

TD Cowen Future of the Consumer Conference

Company Participants

- Denise Incandela, Executive Vice President, Apparel Division and Private Brands

Other Participants

- Oliver Chen, Analyst, TD Cowen
- Unidentified Participant

Presentation

Oliver Chen {BIO 15320650 <GO>}

(Starts Abruptly) Key reason why I'm here as well. We're excited to host this fireside chat with Denise Incandela and Denise and Jeff [ph] are long-lost friends as well from Lehman Brothers days.

Denise Incandela {BIO 3308484 <GO>}

Yes, we work together.

Unidentified Participant

We did.

Denise Incandela {BIO 3308484 <GO>}

Many moons ago, we won't date [ph] ourselves.

Oliver Chen {BIO 15320650 <GO>}

Denise is a legend in the industry. She is an EVP of the apparel division and private brands for Walmart US. As many of you know, Walmart is the largest retailer in the world with over 10,000 store locations in 20 countries, and apparel accounts for about 30% of sales. Denise and I go way back, she was formerly at McKinsey Saks Fifth Avenue the Wharton School and she taught in my school at Colombia. So thanks a lot, Denise.

Unidentified Participant

And so, yeah, so Oliver already mentioned that we worked together, another lifetime ago but -- and we're friends on LinkedIn, we're connected on LinkedIn.

Denise Incandela {BIO 3308484 <GO>}

Thats important.

Unidentified Participant

So, walking in today, the two of us having to walk in together and we're like asking downstairs, like where's the conference? And then in literally. I think we probably tried to catch up on several decades of history since last time we saw each other in like five minutes before we are running to (Multiple Speakers) up the escalator.

Denise Incandela {BIO 3308484 <GO>}

I think we accomplished it.

Unidentified Participant

We did, but so, I just was saying, I've been a fan of what you've done. So I have followed you in some of the disruption that you've done and you've been able to do some really interesting things certainly post your McKinsey career as an innovator and I think it will be really helpful to for folks to hear when you're coming into an organization whether Saks or Walmart or in the course of your career as you come in, as a known disruptor innovator. How are you managing those kinds of things? So walk-through kind of the arc of your career, and how you think about your coming into organizations to usher in change and while you're still being respectful of the folks that have been doing what they've been doing?

Denise Incandela {BIO 3308484 <GO>}

Yeah, so. I have been instructed by our attorneys that I need to show you a slide then I'm trying to make happen before I start talking, there we go. So...

Unidentified Participant

Pull out your glasses

Denise Incandela {BIO 3308484 <GO>}

If you could take a moment and read through this exactly -- okay, but -- if we could take a moment and look at the slide, that would be fantastic, make the attorneys happy, okay, I'm good. And then I'll just leave it up here while I answer your question which is a higher level.

I would say, yes I'm passionate about transformation, disruption, innovation. I've always chased those opportunities, whether it was joining Saks in 2000 when people thought luxury apparel would never sell online or whether it's joining Walmart to make it a credible fashion destination. And you will always have to be respectful of

the incredible success that existed before you joined. And I said I've learned a lot of lessons on the way, I'm not sure when I first joined Saks. I really understood the critic -- how critical it is to bridge what the company has done up until now to what we think the company should do going forward.

But now that I've -- I'm a seasoned disruptor or transformation leader, I would say the key things are; one, understand the successes of the past and understand what components of the company are really important to continue because you can't just wholesale anything out that doesn't make sense and you need to really understand your customers and which are the customers, you want to protect and retain and which you want to grow and what is with the key initiatives are needed in order to do both of those things because you can't alienate the core.

I think understanding the talent that you have in the organization and who can take the business to the next level and is able to pivot to do that and who might not be able to do that and bringing in leadership, who can get the organization excited about the future because the one thing we know about retail and Doug McMillon says this all the time is the only constant is change. And so for those who are not excited about change, Walmart is probably not the home for them. And so with that foundation of our leader constantly saying that over and over again, you are delivering on a vision, that's already been set at the highest levels by painting a clear vision being fact base, making sure you're testing. And so you're not risking billions of dollars by making dumb decisions that haven't been tested and bringing in people who are excited about that vision and making sure that the team sees it and wants to go there. But it's hard. It's the balance of respect for what took you to where you are and the clear vision of where you're going.

Questions And Answers

Q - Oliver Chen {BIO 15320650 <GO>}

Denise, what are three things you're most focused on at Walmart? And how do you envision these initiatives changing Walmart and retail, and you're wearing one of the brands today too?

A - Denise Incandela {BIO 3308484 <GO>}

I am. I am wearing Scoop. So the big three things that we're focused on, and it is a huge transformation on the apparel side. The first is the assortment itself. And so democratizing fashion, we'll call it democratizing fashion. And what I will say, and I'll show you a chart here, and the numbers aren't here. So it's a little bit harder to understand.

But what I'm showing here is that if you look at the column that says Walmart FY '23 and if you look at the rows, it's opening price point, good, better, best average unit retails. And if you look at the customer -- the Walmart customer spend within Walmart the vast majority, as you can see, is an opening price point. But when that same customer leaves Walmart and they shop in the rest of the market, the vast majority is in higher average unit retails.

And this was the aha fact base that made us understand that 80% of our customers' closet -- our Walmart customers' closet was in higher average unit retails, and we weren't serving them because we had opening price point only. And so we've been on the journey over the last three years on the assortment side of building with national brands. And you can see the national brand on the right-hand side of the chart, growing quite dramatically. We brought in Reebok and Justice and Chaps and Celebrity Pink and Steve Madden. And the customer has loved it.

So building in national brands, building better private brands, our opening price point brands with better style and quality and then building up, what we call, elevated brands, and we've created partnerships with celebrities like a brand in Maxwell, who's a well-known women's wear designer or Sofia Vergara, who I'm sure you know who she is, and others and building out these elevated brands at slightly higher price points. So think instead of the 15 to 50 -- all the way up to 50, like this dress, the Scoop dress I'm wearing, we bought the IP, it's \$36. And that's where, on the assortment side, we can serve more of her closet and her wearing occasion. So that's a little bit of a long story on the first bucket.

The second bucket is the shopping experience. So creating a credible fashion shopping experience, both in-store and online, we are in the process of rolling out our store of the future. We are testing it in 30 doors right now. And I'll get to it in a minute, actually. Really exciting. We are overhauling our e-commerce business in shopping experience in a big way. And then the third big bucket is marketing, which is broadening our appeal and changing the perception of Walmart. And so those are the big tenants, the assortment, the experience and then the marketing.

Q - Oliver Chen {BIO 15320650 <GO>}

One more question before I turn it back to Jeff. We're asking all of the C-suite this. How would you rate the health of the consumer on a scale of 1 to 10? And any thoughts between different income cohorts? Walmart has been getting a higher income customer.

A - Denise Incandela {BIO 3308484 <GO>}

Yeah. So the health of the consumer is different depending on their household income. I would say that \$50k and under household is very stressed right now. They're spending their money on groceries and they're not spending their money on disposable income categories. And so that health of the consumer, I would say, would be the under 5.

We, at Walmart, have been attracting more \$100k-plus household income overall in the chain and within apparel too, we're up quite dramatically over last year alone. I think because people, one, are trading down, but also, I think, our strategy is resonating on the apparel side, in particular, because we, as we said, are going beyond opening price point to creating clothes that are -- serve more for wearing occasions in those higher household income.

Q - Oliver Chen {BIO 15320650 <GO>}

Thank you for that. Yeah, interesting. So I just was listening to how you're positioning. Again, I think about from our own experience at Cowen and thinking about how we're going to build our brand over the last decade, and I've said over and over again, our primary clients, some of who are sitting in the audience here, they want a Tiffany's product at a Walmart price. I've said that over and over again. Like, they want high-quality product. They just can't afford to pay what they used to pay for it.

A - Denise Incandela {BIO 3308484 <GO>}

Yeah.

Q - Oliver Chen {BIO 15320650 <GO>}

And so it's interesting to hear how you balance that. And ultimately, at the end of the day, people are willing to pay up for the product. They just -- they may not have been in a position where their disposable income or, in this particular case, wallet was actually able to afford it.

When you talk about how to position that in the brand message, it'd be interesting to hear how you're actually drilling down on apparel assortment and mix. And do you look at things, like -- do you look at sort of the basket mix on a consumer basis, if you think about that? How do you think about sort of being able to shepherd the high-end brands like you've laid out here, the elevated brands, your private brands and your national brands?

A - Denise Incandela {BIO 3308484 <GO>}

Yeah. So from an assortment point of view, I talked about the three big areas, right, like bringing in these big national brands, which historically haven't been a huge part of our assortment, but we know our customers want to buy these brands. And so bringing them in has been a significant part of the strategy and is working very well.

And then overhauling our own private brands with style and being on trend and better quality. And so we have 6 billion-plus private brands, four of which are \$2 billion-plus. So we have massive private brands. But I think we've been more in the private label business than the branding business. And so building proper brands and with all the marketing that goes with that and building out the DNA and thinking about the price architecture and, of course, making sure that the style and the quality is there, it's been a huge focus for us in number two on the slide. And then this elevated brands, and that's where I was talking about the celebrity partnerships, et cetera.

So all of this with the goal of democratizing fashion, to your point, she doesn't have as much to spend. But just because she doesn't have as much to spend doesn't mean she shouldn't look beautiful. And I do think I spent 15 years at Saks and three years at Ralph Lauren, like I don't care whether it's a \$1,000 dress or a \$15 dress, it should be beautiful. And it should have the right colors, the right prints, the right silhouettes, et cetera. And that's where we've been dogmatic and really passionate about getting the products right so that she can look great at whatever price point

she can spend. And these elevated brands, which are new, they're all within three or four years, are really bringing a new dimension to our customer when she's in a store.

And think about we're a grocery store layering on the style categories, right? And we've been in all these businesses for a long time, but more foundational on the apparel side, then style and dresses and more denim and shorts and tees and dresses and being able to capture the tens and tens of millions of people who are in our store every week grocery shopping and offering her an apparel assortment that serves more for wearing occasions at extraordinary price points. Everything we do, we look at having at least a mid-teen price gap to the competition, whether it's the \$36 dress that anywhere else would be \$60 or it's the \$4.99 tee that would be \$7 somewhere, like maniacal about providing extraordinary value.

Q - Unidentified Participant

Can I just ask one follow-up before I turn it back to OC. So it's just interesting to hear you talk about it from your own perspective. Can you talk a little bit about how you bring your own gender experience to the development of that? Like, just listening to the way you talk about it, it's -- you can relate to the consumer.

A - Denise Incandela {BIO 3308484 <GO>}

Yeah.

Q - Unidentified Participant

But is that something that was different at Walmart when you got there? And so you're bringing a fresh or different perspective based on your own experiences -- individual experiences?

A - Denise Incandela {BIO 3308484 <GO>}

Well, I think that my background is focused on taste level and luxury and branding. And so bringing that taste level to the masses, right, the 99%. Like my career has been focused on the top 1%. I'm super energized about focusing on the 99% and making an impact on their lives and bringing them beautiful clothes, which everyone should have access to. You shouldn't have to be affluent to have access to beautiful clothes has been a passion of the whole team of mine and the whole team. And so that's where we feel like giving our customer the opportunity to save money and live better, that's the living better part of it that we're like crazy focused on delivering now in ways that we haven't in the past by bringing that taste level and focused on product because we all love product and I think that this customer has been underserved in the past with product that hasn't been as beautiful as it can be.

I don't know if that's a gender answer, but that is my background to what we're doing and not just mine, but I have -- we have an extraordinary team who's passionate about delivering, there is many who have come from anywhere from Neiman Marcus to Coles to Macy's to -- from Target to Saks Fifth Avenue, like we have really experienced fashion team who very are equally as passionate about the vision of democratizing fashion and building it on this grocery store that has the

inherent traffic. My whole career had been focused on the marketing to drive the traffic. Now. I have this extraordinary machine I don't -- not me but we have this extraordinary machine of traffic and now it's just about layering the styled component on top, which frankly is unparalleled in the industry to be able to do get the machine of the grocery store and the style as well.

Q - Oliver Chen {BIO 15320650 <GO>}

Magic and logic as part of the

A - Denise Incandela {BIO 3308484 <GO>}

Magic and logic.

Q - Oliver Chen {BIO 15320650 <GO>}

So, what about digital, Denise? In terms of key digital, we believe in bricks plus clicks plus portals and then you're a big enthusiast for physical stores, just like me too. Could you brief us on those two points of innovation and how they are interconnected?

A - Denise Incandela {BIO 3308484 <GO>}

I think -- yeah, so this is an image of our store of the future. I'll start with the store because that's the slide order if that's okay.

Q - Oliver Chen {BIO 15320650 <GO>}

Sounds good.

A - Denise Incandela {BIO 3308484 <GO>}

Okay. So the store of the future, really excited, we got 30 of them. There is four main focus areas. How many of you have been in a Walmart before?

Well, a lot. Great. How many of you have been in one of our store of the futures? Okay, a few of you. So hopefully these points will resonate with you, but there is four main things that we're working to accomplish in the store of the future.

One, we have all these new brands, we have these elevated celebrity brands and we think that the apparel pad is now the halo for the store because it really looks good, and I hope you agree as you go to these stores of the future and it lifts the whole store. And so we have premium shops all along the front, typically right behind the registers that showcase these national brands and elevated brands at extraordinary price points, great quality close.

That's the first point, these premium shops. The second point is creating a more inspiring, discovery shopping experience that lends [ph] to outfitting which has not necessarily been our DNA in the past because it's more of an item-focused, right, we can sell 2 million of these items a week, but now it's about -- more about outfitting. So you see the mannequins, for the first time. For the first time, we are offering

mannequins better fixtures, video displays, all of this with the goal of creating outfitting and inspiration of shopping.

And then the third point is removing the clutter and making the product the hero. The product should be the hero. We're spending all this time creating beautiful product democratizing fashion, but if you can't see it because our stores are so cluttered, it doesn't -- we don't win.

And so we removed 10% of the merchandise, 10% of the racks, we took price signs off the front of the shop which we've always had these huge price tags, (Multiple Speakers) oh, yes, it's still on the opening price point part in the back of -- in the middle and the back of the store but upfront, we want to make the product the hero and so widen the aisles.

And it's been an extraordinary success and it's amazing to think that you can pull out 10% of the inventory and sales will go up, but that's exactly what we've experienced. And then the fourth and final part is like really claiming authority where we are the biggest retailers.

So we are the biggest Denim retailer in the country. We need to look like the biggest Denim retailer in the country and so we created a Denim shop where. I think the power of our positioning in Denim is more clear and even opening price point like when we have the T [ph] and we sell 2 million of them a week. And we have, as I said a mid-teens gap to the nearest competition like we need to stand with authority on that.

And so that's been the goal with the store of the future, really happy about the consumer reception and all of our insights have shown that the consumers are -- happiness is through the roof, they're saying, it looks like a better department store, but at extraordinary value which we're trying to create a calm, wonderful shopping experience, again where the product is the hero. And then on top of it, back to the household income 100K [ph] household income, we have significantly more 100K [ph] household income this year versus last year which I think this is starting to drive.

So Halo for the store and excited to see that and we rolled out 30 this year so far, another 300 coming, and then we have 4,000 doors altogether, so we will be on a rollout schedule after this. But I think this is going to transform the way you think about Walmart in total. And then also similar on the e-commerce side, which is making sure that our brand pages and our learning [ph] pages have the right models, the right creative that we look like we're credible in fashion, improving photography, improving our ability to search, so using artificial intelligence, so when I'm looking for a long sleeve black dress, I actually get a long sleeve black dress, complete the look and then Zeekit which is a big initiative for us, which is used leveraging AI where you can be the model and so. I think this is the future of shopping.

Frankly. I think in three to five years, people only want to see themselves when they are shopping online. And everyone wants their 15 minutes of fame in social media like this is like a new way of shopping and so we bought this company two years ago called Zeekit, it's quite extraordinary because it uses mapping technology.

So it's not a paper doll, but it actually maps the garment on you in a way that shows shadows and things that other technology we've seen doesn't do. And so this is super exciting. We're in early stages, we're offering, choose your own model. We have 150 models to choose from so that you can find someone that your height, your ethnicity, your weight. And so, if you're really six foot tall, really tall, dress is going to fall on you different than if you're super short like me 5.3, and so understanding how it will look on you, you can choose your own model and now we're rolling, be your own model. So there's some really exciting developments there that I think are going to change the way people shop.

So those are some of the things that are happening on the experience, which again you get the product right, but the shopping experience has to be right too.

Q - Unidentified Participant

And can you talk about some of the stuff you're doing on the sustainability front and how important is that as part of your...

A - Denise Incandela {BIO 3308484 <GO>}

I mean, we are committed to be a regenerative company, Doug MacMillan, our CEO, talks about that all the time within the apparel part, as you know, anyone who works in apparel knows that we are one of the biggest defenders [ph] when it comes to water and other things. And so we have -- almost everything we do, we work with our suppliers in terms of reducing water, moving to more sustainable fabrics, moving to -- making sure that working conditions and women's organizations even made in America, we've just -- we have partnered with -- this is not sustainable, but still within kind of our round.

Q - Unidentified Participant

(inaudible)

A - Denise Incandela {BIO 3308484 <GO>}

Yeah. Working with the supplier, we've opened up a factory in California, so which is kind of like every aspect of that, we don't beat our chest about it, we do it as -- because it's the right thing to do. And frankly, when you're as big as we are, we feel the obligation to do it and the responsibility to do it, because when we do it, the country moves and so. I will say it's like -- it's part of our conversation all the time.

Q - Oliver Chen {BIO 15320650 <GO>}

Got it, Do you want to do lightning round or do you want to ask?

Q - Unidentified Participant

One sneak in, like we are excited about Walmart as an ecosystem briefly on the marketplace, maybe this is a lightning round marketplace, so fulfillment. Speak to those little bit in terms of how they interplay with what you're doing.

A - Denise Incandela {BIO 3308484 <GO>}

Yeah, so. I've talked a lot about, I guess what I would call like one (inaudible) we buy it or we make it but marketplace, if you think about the head, the torso, the tail of the assortment, we're focused mostly on the head and part of the torso, but in terms of making it or buying it but there is a whole marketplace endless aisle opportunity because the goal of course is to be the number one destination for apparel in the country and marketplace is where we get at the endless aisle. And so our marketplace partners are critical to our success in offering her more than the items that are in stores as well as online that we bought.

And that's massive strategic focus for us as a company because we think that business is going to be multiplying by a factor of 7 to 10 within apparel alone within the next four to five years. And the goal, of course, is to provide the customer every variation of what she wants online. So really excited about the potential there.

And then on the fulfillment side, the goal is to provide the customer this endless aisle of merchandise, however she wants to shop, whenever she wants to shop. And so that, of course, means if you want to buy it in store, you buy it in a store. If you want to buy it online and you want to have it shipped to you, we can ship it from our stores, we can ship it from a fulfillment center. If you want to buy it online and you want to pick it up, you can do that. And so leveraging our 4,000 doors as fulfillment centers is a unique aspect of our strategy, enables us to get to the customer faster and leverages our inventory across the chain. So these omnichannel services are, I think, are important differentiator for Walmart.

Q - Unidentified Participant

We talk about that all the time also in our business, right? 80% of things people want are pretty much the same, but it's all in how you handle the last 20% of the deliverable and we want...

A - Denise Incandela {BIO 3308484 <GO>}

And you have to be profitable, right? So that's where thinking through, do you put it in your however many FCs we have supporting apparel? Or do you put it in x amount of doors? And what's that algorithm that optimizes the customer experience and the SG&A?

Q - Unidentified Participant

And your ability to profitably -- alright. So lightning round, a couple of things. So first of all, one or two areas that you think investors should be focused on with Walmart that they're not?

A - Denise Incandela {BIO 3308484 <GO>}

Well, I think I've just talked a lot about it. I think we're in the midst of a fairly significant transformation, and bringing in a range of brands and a range of goods that maybe Walmart historically hasn't been known for. I think that in this macro environment, which is super challenging, the nice thing about Walmart is we tend to win, whether it's in a difficult environment or whether it's a good environment because people trade down. I will say that we are a grocery store. And so the foundation of that, especially now, is -- helps Walmart and puts Walmart in a unique position. I would say, layering on the style categories in a credible way is the unlock for Walmart that we are hyper-focused on, that I don't know that we nailed in the past, but there's huge opportunity.

Q - Unidentified Participant

What's the one thing on your Walmart shopping list?

A - Denise Incandela {BIO 3308484 <GO>}

Always a dress.

Q - Unidentified Participant

Always a dress.

A - Denise Incandela {BIO 3308484 <GO>}

I can't go into a Walmart without buying like three or four dresses.

Q - Unidentified Participant

One thing you never leave the house without?

A - Denise Incandela {BIO 3308484 <GO>}

I mean, I'm going to be boring with this and say it's my credit card and my phone, and I know everyone has the same answer, sorry. I know you wanted something clever probably.

Q - Unidentified Participant

No. I mean, that's fair and...

A - Denise Incandela {BIO 3308484 <GO>}

It's true.

Q - Unidentified Participant

I wasn't going to go with credit card because my phone is on -- my credit card is on my (Multiple Speakers).

Q - Oliver Chen {BIO 15320650 <GO>}

You (inaudible) accessories.

A - Denise Incandela {BIO 3308484 <GO>}

Well, I mean, I never leave the house without jewelry if that...

Q - Unidentified Participant

My clothes. I never leave my house without my clothes. Just saying.

A - Denise Incandela {BIO 3308484 <GO>}

Okay. So maybe my answer was better [ph].

Q - Unidentified Participant

Okay. One leader or book that has really inspired you along the way?

A - Denise Incandela {BIO 3308484 <GO>}

Yeah. I'll be boring and let me -- I don't mean to say I'll be boring. I'll be predictable and say, Sam Walton and Doug McMillon, I find incredibly inspiring. And so people who I've worked with, Doug McMillon and Steve Sadove, who was the CEO of Saks Fifth Avenue, who has had a huge impact on me. I think, Howard Schultz from Starbucks is a true visionary, and I have a lot of respect for him. So it's kind of a range of people who I've worked with and who I just admire from afar.

Q - Unidentified Participant

So first of all, thank you for sharing and thank you for being here. For me, personally, like I'll just say there's -- even though we haven't seen each other in a number of years, like the arc of our careers isn't that different actually. Having worked at the largest investment bank and brokerage firm when we first -- both first started, to choosing to do something where we catered much more to, let's just say, a more exclusive or a limited audience, like we are a premium brand focused on institutional investors and high-quality institutional investors at Cowen, similar to your career.

And now with our recent merger with TD, we're now figuring out how we take the Cowen brand to the masses. And we're in the early days of that. We're 90 days in. And I just -- I feel like I should ask -- I would ask you privately, but I'll ask you, like I just love to be able to pick your brain on the things that maybe you've tried that haven't worked and some of the things as we figure out how we migrate our brand without giving up who we are, and bring what we do and what we say in our thoughts much more broadly.

It's a big thing we've talked about as part of the big value unlock for us at TD Cowen and TD, America's most convenient bank, a bunch of different places. And so maybe it won't be quite as long between the time that we talked last. And since we're

connected on LinkedIn, I'd like to talk to you more frequently about that. But thank you so much for your willingness to share and for being so open about it all.

A - Denise Incandela {BIO 3308484 <GO>}

Of course. Thank you. Thank you for having me.

Q - Oliver Chen {BIO 15320650 <GO>}

Pleasure having you.

A - Denise Incandela {BIO 3308484 <GO>}

Yeah. Nice to see you. Thank you.

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