

Deutsche Bank Global Consumer Conference(Virtual)

Company Participants

- Judith McKenna, President and Chief Executive Officer, Walmart International

Other Participants

- Paul Trussell, Deutsche Bank

Presentation

Paul Trussell {BIO 20732173 <GO>}

I believe we're live. If so, well, hello and welcome to dbAccess Global Consumer Conference. It's day one of day four -- of a four-day event, and I really hope everyone has a great set of meetings this week and, certainly, the least amount of tech issues. I'm still certainly myself trying to get my video centered. I'm Paul Trussell, the DB US retail analyst. And to kick things off, I'm delighted to be hosting Judith McKenna, the President and CEO of Walmart International. Thank you, Judith, for being with us today.

For those that don't know Judith as well, she's a Walmart veteran, today responsible for all of Walmart's footprint outside of the US, which spans I believe 23 countries. Prior to leading Walmart International, she served as EVP and COO of Walmart US, where she played a major role in the company's online grocery strategy, leveraging her insights and experience from numerous leadership roles for Asda in the UK.

Judith is also on the board of Flipkart and PhonePe in India, which we will certainly dig into as well during this conversation. And in terms of format, I will host Q&A with Judith and we will work as much as we can into about a 30 minute session, all right? So, a little bit truncated, but we'll get through as much as we can. And certainly, I'll keep an eye out on the Q&A. Feel free to put into the chat questions, just so we know that we're hitting the priorities.

With that, we're going to go ahead and get started, and we're going to put up a slide quickly as Walmart has provided a forward-looking statement, on this slide, for you to take a view.

And let's jump right in. Judith, how are you?

Judith McKenna {BIO 4806787 <GO>}

I'm very well, Paul, and it is a pleasure to be with you here today, albeit virtually. I do wish we could be in person, but not today for some time, but -- and a warm welcome to everybody who tuned in as well.

Questions And Answers

Q - Paul Trussell {BIO 20732173 <GO>}

(Question And Answer)

Absolutely. So, Judith, let's maybe start a little bit bigger picture. One of the more notable changes over the past few years is just the speed in which Walmart has been moving, really playing a lot of offense as supposed to maybe a more for defensive stance. Just discuss some of these key changes that you and the management team have been taken action on and what allows you to be as nimble of an organization as you are, just given your size. And also with that, how do you think about making investments versus really showcasing to shareholders improvements in profitability?

A - Judith McKenna {BIO 4806787 <GO>}

Yeah, and I think nimble is a really good word for it actually, and probably not what people expect from a business of our scale. And we've been working hard not only to make sure the foundations of the business are strong, but as you've said really becoming much more innovative and totally customer-centric in the way we think end-to-end from a business perspective. And -- but you reckon it completely and you know it well, Paul.

And going back to the days of Sam Walton, he was ultimately an innovator, I could say, because whether it be supercenters, Retail Link, satellite communication, they've always been things that Walmart has done and done well. Everything we've done has been successful I'll remind you. But actually, the whole ability to test and trial and learn and innovate and be prepared to invest in order to be able to do that is huge.

As I look and I think about the journey for the US and I think about the journey for all of our international market, there's probably three things that stand out to me. They are the recipe if you like -- the ingredients to be able to be successful in an innovation space. The first is you've got to be customer-centric. And I think the events over the last 14, 15 months have made us more customer-centric than we've ever been before. We're using data to understand more. We're using better insights to really stay on the front foot.

The second one I'd say is you've got to be inquisitive and out-turned about new technology and uses for a technology and figure out what problems you're trying to solve, rather than how can I use this to do something. And I think we've got way better at that over the years as well.

And then, finally, the environment that I think that Doug and the entire leadership team are creating is a place where the right talent and the right capabilities really

wants to come and work. So, if you look at some of the folks that we have now in our leadership team, people like Suresh Kumar, who is our Chief Development and Technology Officer, is a phenomenal add to the organization that brings a breadth of knowledge and a tech base that we wouldn't have had before.

And as we think about those investments, you asked me about sort of shareholder versus the business and what do you think about it. The two are mutually exclusive and if you think about one of the areas we're probably becoming well known for, and it's been fascinating to watch this journey, which is automation. Yes, it takes investment to get automation into the business. But ultimately, it pays massive dividends, improves your customer service because you can pick more efficiency, your accuracy is better, but equally a good productivity benefit for you as well.

So, I don't see this kind of move to innovation as being an either-or between investment and shareholders. And I'm sure we'll talk about it. There's lots of levers that we can pull out scale allows us to do. And as we connect the businesses together more, the flywheel you hear us talk about all the time, that really help benefit how we can pull those different levers, so that in sometimes we're investing, in some places, we're reaping the rewards of those investments, and you try to get it into this virtuous circle and the benefits that we bode, right?

Q - Paul Trussell {BIO 20732173 <GO>}

Absolutely. Thank you for that. So, let's talk about the evolution of the international business. I mean, you have had a number of transactions recently, Judith, and we'd love to hear more about your thought process around the sale of Argentina and UK and Japan. Help us understand the rationale and how that's going to impact the P&L going forward? Any other -- just help around how you think about where you want to be doing business in overall footprint?

A - Judith McKenna {BIO 4806787 <GO>}

Yeah. And so, I came into this job 3.5 years ago. And I didn't [ph] originally assume in International. I've been at this for 17 years to just be into [ph] international as Head of strategy. And at the time, I think we've started to come up with this very clear strategy phrase, which we need to be in strong local businesses that are powered by Walmart, which means that each business needs to be strong, have a long-term sustainable growth in the market in which we operate. But we'll use that scale and capabilities to make that happen and to join the lots of people around the world, best practice sharing, tech, whatever that looks like.

The other elements of that that became clear is if you'd asked me five, 10 years ago, I'd have said that we were -- we always wanted to be in control of businesses. We wanted to own businesses and operate them. And I think we flex that over time, so we became much more nimble, again to use your word from earlier, about the way that we think we can operate, and we were way less worried about being a 100% owner of something.

Join those two things together and whilst international has been a phenomenal business, we went through different phases of its history and it's been cash

generative for the company overall. What was clear was some of those markets, and maybe I'll use the UK as the prime example of that, it is very close to my heart as you well know, which is we knew that business would need increased capital investment, it would need a different way of doing things and a different way of working.

And if you look at the business of Walmart overall and, say, the investment we need to make into Walmart US, in Mexico, in India, you can't do everything. So, we figured that we would make some smart choices about changing our ownership structures and going into minority. So, we did Brazil two years ago. We since done Argentina, Japan. And now, we've done Asda as well. And what I'll tell you in the mix of that from a thought process perspective is that I think we still have a lot to gain from the way we structure those transaction and that's two fold.

If you think about Japan, Seiyu in Japan is probably a good one, that's now a combination of KKR if you've got might just some private equity thinking into a business, Rakuten, one of the most forward-thinking digital businesses in Asia, and Walmart and our experience particularly in grocery home shopping. Combine those together and, actually, we stand to learn a lot from the way that is operating a board of (inaudible), so I don't think when you think about this, we should think about as we've just walked away from market. We're actually setting a stretch where we can learn more effectively. But there's no doubt today that we operate actually in markets with good growth opportunity.

If you think about India, which I know we're going to talk about as well, because I never get to do one of these without talking about India. The culture is great. But also Mexico, which is -- it's a phenomenal business with huge growth potential still and really strong returns for it too. So, I think excited about where we do operate, anxious and keen to get the learnings from the divestments. And there is one of the things that is letting us do, Paul, which is we are providing global sourcing services to Brazil, Argentina, even though we sold a 100% stake, Japan and the UK. That is allowing us to start commercialize our global sourcing platform and we will learn from that, because now we have external parties that are buying from that.

But when I think about the changes that we've made, it's easy to say we've got smaller and we have. There's \$35 billion top-line impact from the divestments this year, which we disclosed in Q1. But we can also see ways to grow in the future too. And I think some of those services may allow us to have a different footprint internationally in the future.

Q - Paul Trussell {BIO 20732173 <GO>}

So, you really just hit on this, right? You obviously are pressing forward in a number of markets that have a lot of growth potential. Maybe just let's follow up and dig a little bit deeper as you think about these big markets, Walmex, Canada, China, India, how do you think about capital allocation between those markets? And also, where do you see the largest opportunities for growth as well not just on the top-line though, but also profitability upside?

A - Judith McKenna {BIO 4806787 <GO>}

Yeah. So, everything we do is measured by how do we create these strong local businesses, which are powered by Walmart, and I will keep saying it because it's such a good way to sum up what we do and the way that we think in international, which means that no different to what you've heard us talk about for the US in our Q1 results. We will continue to invest where it matters and where we can invest in the customers, creating some productivity and invest in new profit areas and new profit sources future as well.

It might be easier and simple for me to give you a quick thumbnail on each of those markets that you've mentioned. Because sometime as we think about international being a hole, well, in fact that strong local business is a series of individual market strategies, which add up into that hole. As we think about capital allocation, I also think a bit like investor. There's no pure science to this. It's a bit of art as well as you think about what you need to invest and when. But China, clearly, our Sam's Club business there is incredibly strong, double-digit growth has been reported for the last number of quarters and we're looking to accelerate that business.

Hypermarket, more like the supercenters in the US, and we are going through a transformation process for them. They were impacted by COVID and fruitful [ph] to them, and I think figuring out for them what the right format is for the future, particularly focusing on our general merchandise offers. And the reason that's important is kind of the third element I think for China, which is O-to-O, online to offline, probably the most advanced market in the world for this. We've learned a stack from them about how to deliver fast, what you need to do. But both for Sam's and for the Hypermarket business, the capability to do online to offline, those formats, those physical formats give us the anchor to be able to do that. So, that's the China.

Canada, this is one of our strongest returning businesses, great business, really strong. Omni-channel really is a way to go for that in a core remodel program to help support that as well. And Mexico and India, I could talk about all day (inaudible) and the two things that are common for Mexico and India is that they are for access and they offer value to people right across the country in which they operate. Mexico all of the international markets is probably the one that's most customer-centric in the way that it's thinking about an end-to-end transformation of its business to be way more connected.

It's just launched something which is called, BAIT, which is Bodega Aurrera Internet and Telephony but in Spanish, which my Spanish is terrible, I've done it in English, which is a way to give internet access to people and data access to people that wouldn't normally be able to afford it. So, that helps drive their flywheel. And when you look at the US's flywheel and you look at Mexico's flywheel, whether it's stages of development that actually quite similar in the way that they're all building on each other and putting the customer at the middle of it.

And then of course, we go India, so Flipkart and PhonePe businesses both really strong, both doing well. I'm really pleased with what they've done since we acquired them. We've said that clearly N number of time. And you asked me about

profitability and what that looks like too. And what I would tell you is that we want all of our businesses ultimately to be profitable. Clearly, that's one of the reasons we're in business, but we also recognize that everybody's on a different curve and we will invest where it matters to make sure that particularly in developing market we're getting in the right place in that curve and that with meeting customers where they need us to be, so that we're bringing them into the ecosystem.

Sometimes that does need some investment and might make that curve a little longer, because once we've got it in place, we can really double down on things like AdTech and financial services to people, which are these profit streams that can flow into.

Q - Paul Trussell {BIO 20732173 <GO>}

So, let's stay with India and Flipkart. How -- where is Flipkart on that profitability curve that you just spoke to, especially relative to when you made the acquisition? What should we know regarding the impact to the business from some -- of what's happened over the past, few months with lockdowns and other aspects? And what also can you tell us if anything around a potential IPO for Flipkart?

A - Judith McKenna {BIO 4806787 <GO>}

Yeah. That's my number one asked question on the IPO for Flipkart, so I'm going to tell you that my the answer that I give to everybody, which is that we always made it clear from the day we made the acquisition of the investment that we would be open to an IPO, but we've also been really clear we'll do it at the time that's right for the business. It's not an output. It's not a target for us to do that. But if we build a strong business and we continue to do the things that we need to do to ensure there's long-term and sustainable growth, that is a possible route that we would consider in the future, but certainly no specific timeline on that.

And profitability-wise, I think we talked about that. What we're interested in for Flipkart and we're learning a lot about is whilst their core business that changing their mix there to be -- to double down on the higher margin areas such as fashion, for example, which really helps their margin mix and their contribution margin, they're also doing a really nice job of building up our tech business there too. And I think what we've seen there is strong growth and the connectivity that that gives them.

One of the investment areas through that we're making against that is in the wholesale business, which is serving the small, medium-sized businesses, some of them -- people may not (inaudible) in India and providing services to them on a business-to-business basis, but then also you have a nascent grocery business. The grocery penetration in India is massively low, accelerated through COVID. We're just expanding our offers there. And it's one of the few areas where Walmart can really help and support in terms of the learning for working with that. So, overall, we're meeting our expectations and sometimes exceeding them about where we hoped our business would be. So, lots of positive things going on for Flipkart.

PhonePe is of course the other business there as well. For those that don't know, it's payment platform and it is less than five years old, and we said in Q1 that it's just got through some just over 200 million users, it's just crossed 300 million user platform - user mark on that, which is remarkable in a five-year period. They are a transaction platform. So, whilst they're anchored in payments, what they're looking to do is to see ways to be able to be more inclusive to customers everywhere across India. So, they're going into new financial services areas, be that gold. Gold is huge in India for those people who know the Indian market and then also into an insurance, mutual funds and different areas, which are all strengthening to the P&L ultimately when those businesses come off. So, confident and happy with the progress the businesses are making.

You asked me about COVID, just we were chatting, earlier such a challenging and harrowing situation in India. Our hearts goes to everybody who have been impacted in some way by that, and we're doing all we can as a business to help support that. And there is undoubtedly been an impact and we talked last year about the closures that we had due to non-essential items being delivered. There are local closures in place at the moment, but that has a short-term impact. But the offset to that that I'm seeing is an increase in digital penetration overall in India. And the Indian government said many -- several years ago that we wanted to digitize India to become a digital India, and it's done a lot of things to enable that, such as the UPI, the united payments interface -- unified payments interface, and a lot of the platform they put in place. And I think you will now see the shift into those areas. There's one area that I think we will see a greater acceleration is grocery for India, so that's why we're really thinking about that as well.

Q - Paul Trussell {BIO 20732173 <GO>}

Great. Thank you for that detail, Judith. Speaking of digital, that's obviously a key focus across every geography. Maybe help us understand what digital penetration does look like in some of the key international markets? And what are maybe some key capabilities from a technology standpoint that are really work flagging and call in out that may be different than what we are used to seeing and dealing with here in the US?

A - Judith McKenna {BIO 4806787 <GO>}

Yeah. Digital journey has been extraordinary. And when I started out in the UK, we launched online grocery, they welcomed business in online and those kind of businesses. And you look at the UK today, there's lots of penetration that's there and that has happened to degrees around the world.

In Q1, we told you that digital percentage of service 16% was our contribution to sales, so you can get a feel for that about the increasing importance that it's having for us. Obviously, the weighting of Flipkart in our portfolio does have a big weight on that. And I can't see that penetration flipping back quite honestly. I think there was some work by McKinsey recently that said, people who shops online the very first time over the last 12 months are more likely than not to continue to shop to some extent, but the good news is they'll still come back to stores as well. So,

hopefully, for Walmart, we get the best of both worlds there, which is exactly what we what we want to do.

And technology, we think of innovation and best practice sharing as just being technology, but it's not just that. We learn from each other in so many different ways and we share talent and we share capability. But in reality, the US has been kind of the source of a lot of knowledge because, frankly, they can make the largest investments in some of these areas and we did able to export that around the world.

I think Mexico and Canada in particular are really benefiting from the kind of digital transformation that the US is undergoing, whether that be for last-mile delivery, whether that be picking capabilities, whatever those areas look like. But we also see around the world, we are creating pockets of innovation. So, Canada, for example, is using blockchain and its supply chain to look at how it invoicing and receiving. That's a really important task for the rest of the world, and the US will take a look at that as well.

I've talked about payments in India, and PhonePe's innovative approach, the way they connect, the way that they think about and attracting customers and what they do will bring that on board. And then in Flipkart, they've got some really good, very cool stuff around voice and around local language as well. And in voice, we just introduced voice for shopping on grocery in India and it twice as fast to shop in English on voice, but three times as fast to shop in Hindi. So, just really interesting ways that we're learning about how the customer connects with us and how you bring more people into that ecosystem.

So, the other way and -- I mean we nobody talked about this very much is that we do something which we call parallel learning. And so, take something like the market fulfillment centers that you've heard us talk about for the US, so these are the automated boxes that sit on the side of the store and take the majority of picking out. You need the densities be able to do it, but it gives you a huge productivity speed and the customer experience is much stronger as well.

And the US -- we actually tried one of these donkey's years ago back in the UK, one of our things that didn't work. And but in the US, we've talked about this for some time, while Canada is also testing one. But we're going to test two different technologies. So, same output to test two different technologies, so that we get the parallel learning rather than one market does it, spreads it to some other market, so you get much better flexibility and speed to iterate.

Q - Paul Trussell {BIO 20732173 <GO>}

That's great color and exciting things going on around the world. Judith, maybe to close out, you mentioned flywheel earlier and maybe we can just circle back to that as you think about where you are currently in managing this international business. Talk about the flywheel effect and what you're able to drive in terms of efficiency, then productivity improvement? How that's may be able to lead to leverage across the cost structure? We'd love to hear a little bit whether that's bigger picture or

maybe some market-by-market examples and how that may be parallels as well to the US business?

A - Judith McKenna {BIO 4806787 <GO>}

Yeah. I guess now -- the work has been done on the flywheel and the articulation of that to get the clarity of the connectivity of the business I think has been fantastic in the US in particular. I think that the thing about flywheels is that you keep putting the little parts in place of them and, ultimately, it starts to get traction of its own and each piece interconnects and feeds into the next one. It's the entire dictionary definition of what a flywheel does. It generates its own energy and momentum over time, but you've got to be patient putting those pieces together.

You think about the top of the flywheel, that is the customers coming in and its winning the primary shop, be that in our stores or be that online. You think about the 3 o'clock at the flywheel pull, it's all about building loyalty in deepening our relationships with our customers. So, I think about this we sell them things, but we get to them how they want it. We then connect with them in different ways, financial services, health and wellness in the US is a huge example of that, and bring them back into the flywheel.

You then come into the 6 o'clock area of that flywheel and you thinking about productivity, so that scale that you can get and the automation that it brings and what you can do as well as the connectivity that allows you to have new profit streams. Ultimately, you invest all of that back into the business again and your customer value proposition. And I go through that every time I talk about the flywheel, because it's helpful to remember how it works and what those pieces are.

The US is doing some amazing work there. Our AdTech in particular so impressed with Walmart Connect, and in fact, we've taken the idea of Walmart Connect and we now have Walmart Connect in Mexico and in Canada. Mexico saw 100% increase in advertisers on that platform in Q1, which is remarkable growth for it. So, that flywheel applies everywhere. Slightly different in India, because we don't have physical stores, but the concept of it is still true, bring people into the platform, deepen your relationship with them, create efficiencies and alternative profit streams as a result having those people, and then invest it back in to value and access for customers.

Mexico is probably the one where I'm seeing it come to life the most. And I think the twist that they have is they think about this financial services capability providing services to the unbanked to people that really need it, creating this internet connectivity into people is an extra part of that flywheel at the 3 o'clock level if you like where they can see the opportunities that exist, and that came from and -- say, why aren't customers interacting on Walmart.com in Mexico? And one of the answers was the offer -- one of the answers was they can't get on it. There isn't any access to it. They need data. They need internet to be able to do it. So, the team developed these two things. First of all, they developed this offer on bays, with the second is they put kiosks in some of the stores.

And I've tried putting kiosks in stores before they've been a complete disaster, nobody uses them, nobody wants to. And the data stores in Mexico, they're fantastic, because that is a way to access full range for customer. So, the flywheel is applicable everywhere. The US is doing a great job against it. But my job and the job of the teams around the world is to tailor it for each market and be very careful where we did [ph] one solution fit all for the international business, and that's really the approach that we've taken. It comes back to these strong local businesses powered by Walmart, now powered by Walmart creating strong local businesses and that is important to remember.

Q - Paul Trussell {BIO 20732173 <GO>}

Indeed it is. Well, Judith, I want to thank you again for participating in the global consumer conference, and we hope to see you in Paris next year.

A - Judith McKenna {BIO 4806787 <GO>}

Thank you, Paul, and thank you to everybody here interested in us.

Q - Paul Trussell {BIO 20732173 <GO>}

All right. This will conclude our fireside chat. Take care.

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