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MANAGEMENT DISCUSSION SECTION

Michael Lasser
Analyst, UBS Securities LLC

Good afternoon, everybody. I'm Michael Lasser, the hardline, broadline, and grocery analyst at UBS. We are beyond excited to have Walmart with us today. Walmart needs very little introduction as the world's largest retailer. And what it's done over the last few years has been really remarkable, the transformation that the company's been under.

I'm thrilled to be able to introduce Greg Foran, who is Walmart's U.S. CEO. Greg is widely considered to be one of the best shopkeepers on the planet. And so we're really lucky to have him with us today. To his left is Michael Dastugue, who is Walmart's U.S. CFO, who's got more than 30 years of retail experience. Is that true?

Michael P. Dastugue
Chief Financial Officer-Walmart US & EVP, Walmart, Inc.

Unfortunately, yes.

Michael Lasser
Analyst, UBS Securities LLC

A lot of scar tissue. With Michael and Greg today are members of the team from Walmart, Dan Binder, who many of us know and runs Investor Relations, Kary Brunner, and Christine Allen.

I'm going to let Greg run through some business, and then we'll get started on our conversation.

[07ZW2S-E Greg Foran]

Thanks, Michael. Good afternoon, everyone. It's great to be here.

Before we get into the Q&A, I need to say that we may make some forward-looking statements during the fireside chat. So review our entire Safe Harbor statement on our corporate website, please.

Michael Lasser
Analyst, UBS Securities LLC

You should say, we hopefully will make some forward-looking statements during our conversation.

[07ZW2S-E Greg Foran]

I would say I'll make none, but I certainly wouldn't want to put words in Michael's mouth.

QUESTION AND ANSWER SECTION

Michael Lasser
Analyst, UBS Securities LLC

Q

No promises, no promises. So over the last few years, Walmart has realized sizable gains in areas of its store execution like service levels, store appearance, in-stock. One of the questions that I think is on most investors' minds is given where Walmart's come, how much more room is there to go? And maybe you could talk through what has been implemented to get where the business is today and where you see it going from here.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Sure. I would say that we've made some good progress, but the unvarnished truth is that we have not even got close to arriving. And I don't make that statement based on the facts that I obsess about. We've got to do more, we've got to go faster. That is part of me and how I operate, and my team would vouch for that.

But I also make it based on what I look at when I look at things like Net Promoter Scores, what I look at when I consider surveys around the marketplace. For sure we're doing better. But our peers are still a long way ahead of us. And so what I would say is we haven't even got close to arriving. We've got lots more opportunity to take this business a lot better and further with a whole bunch of access, whether it's in stock or inventory or associate service, quality of fresh, quality of private brands. And I'm excited about that opportunity.

Lots of technology that was introduced, but this is a massive change program, isn't it? 1.2 million associates, 4,700 stores, you just do the math around those. So, it's 4,700 managers, that's almost 10,000 co-managers. That's 60,000 assistant managers because we have 12 per store. That's 120,000 department managers. So this isn't going to happen in 5 minutes nor should we expect it.

I'd say we're about 50% of where we should be. The reality is we need to get to 100% because we'll raise the bar. Michael and I often discuss this and we've shared it a couple of times this morning. I get out to stores every single week. About half the time I'm okay with it, and the other half I'm grumpy.

Michael Lasser
Analyst, UBS Securities LLC

Q

And to further put context around the sheer size of the business that Greg runs, the sales volume is 50% larger than the GDP of his home country. So it's quite remarkable. Hopefully, I say that without the risk of embarrassing him. But can you give us a little flavor how this transformation has taken shape over the last few years? Has it been the mean of the population of the stores has just gotten better, or you've really been able to have to effectuate change at the lower portion of the stores, brought that up? And so if you can get them to look like the better stores, that's where the opportunity exists. And, Michael, if you want to add to that as well.

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

Why don't you start off then?

A

Michael P. Dastugue

Chief Financial Officer-Walmart US & EVP, Walmart, Inc.

Yes. I think just adding on to some of the things that Greg was talking about, if you go back about four or five years ago, we were opening 200 to 300 stores a year. So that was creating its own piece of the tension and stress on the organization. We had good store managers, good market managers that were having to take on more responsibility. And I think as the organization got its arms around what we were going to prioritize, what we decided is we really needed to invest in our 4,700 stores. We made some changes. We had to make some difficult decisions to close some stores. But I believe that first holiday that I was working with you, Greg, we had 900 to 1,000 of our store managers that were first-time store managers going into holiday.

A

So when you think about that, it's a real challenge. And so the team has really done a nice job of focusing not only on the capital investment but our time investment into our existing stores and helping those store managers in terms of helping them with their leadership, getting them on process because it's not just about the technological innovation and investment, but it's also about getting all of the associates in the store to get into this one best way, which you've heard us talk about. And it's a journey. As Greg says, it's a team sport. And so we all have to work collectively together and we have to keep stepping it up.

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

Just to build on that a little bit. I would say that a few years ago it was much more about the general population, getting that up. Today, I feel that we kept up a bit of the foundation set, and what I often find now is that it's more about moving that bottom percentage and doing that quite dramatically and drastically. We're stepping up our view of what we expect in the business. I don't say this lightly, but when you've started to put in place some of the foundational things that we've done, whether it's training or academies and you've started to move wage rates and benefits and bonuses for associates, what we've got to do now is lift that bar.

A

The key to running a store generally comes down to the quality of the store manager. And if we don't have a good store manager, the person I hold accountable is the market manager. They are the person that has 10 stores. So we're at a point now where we're putting a lot of pressure on that group to step it up and to get these stores that are letting us down to a level which we know they can hit if we get the right team in place.

Michael Lasser

Analyst, UBS Securities LLC

And presumably, you're empowering them with the tools, whether it's price, staffing, assortment, to get to that level of where they need to be. Do you see any one aspect to unlocking the improvement of the cohort of stores that's trailing behind with where you expect?

Q

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

I think that's a good point. It was interesting, five years ago – because it's coming up five years ago that I joined.

A

Michael Lasser
Analyst, UBS Securities LLC

Q

It's a lifetime by now.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

I stood on the – I didn't have any gray hair. I stood on the stage.

Michael Lasser
Analyst, UBS Securities LLC

Q

It still looks very good.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

I stood on the stage at a holiday meeting and felt like I was standing in front of the whole of New Zealand because boy, there's a lot of people that work in Walmart U.S. And I said can you tell me three things? Do you think we've cut muscle instead of fat, and e-mail it to me? And immediately I could feel the e-mails coming, and I ended up getting about 2,700 e-mails.

Michael Lasser
Analyst, UBS Securities LLC

Q

Oh my gosh, it sounds like some of these buy-siders.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Do you know the most common thing that came through in that was, can you please put the toilet seat covers back in?

Michael Lasser
Analyst, UBS Securities LLC

Q

Small thing.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Small thing but really important. So restrooms, public restrooms, we had public toilet seat covers. In the interest of saving money, we had taken those out. And you can understand why businesses get into this. I've learned something over the years. You can never motivate anyone until you fix some of these factors.

Michael Lasser
Analyst, UBS Securities LLC

Q

Yeah.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

So basically for the first year, it was about fixing those hygiene factors. What are the things that you need? Okay, you need the electrician to get that plug fixed, get it done. You need that restroom remodeled, get it done. Then people start to buy into it. The technology is great and we can spend two hours talking about some of the tech in our stores, from basically Google Glasses that are informing associates now how to fix the battery in a pack to improved routing paths for online grocery. But the bit that everyone underestimates, all of us included, is the change management piece. And in Walmart, you underestimate that at your own peril because it's 1.2 million people.

Michael Lasser
Analyst, UBS Securities LLC

Q

It does seem like one of the messages that Walmart has been increasingly offering is don't discredit the amount of innovation that you're going to see from this business, but the amount of technology that we're going to leverage. A good example is at this recent Analyst Meeting have been some of the industrial-sized Roombas that will soon traverse the Walmart floors. Can you give us a sense for how this is going to look over the next few years, how the technology rollout is going to work, and what might that enable the Walmart store to do?

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Why don't I start and then flip to you and pick it up? It's going to come even faster than what it currently has. You mentioned the floor cleaning device, which of course actually communicates to our associates if we're running low of items on end caps in our stores while it's cleaning the store. So I just share as a real life example of we've put something in, but then what we try and to do is we connect it to the ecosystem.

So we're rolling out something called FAST unloaders. It's no fun unloading a Walmart truck if it's floor-loaded, which by the way we're working on solving that by creating aisle-ready pallets that will go to the store.

Michael Lasser
Analyst, UBS Securities LLC

Q

And floor-loaded just means it's all Tetris stacked on the...

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Absolutely. And why do we do that? Because actually our freight bill is more expensive than the bill for running a DC. So since count in our business and a small number times a big number is a big number, so we're still floor-loading. What we've got to solve is actually how we don't floor-load and we can create aisle-ready pallets for the store, and we're working on that. That's a different discussion.

But we've got these FAST unloaders. So you unload the truck, it comes down a conveyor belt that we've set up with the 3D barcodes. But we actually know what the PI inventory is out on the shelf in the store. So instead of waiting for the night stocker to come in and fill it, we can send that down a different chute now and get that straight on the shelf. So a lot of this kick is all about connecting bits in the store so that you create not only a better experience for the customer but also for our associates, and there's lots more coming.

Bossa Nova, which is going up and down and scanning aisles and checking mod accuracy, we're starting to get that operating to a point where we can start to make much better decisions on PI. Why is that important? Because it drives your replenishment. You're going to see continued work around self-checkouts to get smarter, to identify what the item is that's on there, all kinds of activity around there to help us reduce shrinkage as well.

Something I've discussed with a number of people this morning, you're soon going to be able to do a refund right at the front door of the Walmart store. We're not going to ask you to go to the service desk. We'll equip what we call now the customer host with the technology to do a refund for you right there, including cash, which will come out of the self-checkout.

So we're continuously looking at customer journeys. We're looking at associate journeys, and we're saying to ourselves how do we really edge our fashion, take friction out, improve the experience for the customer, and drop our costs.

Michael Lasser
Analyst, UBS Securities LLC

Q

Michael, how do you see the unlock here? What's the gating factor? Is it capital? Is it – what's the organizational ability to tolerate change? How do you see that?

Michael P. Dastugue
Chief Financial Officer-Walmart US & EVP, Walmart, Inc.

A

I think it's a combination of things. I don't think capital is a constraint. I think as we continue to test the technology, the FAST unloader that you would have seen in October, we've proven that out. I think we'll be up to about 1,400 stores this year. And as Greg said, it's not just a productivity play. It's also a sales play because look, if we can be in stock 100%, then we don't lose those sales.

I do think the human element, this changing the ways of working one best way, as we evolve, there are certain activities and certain jobs that will go away, but new jobs will be created. And in many cases, if you think about some of the things we did a few years ago with some of the back office activities, we took out certain roles but then there was a new role, say, online grocery, customer service. And so the associate has so many different opportunities to do different roles.

What may happen over time is we may need associates that are comfortable working in multiple roles on a given day. The good news is with all the technology and the visibility, we can guarantee an associate in many cases 40 hours a week, but we may need them to do one activity in the morning and a different activity in the afternoon. So we're going to have to ask all of ourselves to be more flexible, to be able to use technology, and to be able to handle change.

Michael Lasser
Analyst, UBS Securities LLC

Q

And it has been well-documented that wage pressures are continuing to rise. Is this technology unlock and the different way that you may be thinking about the store enabling you to navigate through some of those wage pressures? Walmart was one of the first to make some wage investments, and it's proven to be very successful. It seems like some of the more recent messaging has been look, while we're going to make wage investments, it's more going to be on a case-by-case basis, and we'll be able to navigate through that. It seems like one of the ways you'll be able to navigate through that is in part through this technology deployment. Is that fair?

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Yes and yes. So we've got a store within 10 miles of 90% of the population. I've been to about 2,000 of them now.

Michael Lasser
Analyst, UBS Securities LLC

Q

What happened to the other 2,700, Greg? You've got some more work to do.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

I'm working on it. Not everything is created equal in this country. So the way we look at our business is we break it down. In some cases, we will break it down store-by-store. In other cases, we can find cohorts of stores. So what happens in Liberal, Kansas is not the same as what happens in Shreveport, Louisiana or is not the same as what happens on Long Island. So we think about that not only in terms of wage pressure. We think about in terms of assortment. We think about in terms of associate benefits. So we're very I guess thoughtful about how we do that. And the answer is yes, technology helps unlock some of that. But probably the biggest unlock is the whole change management process.

Michael Lasser
Analyst, UBS Securities LLC

Q

I think there's been a lot of pride in the company in its ability to leverage its store expenses for I think eight quarters in a row. Do you see that flowing, continuing to be a linear fashion, or it's become part of the muscle of especially the U.S. business, and so that's going to be something that should build on itself from here?

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

I think we are starting to develop that muscle out.

Michael Lasser
Analyst, UBS Securities LLC

Q

Yeah.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

I think it was appropriate for the first couple of years to deal with the so-called hygiene factors to give people a reason to believe, to listen to what was on their minds, give them the tools. And I know when I now visit not just stores but distribution centers and I talk to our associates and I talk to our leaders here, often the conversation has actually you've given us what we need. Now we've got to get it going – got to get on and execute. So my sense is we're handling this at about the right cadence.

Is there more upside? There always is in our business. There are always things that you can do better. The bit that I always have in the back of my mind is what's it going to take us to get to a point where effectively the product arrives just before we need it, in just the right quantity so I touch it once? The only other time I touch it is upon picking that order for a customer because the store is increasingly becoming a fulfillment center. But apart from that, I'm not touching it.

Michael Lasser
Analyst, UBS Securities LLC

Q

So you're probably a little ways off from there?

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Yes, it's interesting. We track now how often that doesn't occur or how often it does occur, and we've got a lot of opportunity there. But the fact we know that number and we know it by department, we know it by SKU is a good thing.

Michael Lasser

Analyst, UBS Securities LLC

Q

Yes.

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Now we've got to challenge ourselves. How do we make that happen? And it's not one thing, it's not just saying go and fix your replenishment system. Some of it is training of associates, some of it is thinking about where you're going to locate items. It's the quality of the mod that's been dropped down to the store; i.e., how many facings.

The quality of the shelf-ready tray that you worked with the supplier because if that's not a quality tray, sometimes the associates will take it out of the shelf-ready tray that we've gone to all the energy of getting put in and hand-stack it. So there are 100 moments of truth just in that that you've got to deal with times 1.2 million associates.

Michael Lasser

Analyst, UBS Securities LLC

Q

Sure. I'm sure the merchant at heart, one of the areas you're probably excited about is the performance of the grocery business and how successful that's been over the last few years. Which initiatives do you attribute that improvement to? And looking forward, can this growth within the grocery business be maintained, especially as competition remains pretty fierce?

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

There's a few things that have gone into the grocery improvements that we're seeing. In no particular order and they all play a role in it, I think the assortment has improved. I'm renowned as I walk stores of laying things like Ritz Crackers, for example, Original Ritz Crackers out on the floor.

Michael Lasser

Analyst, UBS Securities LLC

Q

Yes.

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

I'll quite often have the buyers with me. I think we had nine different variants of Ritz Original Crackers, from a single pack to a double pack to a flat pack to a bonus pack, to a, to a, to a. And you just got to – what are we doing here?

Michael Lasser
Analyst, UBS Securities LLC

Q

A little too much.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Simplify the assortment. I think the work that we've done on pricing has been thoughtful, strategic. It's working. We like that. Fresh has been a big deal, and we haven't even got close to arriving on Fresh. I still go into the stores, and the wet wall, leafy greens, the quality isn't good. We're out in the store. They haven't got their PI right. They're not rotating the merchandise, but it's better than it was. Meats improved, the quality of our beef. Our drive to get Angus...

Michael Lasser
Analyst, UBS Securities LLC

Q

Yeah.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

...Prime Angus has worked, and I know it, I buy it, I eat it, I can taste the difference. So it's a combination of things, OTIF, on-time in full, one of our favorite topics with suppliers. You'd be horrified if you knew what that number was three years ago and you'd probably...

Michael Lasser
Analyst, UBS Securities LLC

Q

Tell me.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

...still be horrified if I told you today.

Michael Lasser
Analyst, UBS Securities LLC

Q

Yeah.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

But it's way better than it used to be. But if we don't get the order on time and in full, then nothing else works.

Michael Lasser
Analyst, UBS Securities LLC

Q

Yeah.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

So it's a combination.

Michael Lasser
Analyst, UBS Securities LLC

Q

Yeah.

Michael P. Dastugue
Chief Financial Officer-Walmart US & EVP, Walmart, Inc.

A

I would add the online – excuse me, the private brands.

Michael Lasser
Analyst, UBS Securities LLC

Q

Yeah.

Michael P. Dastugue
Chief Financial Officer-Walmart US & EVP, Walmart, Inc.

A

We've invested in the quality of our private brands. We've seen steadily an increase in the penetration. We've improved the packaging. And I think all of those things are helping to drive our online grocery business also.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

A big one is online grocery. If you want to know one of the things that helps food, our food business, is when the store knows that it's going to become an online grocery store, because now you are the personal shopper. You're picking out the capsicums or the asparagus. You're the one that's pulling out the meat.

And there's a really interesting statistic which I take a lot of time understanding in every single store I visit and I look at as a company. What is your first-time pick rate? That's better than any OSCA score, on shelf customer availability, which is a series of algorithms which I won't go into. But what happened when I picked your grocery order for, say, 30 or 40 items? How many of those items did I find first-time?

And so when we roll out online grocery, the store actually has to lift its total performance because now you have absolute visibility into what's going on, better than you ever had it before. Customer feedback on what was the quality of the product, how many items were substituted, did I get it on time, and that has actually had a halo effect on the entire food business.

Michael Lasser
Analyst, UBS Securities LLC

Q

And what have the observations been from those stores that were first to roll out the online grocery pickup initiative, even delivery of grocery, and how have you been able to apply those learnings to the subsequent few?

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Yeah. You get better at it the more you do, don't you?

Michael Lasser
Analyst, UBS Securities LLC

Q

Yeah.

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

So I reflect on the fact that we really got into this about three years ago. We were fooling around about four years ago, but three years ago we said let's go. So we're doing just over 1,000 stores a year. That's 20 stores a week, every single week, bang, bang, bang. This is a big deal. This is complicated to do. We just don't turn up at the store and say hey, you're on online grocery. You've got to train eight associates. You've got to get permits. You've got to paint the outside of the building. You've got to build refrigeration. You've got to build freezers. You've got to create staging areas. You've got to go and reconfigure parts of your parking lot. And you've got to do that 20 times a week, every single week. And so you get better at it. And I love the way the team have just gone into this with real passion.

Michael Lasser

Analyst, UBS Securities LLC

Q

Yeah.

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

And they pride themselves. And often when you visit stores, the most coveted job in a Walmart store is to be on the online grocery team. And I take great pride in these statistics and how are they going and they share ideas. And I do think we've got better at it. And I'm very proud of the fact that we're building something which is very internal to Walmart. So we own most of this, it's ours. It's our website. It's our descriptions that are on there. It's our picking algorithms. We're even working on delivery. So I think it's a good example of us actually utilizing our scale well.

Michael Lasser

Analyst, UBS Securities LLC

Q

And, Michael, I'm sure you're keenly focused on the profitability of that. It seems like one of the ways that the profitability of the grocery business be unlocked as you open the assortment, particularly in the more general merchandise categories, how is that going to flow? And what would be the other ways that you'll make this – just the online grocery pickup, because we can talk about the e-commerce business more broadly?

Michael P. Dastugue

Chief Financial Officer-Walmart US & EVP, Walmart, Inc.

A

I think right now it's been primarily around the food and consumable business offering. And as Greg said, if that first-time pick rate can continue to improve, that includes the efficiency and productivity. And there will be technological benefits as we go forward.

But I think to your point, as we think about mixing it out really because at the end of the day we all have to be merchants, we all have to think about how do we mix out the basket? If we can add more general merchandise to the basket, that clearly helps the profitability. It is hard because you're going from the food and consumables area of the store to now we're potentially going up to 200,000 square feet that we're going to be picking from. We need to make sure that our PI is correct, that it's in the right spot for the associate to find.

And so the good news is we've been slowly adding more and more general merchandise availability as you shop for online grocery. At certain times of the year such as back-to-school, if you're a parent and you've ever had to

do the back-to-school supplies, it's not a fun task. Being able to order that online is available Halloween, et cetera. So I think you're going to see us continue to add those items to the basket to make it more efficient.

There are some other things that we're investing in, some trials in terms of automation that are just now starting, so it would be premature to talk about it. But I think that especially as we get into higher volume stores, there's probably some additional productivity that we can get from that.

Michael Lasser
Analyst, UBS Securities LLC

Q

And is one of the reasons why the general merchandise categories have been slower to be added or added later is because then you expand the geography that the picker across the store has to cover? It makes it a bit more expensive.

Michael P. Dastugue
Chief Financial Officer-Walmart US & EVP, Walmart, Inc.

A

And as Greg likes to talk about, if we're picking a medium blue shirt, we need to make sure that it's on the arm of the rack that we said it was going to be. Otherwise, the associate is going to have a disproportionate amount of time finding that one item.

Michael Lasser
Analyst, UBS Securities LLC

Q

And when you're going in and turning this online grocery pickup location – your traditional stores into online grocery pickup locations, what's happening to the congestion to the store? How do you prevent the customer experience for those who want to shop in the store from being negatively impacted?

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Carefully.

Michael Lasser
Analyst, UBS Securities LLC

Q

Yeah.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

And we haven't got it right, and we got into this discussion actually on Monday at our officers meeting, where one of our senior folks was saying I hate shopping in the store on Sunday, trying to get up and down the aisles. You've got a big cart in there. See, we pick eight orders at once, so it's not point to point. So we're going to be very careful. As the store is doing X number of orders a week, that's quite different than if it's doing 4x orders a week. And so part of what we're doing is exactly what Michael just said. We're looking at what happens when you start to cap this out. And is there some automation that we can put in which may be built onto the store? In many cases, that will allow us to not disadvantage our most profitable customer, which is the one who drives to the store and does all the work themselves.

Michael Lasser
Analyst, UBS Securities LLC

Q

And we got a question that seems to fit nicely in this part of the conversation. The Supercenter is perhaps the most brilliant retail concept in history? Store growth is pretty much done. Do you see because of what's happening the need for a wholesale reimaging of the Supercenter box in the coming years?

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

We're certainly reimaging what we're putting in that box. And we've already taken some action on some of these things, and you'll see bits of that pop up around the country as we do remodels, the amount of space that we're putting in for some seasonal where seasonal is located in food. We're having a look at other areas of the box at the moment. Do we really need the amount of lineal footage that we've got in greeting cards? And the answer is let's do the work and have a look at it and see what that means, what's happening with photo processing.

So each remodel gets looked at. We do about 350 to 400 a year. And increasingly, we're also saying to ourselves as the store becomes more of a fulfillment center, what other capabilities that I've got to now build into that store. And we've got to get this balance right because the way that you think about a store, which is about adjacencies and flows and color and seasonal relevancy and sight lines is not necessarily the way that you talk and think about a fulfillment center, which is about efficiency and footsteps and pick rates. So getting that blend right is something that we are challenging ourselves with at the moment, so lots more changes. If we build a new Supercenter today, you would do it differently from the ones that we have right now.

Michael Lasser

Analyst, UBS Securities LLC

Q

How would that be?

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

The primary driver would be you'd be very thoughtful about where you're going to do your drive-thru, your pickups, your deliveries. And you would think about the amount of stock room space, how your refrigeration is laid out around all those things. I think you'd think about the services that you operate in the store. We call it the fourth wall. I think this is an important part of the mix. We've been increasingly pleased with what we do with things around FedEx, for example. I like what we're seeing around that. I'm thinking about things that you have to do physically that you can't do online. It's pretty hard to get your hair cut online.

Michael Lasser

Analyst, UBS Securities LLC

Q

Yeah.

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

So how do we think about that fourth wall and the services that we do. So those are the things that...

Michael Lasser

Analyst, UBS Securities LLC

Q

This is the point of the conversation that I'm excited about because you two fellows have as good of a vantage point given your long history in the retail sector as anyone on this question, which is you basically have a competitor out there who's using the retail profit pool, transacting goods, giving a lot of value to the consumer to

attract eyeballs to fund their profitability by harvesting profits in other ways like advertising or selling excess computing power because that's what turns their main economic engine, which is retail.

How as a retailer who has been so independent on the retail profit pool, at least up until now, do you manage through that? Because a lot of what you're doing is very expensive and you're offering more value to the consumer. You're offering something that historically had been self-service, now basically full-service, and how do you potentially expand the business model to potentially tap into other profit pools?

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Carefully.

Michael Lasser

Analyst, UBS Securities LLC

Q

Yeah.

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Your description of the Amazon ecosystem is good. And of course, they have a few other things in there as well. Does that mean that that's what Walmart should do? And the answer is it depends. We've got some fantastic assets. We've got a business at the moment which is doing circa \$320 billion out of some stores. We have those stores well located to where people live. Is the name of the game to have hundreds of millions of SKUs or is the name of the game to have a more curated assortment? How important is media relative to that and how do you manage that in the light that you're an EDLP operator and your ability to separate cooperative funds from marketing? What opportunities are there with data? How should we be thinking about health and wellness in the space with 4,700 pharmacies? So these are all key strategic questions.

I think what becomes increasingly clear to us is be the best Walmart that you can be, and there's no doubt that the customer is already demonstrating to us millions of times that they want to be able to shop where they want, when they want, and how they want. So this concept of the store being more than just a goods store but being a fulfillment center feels like a pretty safe bet here to make. Some of these and other ancillary activities, let's work our way through those. And if they become additive and we think we can execute well, then that feels good. As to how far you chase or not a competitor on some of the other things, that's part of how we're looking at things at the moment.

So there's lots to play out in this space. I am not smart enough and I think no one in our business would put their hands up and say we've got the answer. We're still working through it. In my experiences, I've gotten around the world and spoken to other people. Most of us are having the same conversations. So place your bets where you know you've got it right, put a foot in the water on some of the other things and let's test and learn, and some of the others maybe you just sit back and wait and see.

Michael Lasser

Analyst, UBS Securities LLC

Q

Might part of the answer be it depends on how much your customer is willing to accept from you? And the good news for Walmart is that the customer has already shown its willingness and ability to accept a lot, whether it's getting a haircut or getting a pair of glasses or doing a health check. And so that gives you permission to offer them more and more.

Now with that being said, do you think your customer would be willing to accept advertisements in the store from you? One of your large competitors in the grocery space is slowly proceeding in this area. But is this something that will be necessary for the Walmart business model over the long run?

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Steve [Bratspies] and I had this conversation. We're forming a view. It's a slippery slope. Be very careful. One of the things that makes our business a bit unique is the sync with EDLP. I was lucky that I got toward it by the person who started it, which was Jack Shewmaker. And I think many people would go I understand everyday low prices. You just set your price and you leave it. There's so much more to it than that. It's a study on its own. And trust me, it's one of the hardest things to do in retail.

So that is so core to Walmart and what it stands for. It's so core to everyday low cost that I am cautious as I think about anything that could disrupt some key principles. It doesn't mean that I wouldn't test some things and I wouldn't consider it, but I'm cautious.

Michael Lasser

Analyst, UBS Securities LLC

Q

It seems like one may not necessarily have – a better way to say it is it has the luxury of some time because retail is still a relatively fragmented business. You have 20% share in the grocery category. You have 80% that you could continue to consolidate. One of the ways you'll get there is putting pressure on your competition, which it seems like you've done. You're three years into this price investment initiative. How is that being looked at internally today versus when it was started? So it seems like it's now more just part of the regular process, regular muscle rather than having to make a grand splash. Is that fair?

Michael P. Dastugue

Chief Financial Officer-Walmart US & EVP, Walmart, Inc.

A

I think clearly number one, we talk about we're in business to save people money so they can live better, so that means we have to continually figure out how to provide more value to our customer. We started I think about three years ago and continue to invest in price. As we've talked about, we're investing in other areas to give the customer back time.

We're working. We're financing some of that. We're partnering with some of our supplier partners to finance some of it. We're also working to continually figure out how to take cost out of the business to finance part of it. So it's a muscle that we continue to build. And I don't think it will – I don't think it ever stops. I don't think you ever get to the top.

Michael Lasser

Analyst, UBS Securities LLC

Q

And you mentioned this and you touched on this briefly before. But one of the questions we've gotten from the folks in the audience is share your thoughts on the growth in private label and what that means to Walmart. As an example, you moved dairy in-house. Target is starting some new brands. What's the next segment on Walmart's mind to push in private label?

Michael P. Dastugue

Chief Financial Officer-Walmart US & EVP, Walmart, Inc.

A

I think private label is something – it's not just a way to improve gross margin. It's a way to give more value to your customer, especially when you think about the quality of the product. And I think that we're going to continue to see improvements in our penetration. Milk is probably roughly about 10% of our stores right now at this point. So we're learning about that business. We do think it also gives us insights to things that we didn't really understand about the milk business. I don't think at this point we're ready to call in any new areas, but it's something that we are focused on and trying to learn more about.

Michael Lasser
Analyst, UBS Securities LLC

Q

This is a tricky question. How would you describe the state of the U.S. consumer?

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Solid.

Michael Lasser
Analyst, UBS Securities LLC

Q

Solid?

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

There's no doubt that that last year has been I think a pretty good year for the customer. And while we serve everyone in the U.S., we probably do a lot more business with people who are a little bit more financially stretched than others. And I think that in the main, we have had a reasonably solid period.

One of the things that I think is important to them is the price of gas.

Michael Lasser
Analyst, UBS Securities LLC

Q

Yeah.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

And a couple of years ago, it was reasonably expensive. Go back a few years before that, it was really expensive. And we've had a period where it's come down, and it's not uncommon around parts of the country to see \$2 U.S. a gallon, and it certainly makes a big difference. I think tax helped a little bit.

Michael Lasser
Analyst, UBS Securities LLC

Q

Yeah.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

I think prices generally coming down has helped a little bit, particularly in the staples that we sell. So I think it's been a reasonable year for the U.S. consumer.

Michael Lasser
Analyst, UBS Securities LLC

Q

The other question we got from the audience is your – and I'll add my context around it. You're an expert in the grocery space. There's been talk recently about an online competitor who has dabbled in grocery, potentially pushing a bigger presence in the grocery category. What do you think the obstacles from a new startup to create a lot of locations and try and serve the grocery category?

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

It's all the things that I guess we've learned over the years.

Michael Lasser
Analyst, UBS Securities LLC

Q

Yeah.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

If you're running an online business, location doesn't matter too much. If you're going to go and build a shop, location is everything. For those of you who shop in stores, chances are you shop at the store closest to where you live, unless they are very good at what they do.

But it's the details around it, isn't it? It's the visibility from the road. It's what sort of signage have I got on it? What's the turn-in like? Can I just turn in from the right? Where do I want my traffic signals? How is the store orientated on the site? What is the width between the parking lots? And I could go on and on and on about those things, but it's a little bit to my point about online grocery. It's great when you can develop these competencies in house and you build this muscle.

And the competitor you're talking about has built that muscle in their online business. They know how that site face should look. They know how the pictures should look. They know what should come up. They should know how many clicks it should be before you get out. So every time you enter a new business, you've got to have that energy and that drive to actually understand all of those components that go to make it work. Let's see what happens as they get into this space.

One of the things I love is I love competing, and I actually think competition makes us better. When we heard that Lidl were coming, trust me, what a galvanizing moment for the eastern seaboard for Walmart. We just got people fired up in North Carolina or in South Carolina or in Virginia. And we're going to take the battle, so we remodeled our stores and we made sure that that was an area that we prioritize for price investment. We drove our online grocery business. We remodeled our financial services area, and it galvanizes an organization into doing something. So I like it, bring it on.

Michael Lasser
Analyst, UBS Securities LLC

Q

And speaking of Lidl, have there been lessons that you've learned from that experience that you can then go and apply to an emerging competitor? And what's the current status of your thinking on the hard discounters in the U.S.?

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

I never underestimate them. I've been competing against Aldi for 20-plus years, and they are fierce and they are good. They've done a very good job in the last two years of remodeling their stores, revamping them, changing their layouts, increasing the amount of organics that they're offering, gluten-free. They've driven prices down cleverly, improved the offer overall. So they've done that because undoubtedly they've had a look at what happened in the UK where they probably reacted a little bit too slow and Lidl got the edge up on them.

So I never underestimate where this is going. People love saving money on staples. And it would apply to every single person in this room. You feel pretty good if you can save \$10 on your grocery bill because it makes you feel better when you go out for dinner on Saturday night and spend \$200 at a restaurant.

My experience of the best Aldi stores is the best Aldi stores are often in the highest income areas in a city. So if I took you to Sydney, which is where I competed against them for basically 15 years, their best store is in Mosman. It is the wealthiest suburb in Australia. You don't buy a house here for under about \$3 million, and parked in the middle of it is an Aldi. And there are BMWs and Mercedes in their parking lot because these people are smart shoppers. They know they've got great private brands, great quality, and you save money. And by the way, that helped them fund a restaurant experience on Saturday night.

So they're going to continue to expand. They're going to continue to remodel the stores. Lidl had put down three big DCs here in the United States, a million square feet. They've got less than 100 stores at the moment. Guess what they're going to do? They're going to turn on the openings. They're on their third chief executive, so watch out, here they come.

Michael Lasser

Analyst, UBS Securities LLC

Q

You don't have to tell the people in this room about getting a good deal. They're keenly sensitive to that. It seems like part of your answer is whatever the competitor is good at, we're going to match them on that. So if Amazon comes in and opens grocery stores and they're very technologically enabled, we're moving in that direction. So we'll be able to match them on that. Lidl and Aldi, they're focused on low price, in private label. We're matching them on that, not being all things to everyone but emphasizing those key attributes that was within Walmart's capacity. Is that the right way to think about it?

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

I think it is. The analogy I often use is a biblical one for no other reason that I feel it makes some sense. There was a period in time when Walmart was David, and Sears and Kmart were Goliath. And it's always fun being David. Everyone loves David. No one likes Goliath as much. We woke up at some point 2000-and whatever and found out we were Goliath. And when you're Goliath, you find that there are the Davids that start throwing stones at you, and you've got to learn to deal with that. If you become immobile, you just end up taking a lot of hits.

The reality is I would say that we have about six Davids that we think about. These are people out there that attack us. You've got drug stores. You've got traditional supermarkets. You've obviously got Amazon. You've got hard discounters. You've got other discount stores. And we don't try and necessarily combat every single aspect that they do. But when you've got stores that sit on 20 acres instead of 2 to 3 acres, you do have to deal with the fact that there are multiple Davids in your marketplace. Some of them may not be physically there, but they're there virtually because you're an e-commerce operator. How am I going to combat that? And so we deliberately

set down as part of our strategy where we can say, what are the 20% of the things that are worth 80% that they do that we need to deal with, and that's exactly how we think about it.

Michael Lasser

Analyst, UBS Securities LLC

Q

As we reach closer to the end of our time together, I want to focus a little bit on an area that's maybe outside your purview but you're going to have a good perspective on, which is e-commerce. And there has been a lot of talk from Walmart that one of the ways that Walmart is going to improve the profitability of its e-commerce business is by attracting more brands, more higher-end brands, to bring in that customer. What can the U.S. stores, what can the U.S. business do to improve that perception to make those brands, to make those vendors want to do business with Walmart to unlock the profitability?

Michael P. Dastugue

Chief Financial Officer-Walmart US & EVP, Walmart, Inc.

A

I think if you go back to what Greg mentioned earlier, which is 90% of the U.S. population lives within 10 miles of our stores, clearly we think our stores are a competitive advantage. And we often say that there really aren't any new Walmart customers. Most people are in a Walmart store at least a few times a year. There's either low penetration or high penetration. So if we continue to improve the customer experience, if we keep improving the quality of our fresh offering, if we do a great job on online grocery, as an example, which by the way has some of the highest NPS that we have, that's going to continue to – it's going to be a great offering for all customers. It probably does over-index to more affluent customers who would in theory be the customers that would be attracted to some of the higher-end brands.

Michael Lasser

Analyst, UBS Securities LLC

Q

And is that part of the pitch? We're rolling out all these online grocery pickup locations. It's bringing in that more affluent customer who's got the capacity.

Michael P. Dastugue

Chief Financial Officer-Walmart US & EVP, Walmart, Inc.

A

I would say that the pitch is – what we're doing is we're democratic. We want to help everyone in the United States, and a positive byproduct of that would be that it would help the brands.

Michael Lasser

Analyst, UBS Securities LLC

Q

Greg, I want to finish. Five years from now when you've accomplished so much more, what are we going to look back and say you're most proud of, you think has led to some of the greatest success in the Walmart U.S. business?

Gregory S. Foran

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Improve the experience for our associates, and it's multifaceted. It's not just what they're paid. It's their education levels. It's how the manager treats them, their opportunity for advancement.

Walmart, sure, is this big conglomerate, and that's generally how you would think about it. Actually, Walmart is a series of neighborhoods, 4,700 of them. The store manager is effectively the mayor of many of the

neighborhoods. If I took you into some of the places where we have stores, the nicest place in town is a Walmart store and the Baptist church. We have an enormous responsibility to many parts of America, not New York and not Boston and not San Francisco but Meridian, Mississippi, Muskogee, Oklahoma, the south side of Chicago, places probably you'll never going to go. But in that town, we have the neighborhood. We employ people. We give them jobs. We feed people, we clothe them. And increasingly, they're going to have the opportunity to get access to better products online. We are in many ways the fabric of this country.

Michael Lasser
Analyst, UBS Securities LLC

Q

Yeah.

Gregory S. Foran
President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

And what you see with us is everything that is both heartbreaking and heartwarming, but that is our country and that's our responsibility. And I don't take that lightly and neither do any of my team. And maybe not in five years' time but maybe in 50 years' time I'd like to think that we were still filling a need. It will be a slightly different need, but some of those fundamentals that I just spoke about will be as true in 50 years' time as what they are today.

Michael Lasser
Analyst, UBS Securities LLC

It's a great responsibility and you've been doing a fantastic job at it. So please join me in thanking the team for a wonderful presentation.

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