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Walmart, Inc. (WMT)

Barclays Global Consumer Staples Conference
CORPORATE PARTICIPANTS

Brett M. Biggs
Chief Financial Officer & Executive Vice President, Walmart, Inc.

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Karen Short
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MANAGEMENT DISCUSSION SECTION

Karen Short
Analyst, Barclays Capital, Inc.

All right. So, good afternoon, everyone. My name is Karen Short and I'm the staples and hardline retail analyst at Barclays. We're very pleased to once again welcome Walmart to the Barclays Staples Conference. Obviously, it is — to state the obvious, with close to $550 billion in global sales, Walmart is the largest global retailer. This point cannot be emphasized enough, but equally important, the list of successful global brands is short and clearly, Walmart would be at top of the list.

With us from Walmart, we're very pleased to welcome, Brett Biggs, Walmart's Chief Financial Officer. As I think all of you know by now, the format will be fireside with no Q&A this year. You should see Walmart's Safe Harbor slide on the screen momentarily, please refer to this and their latest SEC filings for any forward-looking statements that are made this morning.

Onset clock, I would just like to point out, remind investors that Walmart is not elaborating on the topic beyond public statement the company made on August 27. So, if anyone's listening and thinks that I'm not interested in asking about it, that's not the case. It's just we have 30 minutes, so we want to get covered as possible.
QUESTION AND ANSWER SECTION

Karen Short  
Analyst, Barclays Capital, Inc.

So, this is obviously a very unique time for any essential retailer. Again, we thank you very much for your participation and insights. So, as the largest global retailer, you’re obviously in a very unique position to get the pulse of the consumer. So, I wanted to start off a little bit on whether or not you have any comments to make in general on the state of the consumer. And then, I do want to ask this in the context of top line and market share in the US, because this seems to be the biggest point of contention, I guess, as it relates to whether you are or not losing share, and then I’ll jump into some other questions.

Brett M. Biggs  
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. You bet. Thanks for having me. Looks a little different than last year, obviously, just again to state the obvious. As we think about the consumer, so much has changed in the last six months, so many dynamics. It's tough to peel through everything that's going on. You've had such disruption end of our first quarter, start of the second quarter. And in the same way, you had stimulus, a large stimulus particularly in the US. And so, understanding, even in our second quarter results, I mean, some of that was stimulus, some of that was people spending money on things. They are not spending much on vacations, gasoline, things like that, and so they would spend more in a place like Walmart. So, it's tough to peel all those things apart.

The economic numbers over the last few weeks have seemed to look better than they have over the past. Again, it's hard to know how much of that is stimulus related and we'll be watching like everybody else of what happens in Washington in the next several weeks around stimulus. But it's been a very interesting five or six months certainly from a retail standpoint with certain retailers closed, certain ones like us open.

When you look at the period of time overall and we feel really good about our business, we have gotten a lot of questions about market share. We know we've taken market share in certain categories, general merchandise, which is very good for us from a customer perspective as well as from a margin perspective.

Grocery and consumable market share is a little tougher for us to read. There's a lot of things have gone on, which has a lot of noise around the numbers. We significantly pull back on our operating hours, which you know we started closing around 8:30 for most of the second quarter, and now we've taken those operating hours back to 10:00. We know that impacted us some in the second quarter not having those operating hours like we had them, metering stores, things like that.

Price is still really important, but with the stimulus dollars that were in the market, convenience became even more important we think during the quarter. Now, we've made a lot of inroads as far as convenience over the past several years and that benefited us. But I think people probably became a little less price sensitive maybe in the second quarter.

And from an out-of-stock standpoint, we had some struggles as did a number of retailers in that second quarter. We're in better shape than we were certainly a few months ago and we're getting better every week. But there are certain categories that will take some time still to get back to where we want to be from an overall in-stock perspective.
On that note, and I'm probably going to jump to Walmart+ fairly quickly, but on that note, in terms of the actual hour production and then in terms of the inventory, I think people may underestimate how much and how great as a percent of sales are actually done at Walmart. Say, from call it 8:30 PM to 7:00 AM and most are probably really understating the basis point impact on your sales. So, maybe can you – any color you could give on that?

And then on the inventory and the out-of-stock, I mean, as you've said in one of the earlier meetings, you obviously have become unbelievably efficient with inventory and you probably basically just [indiscernible] (05:24) inventory while you have all algorithms completely run out of whack. So, is there – could you talk a little bit about that and I guess the ability to override the algorithm that you've obviously been operating under for so – for decades?

Yeah. On the operating hours, we didn't – we haven't quantified it externally, but it was important enough that we mentioned it quite a bit in our second quarter release. And I know there were times even as a customer when it was 8:30 and I wanted to go to Walmart and for a few weeks there, we weren't open past 8:30. And so, you really had to change your minds a little bit as a customer. I think we've got customers back now to where it feels a little more – feels a little more normal for customers.

And the other thing to mention too would be pricing and our price gaps, in a number of categories, actually widened in the second quarter. And so when you – a number of our competitors weren't as promotional in the same quarter or actually raised prices, we really didn't and that created some noise as well around on the market share side, would be on the dollar basis.

On inventory, store managers do have some ability to override. But there's two kind of large buckets of inventory, one would be short lead time, that would be food and consumables and we can make adjustments on that pretty quickly, but you've got to have supply down the chain with our suppliers to be able to do that as well and that was a challenge for a little while and they're doing the best they can as well.

And there's a longer lead time, think about holidays, Halloween, Thanksgiving – pretty much Halloween and Christmas, where we're going to have to make bets a little further out, it's tougher than to change those. So, merchants have to make some assessments there. The store managers do have some ability, but our systems are such that they can look at the demand by store and pretty quickly, adapt to a shorter period of time. Now, the algorithms over the last few months, we're not going to want to repeat those all the time, but they do learn pretty quickly.

Okay. So, jumping to Walmart+ because that seems to be the number one topic. Maybe talk a little bit about – so actually, I want to take this a really different angle than some of the things that you've been asked in the prior meetings. I frequently get the comment that Amazon didn't breakeven and so have reached a certain number like built whatever hundred, I guess, call it billion in sales. And so, the comparison is that introducing this is going to only exponentially increase your losses. So, I want to maybe see – get your framework on that a little bit. I guess, I would argue that the Walmart behavior as a shopper is just very different from how people shop Amazon. But is there a risk that you train the customers to start shopping Walmart like they shop on?
I mean, there's a number of things that we considered as we looked at Walmart+. One, it's really important we think for us to offer this for customers and now members in Walmart+. Though the world has evolved – customers have evolved a lot over the last several years and we've had a membership forever at Sam's Club that people have gotten more used to using memberships, whether it's movies or streaming or there are other things that they do and we felt like this was the right time to give customers that option.

There's a number of things that we can do with this over time. So, we've announced three main benefits at this point, but there'll be other things that we do over time. It was important to get the membership at the right price point where we thought would be good for our customers, which is under $100. So, we feel good about that.

Customers are going to – they're going to shop, however, they want to shop. And we know that and we've been setting ourselves up for that for several years. We still love customers coming under stores, and we think that's can be a big part of what we do forever. And so, having the opportunity to pick up in stores, making sure that the Supercenters in particular are great place to shop, those things are all going to continue to be important.

Basket size matter, we think we'll continue our basket size. We think basket size will get bigger. We've seen that in grocery pick up where basket size are bigger than they are in the stores. And so, that part's very different than what some of our other competitors might have. And now the ability to get increasing mindshare with our customer on the grocery and consumable side and then be able to get more of their general merchandise business, which is great for us from a mindshare perspective and market share perspective as well as margin perspective, is a really important part of this.

Karen Short
Analyst, Barclays Capital, Inc.

So, when you think about the demographics that this would appeal to, obviously the questions that have come up that – and I have had this question asked, why would the people – why would a customer pay a fee when there's minimum of $35. So, maybe can you just talk a little bit about the thought process behind that? But also just talk a little bit about why you think this is something that would appeal to all demographics, because I think the perception is that it's only a higher income demographic?

Brett M. Biggs
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. We wanted to appeal broadly. I mean, Walmart's always been a kind of democracy for shoppers. If you look at the US population, we tend to mirror from an income level, racial gender, we tend to mirror America and that's what we like and the same as we would do in other countries. But getting that bigger basket – the baskets we're seeing with most of our customers for delivery or pick up have the $35 minimum wouldn't have seem to have made that much of a difference and it is a way for us to differentiate what we do from the way that we fulfill as well. So, it does help us from a fulfillment standpoint, but we think we give the customer still what they want, so that's we think is a win-win.

And we want to do things that fit our customer base and we don't think this appeals one way or another to lower income or higher income, we do think it is really broad reaching and that's what we like so much about it. We think we've got something in there for everybody in the price and the price point is really attractive.
Karen Short  
Analyst, Barclays Capital, Inc.

And when you – I guess, you obviously started testing this before you consolidated the apps, but is there anything you could talk to in terms of the behavior and attachment rate pre the consolidation of the apps from general merchandise perspective to currently? And then, anything you could talk to in terms of what you're seeing on the behavior now that the consolidation of the apps?

Brett M. Biggs  
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. I won’t talk about it specifically from a competitive standpoint, but you can imagine anything you can do to make it easier for that customer to go across the aisle, so to speak, and buy general merchandise, the better. And that's why the Supercenter was such a great retail invention is because it brings people in the store for food and consumables, but then it has everything they need from the general merchandise side that mixes out in a way that makes sense.

I don't think online is going to be that different actually. And as we continue to get people into top of the funnel, with food and consumables and things like Walmart+ will help us to do that. We will become more top of mind on general merchandise and we have really good strong general merchandise business. We can make it stronger. The second quarter was a great reminder to all of us of what that flywheel really looks like when it works.

And so, what we've seen so far is we have made it easier for the customer to do that. There are things we'll continue to do that will make it even easier. I feel certain it will become a thing a year from now that where we've made that easier than it is today.

Karen Short  
Analyst, Barclays Capital, Inc.

Okay. And then you've commented a couple of times on the gap in price and our price checks at least in grocery. That can only show widening of the gap. So, I guess the question is, how do you think about when that gap will actually matter? Again, it just feels like consumers are so flushed in cash, all things that they're not spending on. And if you're not necessarily getting credits for it, when do you think you will, I guess?

Brett M. Biggs  
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. There are some things that are a bit counterintuitive right now.

Karen Short  
Analyst, Barclays Capital, Inc.

Yeah.

Brett M. Biggs  
Chief Financial Officer & Executive Vice President, Walmart, Inc.

The price gap always matters. And the customer, they notice that it’s not as formulaic as we make it, but the customer notices it. It still matters for sure. If we don’t get another stimulus package, which all of us are monitoring like you are, price probably matters even more. We will get back to something, and sometimes it feels a little more normal than this and price will matter. Convenience matters more than it used to, and I think that’s here to stay. We've seen some trends accelerate over the last five months that are here to stay, more people in eCommerce,
probably more people eating at home, things like that. Some of those work and I think work into our benefit now. But the price gap is always going to matter and we're going be thoughtful about it. There are price – we want to find that optimal point where we're doing what we need to for customers, but also ensuring that shareholders get the benefit that they should see as well.

Karen Short  
Analyst, Barclays Capital, Inc.

So, on that cash topic, I don't know if you could answer this or not, but it seems that there may be a tax bill coming for many customers or many consumers who got the $600 stimulus weekly, meaning that there wasn't withholding taken out of that. I don't know if you've ever done any analysis on this at all, because it kind of – I would venture to say if there is a tax bill and that is vetoed, it will just be subject to regular tax withholding. There are going to be a lot of shock to consumers. Do you have a view on that?

Brett M. Biggs  
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Nothing to specifically discuss. I think there's so many things right now that are unusual or that could have impacts down the road. As you say, first quarter and second quarter of next year, that we'll just continue to monitor how they all work together in aggregate to have an impact on the customer. I think we're just going to have to – just to make our way through things like that...

Karen Short  
Analyst, Barclays Capital, Inc.

Right.

Brett M. Biggs  
Chief Financial Officer & Executive Vice President, Walmart, Inc.

...since that becomes an issue.

Karen Short  
Analyst, Barclays Capital, Inc.

Okay. And then when you think about the 2020 holiday season, maybe talk a little bit about how you're thinking about that from a competitive perspective because, on one hand, I could argue that the consumer is going to do anything and everything they can to make it as special and thoughtful, because everyone’s so bored.

Brett M. Biggs  
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Right.

Karen Short  
Analyst, Barclays Capital, Inc.

On the other hand, I could argue that you have Prime Day combined with no real Black Friday – obviously, there's no Black Friday, really. So, how do you kind of think and weigh those two factors?
Yeah. Our merchants – we basically don’t think we’ll now so far as we’ll be closed on Thanksgiving Day, which is something new for us. I’m glad we’re doing that. And then, we’ll announce more as we get closer to the holidays. Thanksgiving is still two-and-a-half months away, which in today’s world seems like a long time.

But there are – our merchants have – on some of the long lead time items we talked about a minute ago, they’ve made bets of where they think a holiday will come out. It will look – holidays is going to look a lot different than prior years, as you said, how promotions from competitors work out over that period of time, I think, remains to be seen.

But we feel good about how we’re positioned for the holiday. I’m with you. I think people will want to make this special, and so I would expect things like – I’m not head merchant, but I would expect things like trim and tree (17:32) and other things like that. People will want to decorate their homes, will probably be pretty big this year. We’ve seen that in other times when there’s been a downturn in the economy that people really want to go all out for the holidays. And there’ll be some places where they’ll will be more conservative. And our merchants haven’t been through something exactly like this, but we’ve had periods of time that have been as good or bad for the holidays. From an economic standpoint, they’re pretty good at knowing how to work their way through that.

Karen Short  
Analyst, Barclays Capital, Inc.

Okay. And then maybe turning to eComm becoming less unprofitable, I guess. I think people are trying to circle in a little bit with what you think is about – in terms of what’s structural in nature, in terms of promote permanency or less unprofitable eComm business. Maybe can you kind of talk a little bit about puts and takes and how we shall think about that going forward?

Brett M. Biggs  
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Sure. And really over the last I’d say, 12 months even, we’ve been talking about some positive things we were seeing on the profitability side from eCommerce. And there are just several levers within there, one is sales growth, obviously. Two is, increased or the increased rate of fixed cost, then there’s variable cost of fulfillment, and there’s contribution margin. Those are four things that we watch really closely, a lot of tailwinds for the eCommerce business in the second quarter. But we’ve already seen some of those things in the first quarter, which makes us feel good that structurally we’re making progress.

Obviously, when you almost double the size of your business in the quarter, that helps leverage expenses all the way down the line. But the work that we’ve done over the past several quarters on getting more brands online, particularly in home and apparel and higher margin categories, that helps a lot with contribution margin, which as you grow sales then that actually just starts leveraging your fixed cost at a pretty rapid rate.

And so that – we were seeing that already last couple of quarters, but it certainly showed up in the second quarter. So, those kind of things that structurally I feel good about where we’re going. There won’t maybe all look as good as the second quarter did, but it was a demonstration to us that the way we’re thinking about that eCommerce model is right and we saw what that looked like in the second quarter.

Karen Short  
Analyst, Barclays Capital, Inc.

Okay. And maybe on that, can you just elaborate a little bit in terms of what capital, if any, would be required going forward with respect to Walmart+ fulfillment centers in general? And also, maybe an update on how many
SKUs you have on Walmart+ and eComm? And whether or not those are all actually mirrored at all your SKUs, because I think that was one of the tipping points pre-COVID for you.

Brett M. Biggs  
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. We've made a lot of progress on mirroring. We have about 160,000 items that would be next-day eligible on – same day eligible on delivery and a little more than that on next day. So, mirroring has come a long way over the last year. We haven't updated – we'd said, 200-plus, we haven't really updated that number in a little while and probably won't from a competitive standpoint.

But we feel good about the ability to get the customer what they want, when they need it. As we've talked about, what capital could look like over the next couple of years, we've been kind of in this $10 billion to $12 billion range for a period of time. And think most years, that's probably about right. And there's some assumption there about increasing fulfillment capacity.

Now, what we've seen in the first and second quarter, we can really get the eCommerce business ramped up, we wanted to, maybe we add capacity faster than we had anticipated, maybe a year or two, our number goes up. But overall, I feel good about our ability to add capacity at a rate that makes sense from a financial standpoint.

Karen Short  
Analyst, Barclays Capital, Inc.

And with respect to the FCs that you have now, those all have the capability to fairly meaningfully broaden the Marketplace SKUs, correct? Without increasing its actual capacity or size of the facilities? Those are my understanding [indiscernible] (21:49)?

Brett M. Biggs  
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. That'd be accurate. I mean, as we continue, we had triple-digit growth in Marketplace in the second quarter and we're also trying to ramp up Walmart Fulfillment Services, which would be taking third parties and running it through our own fulfillment. But to the extent that, that grows dramatically, that will be a good thing for us from a top of mind standpoint as well as profitability when you get 3P and Marketplace going more rapidly. So, if that continues to grow like that, we'd be just fine adding fulfillment space. We'd be glad to do that.

Karen Short  
Analyst, Barclays Capital, Inc.

Okay. And then, I guess in terms of overall margin structure, I mean, I think it's obviously known and documented with every investor that we should always kind of expect US gross margins to be down and that's certainly, what you get credit for. How do you think about that, though, going into the second half, just, again, given that your price gaps are so wide and you're not really getting credit for it at the moment, maybe a little color and how to think about that?

Brett M. Biggs  
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. We got a little bit of a shift in the second quarter gross margins going up and a lot of that was mix, as I talked about. Yeah, I think I've said to you before, Karen, that we need to be able for gross margins to go down over time. To some degree, markets and customers will determine where that margin rate goes. And that's why I've been so focused on expenses, is being able to get our expense and cost structure in a point to where gross...
margins could come down, some over time and our operating profit margin maintain where we’re at or even potentially go up a little bit.

That model works, because if we can do that and grow the top line, you get that – you’ve seen what we can do at a 3% and 4% growth. It’s just such big dollars that it leverages dollars. Even if the rate stays the same, the dollars grow pretty dramatically. Could margins go up? I mean, if our general merchandise business performs like we hope it can over the next two, three years, there’s room for that to happen, but that also would give us the opportunity to invest back in some other things that would help the business longer term. So, there’s a lot of optionality I think we create with the focus we’ve had on expense leverage, and it’s still there and that optionality is important.

Karen Short
Analyst, Barclays Capital, Inc.

And maybe with respect to expenses, I guess, can you just remind us how we should be thinking about COVID-related expenses into the third quarter or back half? And then, how are you thinking about wages obviously in line of Target’s announcement and just broader wage pressure?

Brett M. Biggs
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. So, on the COVID-related expenses, we had $1.5 billion roughly in the second quarter. And about three quarters of that were related to paying benefits. So, we had two special bonuses that were in that number and then also some things have been around sick pay and time off for people who are either concerned about COVID or have COVID emergency leave time. So, there’ll be some expenses that continue I think probably for quite a while. Things around sanitation, maintenance, anything we need to do for customer and associate safety we’ll continue to do that. So, there’s some level that is going to continue probably for a period of time, but not the level you’ve seen at Q1 and Q2.

On the wage front, we’re just always watching it. We have to be able to recruit good talent. We have to be able to retain people, really have to look at it geography-by-geography. I don’t think looking at a rate across the nation is – personally, I don’t think this is the right way to look at it. I think you’ve got to look at it by geography. And so, there are places that are hotter than others from a wage perspective and we’re being competitive in those markets. There are certain types of positions where we’re going to make sure that we’re really competitive to ensure we’re getting the right talent in those areas. But it’s something that just takes constant minding and paying attention to.

Karen Short
Analyst, Barclays Capital, Inc.

Great. Okay. And then, I guess thinking about capital allocation, I can think of one retailer so far in my coverage that has announced resuming buybacks and I know where you stand currently. But maybe how should we kind of think about that? Is that something that we should not expect to tell we’re back to whatever normal is?

Brett M. Biggs
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Yeah. We haven’t talked specifically about buyback. You saw – I mean, you were saying that we didn’t do any buybacks in the second quarter, but it’s not something that you’re likely going to ever say, we’re off or on. It’s we want to be more nimble than that. The way we think about capital hasn’t changed. We’re going to continue to put
significant amounts of capital into the business. And when you look at our operating cash flow over the last five years have been $25 billion to $30 billion in cash flow and when you look at the capital we've spent of say $10 billion to $12 billion and the dividends around $6 billion, which we're very committed to that, still leaves you a lot of room from a cash flow perspective.

We've been buying back a significant amount of shares and there's a number of things that go into that decision on a quarterly basis. I still feel really good about the value of the company. So, share buybacks is something that is certainly mid- to long-term. I feel like it's an important part of how we spend our capital.

Karen Short
Analyst, Barclays Capital, Inc.
And just remind us, in terms that, if there were decisions where you resume the buyback, you have a grid in place in terms of how you perceived, maybe remind people how that would work...

Brett M. Biggs
Chief Financial Officer & Executive Vice President, Walmart, Inc.
Yeah. That's typically what we do is, we always have a share repurchase grid based on buying at certain levels of price on the stock, which is pretty typical with what most companies do.

Karen Short
Analyst, Barclays Capital, Inc.
Okay. And then maybe last question just in terms eComm. Obviously, you've indicated in the past that you're definitely willing to look at larger-scale acquisition on eComm that are transformative. But you've also been divesting some of the eComm assets. So, I think Shoes.com and saw Bare Necessities, obviously we know Jet, what happened with Jet. Maybe just – maybe end with how you think about that from a strategic perspective?

Brett M. Biggs
Chief Financial Officer & Executive Vice President, Walmart, Inc.
Yeah. I think there is – certainly, if we have opportunities to – from a brand perspective or from a technology perspective, people perspective, those are the types of acquisitions that would – they're enabling-type acquisitions, we will continue to look at those. And we're just making decisions more quickly than we used to. And so, in the example of Bare Necessities and Shoes, both of those acquisitions helped us make significant progress in those categories, from a brand perspective and stores online and so, we benefited a lot from those acquisitions.

And there's times where we're going to get the value that we think we need out of acquisitions and it makes sense for someone else to own them going forward and to continue to focus where we want to focus, we'll make the decisions to not focus in places where we don't want to focus. But those categories are critically important to Walmart.

Karen Short
Analyst, Barclays Capital, Inc.
Got it. Well, I think maybe we are close to 01:10 – well, we are on the 1:10 mark. So, this is news to me in terms of how we get cut off. I don't want to instantly get cut off in Zoom meeting. So, thank you very much...
Brett M. Biggs  
*Chief Financial Officer & Executive Vice President, Walmart, Inc.*

Thank you, Karen.

Karen Short  
*Analyst, Barclays Capital, Inc.*

...for being with us and I'll see you again shortly in the next...

Brett M. Biggs  
*Chief Financial Officer & Executive Vice President, Walmart, Inc.*

Yeah. Thank you.

Karen Short  
*Analyst, Barclays Capital, Inc.*

...meeting. Okay. Bye.

Brett M. Biggs  
*Chief Financial Officer & Executive Vice President, Walmart, Inc.*

Take care.