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Walmart, Inc. (WMT)

Goldman Sachs Global Retailing Conference

CORPORATE PARTICIPANTS

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

OTHER PARTICIPANTS

Kate McShane

Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Hi. Good afternoon. It's Kate McShane from Goldman Sachs. I'm the hardlines, broadlines and grocery analyst here at the firm. Thank you for those who maybe are just starting with us today for joining us at Goldman Sachs 28th Annual Global Retail Conference. We're very happy to be joined by Doug McMillon, CEO of Walmart.

Before we get into our fireside chat, we have a couple of housekeeping things we wanted to mention to you. First, you should be able to see a couple of survey questions on your screen. If you'd like to go ahead and answer those, that would be great. And we'll be able to keep track of those results as the presentation goes on kind of off to the right of your screen. It's just to get a pulse of what your view is on the state of the world.

And the second housekeeping thing I wanted to mention is we're going to have plenty of time for Q&A at the end of the fireside chat. I have noticed that there is a little bit of a delay in getting those questions from you to my inbox. So I would just suggest if you want to get your question into, send it on – a little bit on the earlier side, maybe 15 minutes before the end just to make sure that I see it and can ask it on your behalf. And then, finally, before we start, I just want to flag the Safe Harbor disclosure on Walmart's website.

And with that, we can get started. Doug, thank you so much for joining us today. It's great to see you.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Nice to see you, Kate. Thanks for the invitation.

QUESTION AND ANSWER SECTION

your view is on the sustainability of the consumer balance sheet and demand.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

So I wondered if we could start with just state of the consumer, given Walmart's size and scale, we just wanted to maybe take a step back here and talk about the consumer. It's been an unprecedented year and not just because of the pandemic but also because of the amount of money the consumer has received over the last 18 months. And even though it was front half loaded, it seems like the outlook in demand for most of retail is rather robust. So, I was wondering if you could talk to us about what you're hearing and seeing from the consumer and what

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Yeah. As we indicated with our second quarter results, the consumers are feeling pretty good, and they're spending money. And we don't see an abrupt stop to that. I think you've got a continuum, of course, of income levels and wealth levels in the US. And there are going to be a lot of people with plenty of spending capacity. For customers at the lower end of that scale, wage rates are going up. So, as we look ahead to next year in the US, in particular, to some extent other markets, I think that's one of the things in addition to some of the things that are happening with various forms of government assistance will cause us to have a consumer that's strong for some time.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

That's great. I wanted to ask too about just Walmart since the beginning of the pandemic, I was once in the audience of a fireside chat that you were participating in and the interviewer had asked you what you would thank your predecessors for that had set up Walmart to be the retailer you are today. And at the time, you had said selling food, and focusing and keeping stores. Pretty much, that's what was said I think. And this chat occurred before the pandemic, of course. So, I was curious, stealing that question, would the answer be the same today. And given what you saw during the pandemic, is there anything that you would do differently going forward?

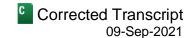
C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Yeah. The people that were here before us did a lot of good things that have put us in a good position as a company. And to your point about food, the work that the company did in the 1990s, in the 2000s to build out a supply chain and to get better at fresh food and build scale in food definitely contributed to the success of our Supercenters in the US and in other markets.

It's a really powerful store format and as I've been doing this a long time and been a lot of places, I wouldn't trade the Supercenter format for anything. It's a great place to shop. Our customers still enjoy it, I enjoy it. Yeah, I do a lot of eCommerce shopping and my family gets orders delivered to our house and we do grocery pickup and Supercenter pickup, but we also still go in the stores. We see a lot of opportunity going forward to add things to the stores and keep them fresh. I'm excited about what we're doing in healthcare clinics. I'm excited about what we're doing with market fulfillment centers to help us with inventory that's positioned for last mile. Our big parking lots and our big stores give us room to do a lot of different things. And then just department-by-department, we

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still got room to improve. So, thankful for the base of food and consumables plus general merchandise and things like Every Day Low Price.

In terms of what we would have done differently, I would have had a lot more capacity for pickup and delivery through our stores than what we had. It's really tight for our associates working in our back rooms to be able to stage all of these orders as the pandemic hit and they did a great job of figuring that out and flexing. But as we said in our investor conference in February, we need more capacity through our supply chain. We need it with what's flowing into stores and the role that stores will play in delivering for customers and for pickup. We also need more capacity for eCommerce for first-party and third-party businesses like our Marketplace business is growing. If we could change anything about that right now, we'd have a lot more fulfillment capacity for our Marketplace sellers.

Walmart Fulfillment Services is growing, but one of the reasons why we stepped up our capital number in February is because we need more capacity in both of those ways and then we also have various forms of automation that are now in place that you may want to talk about at some point during this discussion, but that's what I would have changed. And I'm glad we had grocery pickup and delivery and it certainly got used, but we need [ph] to have even (00:06:13) more throughput.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

That's helpful. Thank you. And if we could kind of stay still very high level and then I'll get into some of the more granular questions, but one thing that's really seemed to have changed pretty notably is the state of the supply chain. I know there's been a lot of disruption since the pandemic in different forms, but I think just within the last month or so, you've seen a lot more consternation in the entire supply chain. I just was curious in your tenure, have you ever experienced this amount of disruption in the supply chain before and how have you mitigated it?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

I think it's more dramatic than what I can remember. There have been various challenges, but not anything like this. I think it's a combination of how the pandemic changed behavior of government investments. As you said, consumers have money and other factors that have led to it and it's helpful to have a lot of merchants with a lot of experience. I do think these challenges will be worked through. I do think supply chains move.

The supply chain where products come from is different today than it was in previous generations. I think we'll see shifts that continue to occur in the United States. About two thirds of what we sell is made or grown here in Mexico. That number is over 90% because we've got such a stronger food business. So, that's helpful.

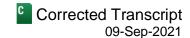
But as it relates to some categories, some general merchandise categories and imports, it's tough to get the containers through the system. So containers are a lot more expensive. We're having to divert to different ports. In some cases, there are driver shortages. Our private fleets are functioning well. But common carriers are having some issues. So there are a lot of things to overcome and it requires creativity and flexibility.

We were happy to report in the second quarter that we had a lot more inventory than a year ago. In 2020, at the end of the second quarter, we were way too light in stores and on the eCommerce side. So we would take even more inventory if we could get it, especially in some categories.

Just lastly, the focus on seasonal businesses is a priority for us. We did a nice job of getting our back-to-school inventory in time and back-to-school has been really successful. Now, we've got Halloween in front of us and



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Thanksgiving and Christmas, those goods are flowing and we're moving quickly to make sure that we get as much of that product in as quickly as we can.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

When you think about some of these challenges within the supply chain, do you see an opportunity within the competitive landscape to take some share? And how are you thinking about that over the next 6 to 12 months?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

There was a meeting with one of our largest suppliers last week here in-person and they were complementing our merchandising team on creativity and flexibility. And I do think scale can help and relationships can help, but creativity shouldn't be underestimated. We've had some supplier relationships where they've reduced the number of SKUs they're making to focus lines on fewer items, that's been helpful. We've been more flexible on packaging. There's just a lot of need to be in the moment and to manage a fluid situation and not get stuck in your ways or have certain requirements if that means you're not going to have the inventory that you need.

And our merchants have so much experience, they've been able to overcome things when supplier A has an issue, they can move to supplier B, C, D, E, F to try and compensate in some way and they've done a really nice job doing that. So we'd like to have more inventory. We got room to improve, but I want to thank our merchants and replenishment team for what they've done.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

That's great. So if I could go maybe into more granular questions now. When thinking through grocery, home and apparel, how are you thinking about your competitive position within each category today? How does private label and branded partnership impact the outlook for each? And what category are you feeling the best about right now in terms of upside potential?

C. Douglas McMillon

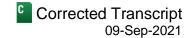
President, Chief Executive Officer & Director, Walmart, Inc.

We do have different market share situations by category as everybody would know and that just points to opportunity. There's some categories where we have really nice shares and others where customers are telling us we can do a better job. We've got opportunities in each. When I think about each one, on the food side, the dry grocery and consumables team, they've done a nice job and that's about product innovation and price and stock.

But in some of the other categories, take produce for example, there's a lot to sourcing quality and having a relationship direct with the right growers and planning out ahead of time and driving innovation in a number of different ways to make that happen and it all has to land in a beautiful presentation in the stores. And I think we've made a lot of progress in produce. There's still an upside for us there. But the team has done a really good job. We've made some progress on stakes, but we'd like for our beef program to be stronger and we've done some things to help set the stage for that going forward. We opened a dairy facility that's helped us in some way.

So there's vertical integration and investment in fresh. So when I think about food, the first thing that goes through my mind is fresh, because of the unique challenges and opportunities that each one of those categories represent.

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In home, we've had strong growth. We've seen in the last two years a big step up in our eCommerce business. I think on the home side, we do have some room to improve in stores. But the biggest opportunity is online. We just have so much room to grow with our assortment first-party and some third-party in the home categories.

And then apparel is the one that if you asked our team what they hear from me the most perilous is near the top of that list or at the top of that list because I see so much opportunity for us on the eCommerce side to add SKUs, add brands, improve our execution. And while we've had tremendous growth in the last couple of years, there's just a lot more upside in front of us in apparel.

And everything I've just mentioned is Walmart US. We have similar opportunities in markets – there are some differences by market. But look at what Sam's Club has done with general merchandise. It's been great. And their private brand progress, to your point about private brands and the role they play, with Member's Mark, for example, has been outstanding on the quality side. So we just have – we have opportunities where we're doing well, but we can grow even more.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

You had mentioned 1P versus 3P. And I know that you've been, as a way to differentiate, a little bit more selective when it came to 3P. So I wondered if you could maybe take a step back and talk to us about where you are in the 3P initiative, how you're differentiating Walmart when it comes to 3P and how you balance the 3P versus 1P when you're talking to your customers.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Yeah. If I could go back in time, we would probably be even more aggressive on the 3P side to improve our seller tools and the ability for sellers to onboard to get their items set up and stuff like that, which we're making progress on. Maybe more importantly, more fulfillment capacity. Because the first thing that we have to prioritize is the customer experience and we can control the 1P experience much more so, think of [ph] On-Time Delivery (00:13:54), for example, than we can with Marketplace.

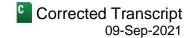
So, one of the governors on Marketplace growth has been Fulfillment Services. We're now seeing that grow. This step up in capital that we covered in February is also pointed towards that. So we'll have more capacity to do 1P and 3P. That 3P component is really important. That enables us to continue to grow Marketplace sellers aggressively with some degree of curation. We do care about the quality that our customers experience. Some level of vetting there to make sure that those sellers are high-quality sellers and they deliver for customers and we know something about those items, that's important to us. So we've curated more than some as it relates to the Marketplace. I think that'll be the case long-term, but there's still so much upside in it even with those kinds of standards. So if we can get this [ph] capacity put down (00:14:30), I think it unlocks a lot more 3P growth in addition to what we want to do with 1P.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

That's helpful. Maybe on that same note when it comes to digital omni-channel fulfillment or omni-fulfillment investments, fulfillment it just sounds in general like you need a little bit more investment there. But can you talk a little bit about customer awareness and response for all the optionality you now have with regards to pick up? It seems like, again, you were on that path before the pandemic, but certainly, there's been a lot more choice for the

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consumer since then. And how much has the fulfillment optionality alleviated headwinds within your eCommerce business?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Yeah, it definitely helped. And if you look at our percent total of orders delivered, the store percentage has gone up. eCommerce fulfillment centers have increased in volume too, of course, but the mix has shifted a little bit more towards stores.

It's going to be so fun to watch what happens over the next few years with automation through both of those channels. If I can oversimplify it, it's more of a network than two channels. But if we can describe it as just those two dimensions, I think it would be helpful. One path goes through distribution centers to stores and there's automation happening in the DCs, that's very cool. And there's automation that will happen in some store locations with market fulfillment centers, that's really cool. I think carts with wheels, automated storage and retrieval systems, those things are going to be more productive, unlock more SKUs, help us achieve some of these volume levels that we need to achieve.

With this whole conversation around capacity and capital, the good thing is we've got demand. Like, it's not that we're building something hoping that we're going to have demand. We've seen the demand and we know we needed to build to it and get ahead of it. So that's a helpful reality.

So I'm excited about both of those chains and I think in the end, what you end up with is the customers will let us deliver into their homes, into their kitchens, into their garages, into refrigerators. They'll let us do unattended delivery on their front step. They'll do kind of traditional delivery. We'll have a component of that that will be independent contractors through other third-party platforms. We got our own Spark platform that's scaling and there'll be some portion of associates involved in that, too. And by putting all that in place, there will be this kind of seamless situation which is happening with a lot of our customers today where they shop in store, they pick up, they do delivery and they don't really think about the form that that takes. They just think about Walmart, the items that they want, the prices that they're getting. And they shop in this very fluid fashion. That's happened in my family. It's happening in - with a lot of customers, and I think that's great. We can be somewhat indifferent as to how they want to take delivery. We're just there to serve them however they want.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

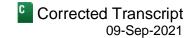
And within that, Doug, where does Walmart+ come in and how much can you tell us about Walmart+ today? I feel like it's still on the cusp here.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

[ph] Well, no, (00:18:09) the people gotten excited about various memberships including Disney+ and what's happening at Amazon and everywhere else. So I know it's very topical and it is important for us to have a membership. And we wanted to launch it. But we also want to make sure that the Net Promoter Score is high. And as I mentioned we don't have all the capacity that we need. So the worst thing we could do is to really aggressively market this, get a bunch of members that are disappointed because they can't get a slot or they don't get the right in stock level or some other problem happens.

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So the primary focus we have is on that quality of the experience, delivery or pickup and that Net Promoter Score. This capacity investment enables us to be more aggressive with Walmart+ over time and grow it at the right rate. I would call it kind of a quality rate, that's what our focus is. So we'll talk about it some. But we did try to reduce the importance of it because in the big scheme of things with what's happening at Walmart, it's just one factor. It shouldn't punch above its weight.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

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Okay. That's helpful. Thank you. One initiative that we've written a lot about because I think it's pretty exciting is Walmart Connect and personally we're excited about given what it could mean for margins. So I wondered if you could talk a little bit more in detail about all the avenues in which you're pursuing for Walmart Connect, whether it's online advertising, in-store advertising, selling data to vendors, where is all the revenue coming from. And is this something that can be pursued across all categories in the store?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

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I think it can go across all categories. We separate in terms of how we think about it, the advertising component of Walmart Connect from data monetization with suppliers or with others. So, those are two different businesses and we've got a great opportunity with data monetization and we've started to do some of that, but there's more to come there.

On the advertising side or Walmart Connect side, as we said at the end of the second quarter, it almost doubled. I think we grew it at 95% during the second quarter. And it's still relatively small compared to the size of our business and the various categories where this will take place.

Primarily, it'll be digital, it'll be through eCommerce, it'll be on our app, it'll be on our site, but there are some instore opportunities, too. And one of the reasons why advertisers are interested in what we offer is because we're doing so much volume in-store that may flow from a digital ad later on – later than the moment of the digital ad being in front of the customer. And we can close that loop and say you showed this ad to this person, they didn't actually transact until five days later in store. And we can connect up that transaction and show it to people. Because that volume in stores is so big, it's a unique offer from an advertising point of view.

So, we think there is a lot of growth there. We think that number will get bigger and bigger and grow for a long time and it won't be just the United States. We've got traction in some other markets, too. I think it'll be important in Mexico and other places, India.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Thank you. I wondered if we could pivot to back to the US grocery business. Grocery looks like it gained some market share over the past two quarters after some in stock challenges during the pandemic and it seems like maybe customers are being more sensitive to price. So I wondered if that's right. Are those the main drivers of your recent share gain? Are there other drivers there? And to what degree is increased traffic driving the increase versus better in stocks?

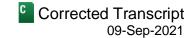
C. Douglas McMillon

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President, Chief Executive Officer & Director, Walmart, Inc.

I think you answered the question. I think you hit all three, Kate.

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Kate McShane

Analyst, Goldman Sachs & Co. LLC

Okay.

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C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

I do think that the second quarter of 2020 – fiscal 2021, we were out of stock. I mean, our supply chain was built to turn. And when that surge happened and for, I think, safety reasons, given the pandemic, people were shopping closer to home and in smaller stores. But we just didn't have as much inventory as we needed by a long shot. So inventory recovery is the biggest issue.

Price matters and we've got a nice set of price gaps right now and are obviously watching that closely. And then with the second quarter in particular, pre the Delta surge, store traffic came back really strong. And I'm sure that helped share some, too. So I think those are the three drivers.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

n food at

And I was curious to what your view is on food at home. Are you surprised at how long the strength in food at home has persisted? Would you've expected maybe a little bit more of an unwind here as people got back to work and back to school? And what is your view longer term about the sustainability of just people eating at home and buying grocery?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Α

Yeah. I don't know if the shift will be permanent. It does feel like over a period of time, it goes back to kind of the trends that we were seeing before the pandemic. But it is lasting and Delta is still with us. And so I don't know how to forecast what happens with COVID and future variants. I think we're in a position to be flexible and serve people how they want to be served. If they are concerned about what's happening in their area as it relates to COVID and they want to eat at home more, we're there; if they want to do it in the store, we're there; if they want to pick up a delivery, we're there. Having the food continue to be as easy to prepare and use as part of the equation, high-quality, low-price, easy to prepare could help us sustain this trend longer than it would otherwise. So both at Walmart and Sam's we're focused on that. And Sam's prepared meal business has been great, and Sam's has expanded its curbside and is expanding its delivery capability too. So they had a really big, healthy, nice food business at Sam's Club that shouldn't be forgotten.

Kate McShane

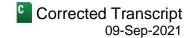
Analyst, Goldman Sachs & Co. LLC

Okay. Thank you. One of the – sorry my lights just turned out, one of the biggest changes I think we've seen in the story of the enterprise of Walmart is enterprise operating income growth going from flat to down to narrow for 2021, 9% to 11.5% growth. And I know this has been a big undertaking by the company. So I wondered if you could help us parse out how you've been able to reverse the course here and how have you been able to grow operating dollars while still investing in the business?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Goldman Sachs Global Retailing Conference



Yeah, we did go through a period of investment and I'm frequently getting the question now about when is the next investment cycle or what's this going to look like? And the way that I'm thinking about it is the company is going to constantly invest and you saw us increase our capital investment in February with the investor conference. We've got a long-term bias and we've got a top line bias. And we're – those are both deliberate and we'll manage the short-term and when things like supply chain costs go up or COVID costs happen or a period of wage inflation occurs, we'll manage through those things but all the while investing to improve productivity over time with things like this latest wave of automation, that's going to come in the next few years. So, that's part of the story. The other part of the story is the makeup, the composition of top line and bottom line at Walmart has changed quite a bit and will change more. We look a while back at a bar chart of how Walmart drove revenue and profit and we basically only did it by buying and selling merchandise.

A little bit of membership income from Sam's Club in terms of the percent of total and some financial services income and other sources like tenants paying rent inside of supercenters. But the other income percentage was tiny, that's changed and will continue to change. Walmart Connect is going to be a part of that Walmart+ is going to be part of that, data monetization will be part of that, Walmart Fulfillment Services is part of that, the marketplace take rate is part of that, and so, you end up with a more diversified and resilient business over time because you're making money in different ways.

And when I went to business school I was taught to beware of diversification and we — I saw like what General Electric did or what other companies did in these business silos, and digital changes all that. I mean that's been one of the things that has become apparent in recent years is that, when you become a digital company, you can start to build businesses on top of other businesses in a way that's efficient and manageable. And so, I'm not overly concerned about Walmart becoming too diversified. It's one of the things that that goes off in the back of my head every once in a while is just to keep an eye on focus. And we have exited some international markets sold Voodoo and exited the restaurant business in Mexico and other things, sold banks. So, there has been some pruning, as we've been doing adding. In the end, when I look at what we've got right now, I think we can manage it. And I think we're appropriately focused on what's most important and that's unlocked to a great degree by the digital aspects of the company working in an agile fashion and the monetization of our Tech Stack.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

That's great. And if I can maybe ask a question about just the other businesses, health and wellness has been an area, the last couple of years of focus. And I've heard you before talk about what a big opportunity is to bring affordable healthcare to your customer? And then fintech is maybe not as much talked about but is part of what seems to be the ecosystem here. So I wondered if you could maybe update us on both initiatives to the extent that you can?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Yeah. They're both really big opportunities, obviously not simple. But in the case of health and wellness, we've got these assets. We've got a big pharmacy business, optical business, hearing business, large stores, large parking lots, room for clinics that serve people when needed. And now we've made this telehealth acquisition of MeMD and we bought CareZone before. And so we've got a product road map that we're putting together that's got all the tech capabilities and product capabilities related to serve a healthcare business that is a value-based system that enables us to have a digital relationship that then eventually translates in the store when it needs to or through a triage process, sends them somewhere else if they need to go somewhere else. And do that in a way that it's integrated into the app and store experience, so that it becomes a really natural and easy thing to do to come to Walmart for expanded healthcare.

We were doing things like immunizations before the pandemic in a big way, ton of flu shots for example. And now we've been doing that with COVID immunizations. People trust us for healthcare and they think of us as it relates to healthcare. And so we're mixing those things together in a way that's become even more clearer in recent months as Dr. Cheryl Pegus joined us and helped John and I, and some others get even clearer about some specifics that we needed to go execute to build this business. So, I think there is more to come there but it would be rewarding in a few years to be able to look back and see that Walmart actually helped the country and helped customers, helped families by giving them access to high quality care at a great price and making them feel comfortable doing so.

I've been in our clinics when people walked in and you can tell they're very uncomfortable to be in a healthcare environment and they'll ask questions like on our pricing board is that really the price to get my teeth cleaned, what else will hit me later because they just don't trust the system. We had so many people like that that we can help.

And then on the financial services side, we've got a pretty big financial services business. But I would characterize this as being analog and the opportunity to make it digital is right there in front of us. There's so many digital products that we can go build that will help people with managing their family's expenses and their accounts and ultimately hopefully build wealth. But we don't have bandwidth to do everything and we needed some expertise. And so, we partnered with Micky Malka and Ribbit, hired Omer Ismail from Goldman, who recently was able to finally start after sitting out the appropriate period. And so, I think there is more to come as it relates to what we'll be saying and doing in the coming months related to financial services.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Okay. Thank you. There are four questions that we're asking every company, that's presenting at our conference these two days. And technically, it's four questions and the fourth question has two parts. But we, it's multiple choice. The first question is how do you think about consumer demand going forward as we get further away from stimulus? Do you expect to see momentum accelerate, decelerate or stay the same through the end of 2021?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

I think I would say same. But if I had to take over or under, I'll take a little over. I think customers, families want to celebrate Christmas. They want to have a Thanksgiving, and if this situation with the virus enables it or maybe even if it doesn't, we're going to see strong demand through the rest of this year.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Okay. The second question is how do you think about digital penetration in 2022 relative to what we saw in 2021, will it be higher, lower or the same?

C. Douglas McMillon

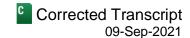
President, Chief Executive Officer & Director, Walmart, Inc.

Higher.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Goldman Sachs Global Retailing Conference



Third question is, how we should think about promotions in 2022, will it be higher, lower or the same versus 2021?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

A little bit higher for the industry but the same for Walmart. We don't promote a lot.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Okay. And then the fourth question with the two parts. The first question, and all of this has been touched on pretty much during our chat but just to get the official answer, if you had to pick the biggest lever that you can use to mitigate supply chain pressures what would it be?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

It's changing sources of supply.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

And then the second part is do you expect inventories to grow faster or slower than sales in the second half?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Faster. We've got some catch up to do. We need more inventory.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Okay. Great. And with that, I have a bunch of questions waiting for me in my inbox from the audience, so I'll start asking those if that's okay. The first question is, it's kind of goes back to our discussion around operating income. Our operating margins in a better situation to expand now because you don't have to invest in price because gap is already so big, or does increased input costs, supply chain costs, et cetera, without raising price effectively the same thing, and thus operating margins are seeing the same impact as if you were taking price investments.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

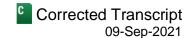
I think, it's generally the former like our position as it relates to prices better and the cost pressures that we're feeling now related to COVID, supply chain costs, like container costs, those are just short-term. So that's the way that I think about those. It's a little bit of both.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Okay. Thank you. Similar question but asked a little bit differently, year-to-date versus 2020 what would you say has had a bigger impact on your operating margins, is it lower promotions, lower e-com penetration or higher ASPs?

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C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

It's mix. It's a fourth answer I think, it's the percentage of total that we're doing in categories like home, apparel, hard lines.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Okay. And another question that we received was about the wage announcement that you just made. Is that another \$3 billion investment similar to what we saw in March? And has that been contemplated in your most recent guidance?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Yeah. It's been contemplated in the guidance, it's a Phase 3 of a plan addressing some of the positions that we hadn't addressed earlier.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

I guess, just a follow-up on that too, just from a wage standpoint. Your outlook on wages, it does seem like maybe there is a little bit tighter of supply and a lot more competition for employment than maybe there was at the beginning of the year, could you talk at all about your outlook on wages? And if you see things maybe accelerating a little bit more than what you originally thought starting 2021?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

I think things did get hotter than what we would have thought at the beginning of the year. And I think the government assistance programs played a role in that. And as you know, those are changing. So, the labor environment will change too. And we'll do what we need to do store-by-store, club-by-club to address the needs of that market, so that we can hire the people that we need to hire and retain the people that we need to retain.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

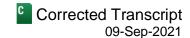
Okay. Great. I'll just say, we have a few more minutes for questions. So, if anyone wants to send another question in, you can go ahead and do that. In the meantime, I just wanted to ask one more question on behalf of us. I would be remiss if I didn't mention Sam's Club. I know it always is sometimes second fiddle, although it's doing so well. So I just wondered, if you could talk about the new members that you're seeing. I know you've had a lot of signups. It seems like it's a pretty sticky customer base. Just how are you thinking about those new customers? What can it do for Sam's business longer term and how do you ensure they stay?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Yeah. [indiscernible] (00:36:27) quality is the first thing that comes to mind. The assortment, and the quality of that assortment, and what had been happening is the Kath and the team had been improving private brands, in particular, our member smart product in food and other categories was really good from a quality point of view, a lot of progress have been made. And then, when the pandemic occurred and so many people came to clubs, they

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saw it. And I think that's what's driven a lot of the renewal rates is that they really liked what they bought and they liked the experience of buying it.

And then, the team layered on curbside delivery, the use of scan and go. Our scan and go percentage at Sam's is a lot higher than it is at Walmart pointing to an opportunity there. So, everything I'm seeing in the underlying membership metrics, the detailed metrics, looks really promising and does look like a sticky relationship, so really excited about that. Great to see the momentum there. Thanks for asking about Sam's.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

You're welcome. One more set of questions that we got in, you had mentioned the Tech Stack, I think earlier just what are the biggest changes Walmart has made over the last three years to the Tech Stack and what's next?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Yeah. A number of things, I mean the team there led by Suresh is doing a fantastic job. They have not only built some great new products and systems but they've shutdown a lot of older stuff. They've changed the way we think about our architecture, and they've moved us more aggressively to the cloud. They've got a clear strategy on, when we'll use private cloud and when we'll use other providers. And they've – that's enabled so much flexibility. I mean we expanded our eCommerce business partially because of the work that had been done before that to position the technology to do so. So we can handle surge capacity. We can do things that we couldn't do before. And the most important work right now that we're all focused on is this move to a different app design, about 10% of our transactions in the US on the Walmart app today are going through a design that's different than what we were using previously. And by the end of September here, over the next few weeks, we think that will be close to a 100% of the transactions.

The new design gets us away from what we have been calling our two hallway design. Some people might remember, we used to have two apps for a good reason at the time but we had a grocery app, it was Orange. We had the Walmart app that was blue. We merged those together into one app, two hallways, a while back but that still leads you into if you go into that first hallway and narrow our assortment. So just think about the items that are there, that are bought frequently and the margins on those as opposed to the margins in the broader exorbitant and the profitability from the marketplace. This latest design moves us to one universal surge, the two hallways go away, it's one experience. And so now, we can serve up not only the items you're buying all the time, maybe it's consumable with a general merchandise item like a new sweater, but also expose the marketplace to customers in a more intuitive, improved design, so that technology has taken a lot of time and resources as we put that behind us and re-platform the app over the next few weeks. We get even more bandwidth to go work on some other things that we want to work on. All of that was possible because of the tech team that we have today.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

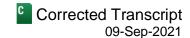
Thank you for that. We have a couple more questions. Delivery, which I didn't ask about, but I am curious. How are you approaching delivery first-party versus third-party and how should we think about that going forward?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

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Yeah. I think it's going to be such a growth opportunity for us to do various forms of delivery. We've been using other platforms, other independent contractor platforms and we'll continue to. We think about that a geography at a time, and that's enabled us to scale quickly and it's been so important to us and so helpful.

We also launched quite a while ago our own independent contractor platform called Spark. That has scaled and is now providing a lot of deliveries in the United States. And I do think this Walmart in-home capability with our own associates will continue to grow. So I think in the future, you will see electric vehicles with Walmart branding on it. Hopefully someday AV, you'll see us use drones, you'll see us use our own associates. It will be a blend of last-mile capabilities and there'll be sometimes when we're delivering a big basket, like in the case of my family now, we get a big basket delivery into our garage, into the refrigerator once or twice a week, it's a \$100 to \$150 every time they come, and we'll also have items that if you want to get it very quickly drones going to drop it in our backyard. Yesterday, John sent me a video of a fixed wing drone that's not far from here that we're now launching, that's going to drop stuff in our backyards [ph] around the year (00:41:41). And we're building in the store across the street, a market fulfillment center with automation in it for pickup and delivery orders using the store in that last-mile kind of way. We'll be launching drones and other types of providers I'm sure from that location. So it'll be a bit of all the above, and the math will just guide based on what the customer wants, kind of, the SLA thinking for a customer, the math will guide which delivery form we use.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Okay. Thank you. Back to our conversation about the mix of your business, are you expecting the mix of non-consumables to normalize as we get further removed from the government stimulus? Or do you hold on tighter to the level of discretionary mix going forward?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

We certainly want to hold on to it. I think eCommerce is the – is one of the most important ways that we need to do that. And that takes you back to how many brands and SKUs can you add in apparel. Do you have a really complete home assortment, not just good and better, but good, better and best. So, I think we'll hold some of it. We'll try to hold all of it if we can but it will be driven by the assortment and the pricing, our ability to execute.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Okay. And I think for our last question because it's kind of a bigger topic that I did not ask about is just international in general. If we could be boiled down to that, I know you've made refinements in the portfolio. It seems like international is doing maybe a little bit better than expected this year. Could you maybe talk about some of the wins and what are you seeing with some of those businesses?

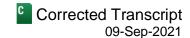
C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Yeah. Thank you. We do end up with a US-centric conversation about this company all too often. Great business in Walmax, tremendous momentum, great leadership team, a lot of innovation, a flywheel that looks like the US. Doing well in Canada, remarkable job serving people during this pandemic and a big and important business there and a really strong team there.

India is growing quickly. Both Flipkart and PhonePe have performed really well. Overcome the challenges with shutdowns and things like that and really capable management team. Very innovative. We're hearing a lot from

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what's happening in India. Those are standouts. I should mention China, our Sam's Club business in China is every bit as strong as what it is here in the US. So you've got more visibility into Sam's US than you do Sam's China. But Sam's China is strong. That format is performing well in Mexico too, but the Sam's business in China is just, it's amazing really strong membership growth, really strong NPS scores, merchandise quality getting better. So it's a different portfolio than it was before. The UK, Japan, Argentina, we're a minority investor, and that's helped create some focus. And you're right, Judith and the team have a ton of momentum, and not only this year but through parts of last year too performed better than expected.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Okay. Well, thank you so much. And I know this session could go on a little bit longer but we're going to give Doug about 10 minutes of time. So we appreciate, Doug spending so much time with us today and walking us through everything. Thank you.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Thanks, Kate. Thanks, everybody.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Thanks to the audience for joining us. Have a great day.

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