <GO>}

And geopolitics, really both India and China, how does that having changed, how much time you spend thinking about these things, does it take a lot of time thinking through the next several years, are you so long-term focused on these markets, you kind of put it aside?

Doug McMillon {BIO 3063017 <GO>}

We definitely think about it, and yes, we are long-term oriented, but in both instances, job one is to -- in any country that you're operating and including this one, demonstrate to all the stakeholders including government that you're a good actor that you're doing good work. So when I'm meeting with leaders in government and foreign market, we talk about what we're doing to serve customers and members and help them save money and live better, we're talking about the work we're doing on sustainability, we talk about our compliance programs. We talk about how we treat suppliers and people want us to be there because of those things and therefore they support us appropriately to have a level-playing field and that's all we asked for.

Simeon Gutman {BIO 7528320 <GO>}

Okay, just quickly on China, individually, you've been in that market for -- I don't know the number of years, but probably...

Doug McMillon {BIO 3063017 <GO>}

'93, maybe, '93, '96 somewhere in there.

Simeon Gutman {BIO 7528320 <GO>}

Yeah, does the business continue to make progress, I know Sam's is extremely successful there, Walmart concept, maybe not, is successful, but not as successful at Sam's, can you talk about that market?

Doug McMillon {BIO 3063017 <GO>}

I can, 420 ish units I think, 100,000 associates that work there. The Sam's Clubs have an incredible track record, like just everyone we open, it's been high volume and highly sought-after, our biggest challenge opening more is just sighting them from a real estate point of view, which can be a challenge because they get unique needs in terms of how you build them out. The supercenters have been performing better and they become hybrid. So we do a lot of business -- I don't know if we've shared it, so I won't say the number, but we have a very high percent to total in China, both in Walmart and Sam's in terms of the digital portion of the business. There's a lot of delivery happening out of those units and we're profitable and optimistic about what that could mean over a longer time horizon.

Simeon Gutman {BIO 7528320 <GO>}

Final question, I think this quote to you a few times, we can do both, that was your quote referring to both investing for the future and delivering operating leverage at the same time, little bit of a slip, I don't -- there's some fair excuse for what happened in this current year, can you talk about that algorithm, that philosophy, I think we might be overdue with -- as an investment community to hear some updated thoughts, so here's your forum.

Doug McMillon {BIO 3063017 <GO>}

Yeah, I think we kind of owe some more transparency next year, in particular as it relates to how we think about the longer term, but I'm still very excited about that algorithm. I think four and more than four is achievable in our plan and the way that we are changing the mix of the business helps give me more confidence on the bottom line, so nothing's really changed there. This year, it's disappointing that we ended up with inventory in the wrong categories. I think our team did a nice job identifying and moving quickly to fix it and now we're on trying to get back to long range plan that we've had our eyes on the last few years.

Simeon Gutman {BIO 7528320 <GO>}

Great. Well, thank you very much for sharing.

Doug McMillon {BIO 3063017 <GO>}

Thanks, Simeon.

Simeon Gutman {BIO 7528320 <GO>}

I appreciate it. Thanks for sharing your thoughts around the holiday. Thanks for being at this conference. Good luck and congratulations on everything.

Doug McMillon {BIO 3063017 <GO>}

Happy holidays.