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Walmart, Inc. (WMT)

Cowen Consumer Platforms for the Next Generation Summit
Management Discussion Section

Oliver Chen
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Sustainability priorities and practices at the world's largest retailer. Hi. It's Oliver Chen, Cowen's new platform retail and luxury analyst. We're thrilled to have Kathleen McLaughlin. She's Chief Sustainability Officer at Walmart — EVP, President and Chief Sustainability Officer [sic] [Executive Vice President and Chief Sustainability Officer] (00:17) at Walmart, Inc. and President of the Walmart Foundation.

At Cowen, we view Walmart as the leading omni-channel ecosystem and an online grocery leader as our surveys consistently show that over 50% of all online grocery shoppers use Walmart. We have an outperform rating on the stock and a $107 price target.

Kathleen is responsible for programs that help Walmart create economic opportunity through jobs in sourcing, enhances sustainability of food, apparel and general merchandise supply chains and strengthen the resilience of local communities through business initiatives and philanthropy. Her team's work with Walmart associates, suppliers, non-profit organizations and others to deliver lasting improvements to economic, social and environmental systems. And last year, the company awarded more than $1.4 billion in cash and donations including over $975 million in food donations.

Kathleen, thanks for joining us today for this important keynote.

Kathleen McLaughlin
Executive Vice President and Chief Sustainability Officer, Walmart Inc.; President, Walmart Foundation, Walmart, Inc.

Well, thank you, Oliver. It's really great to be here with you.
QUESTION AND ANSWER SECTION

Oliver Chen
Analyst, Cowen & Co. LLC

Q
So just broadly, what surprised you most in 2020 as Walmart really became a prominent go-to retailer for most Americans, and what have your priorities been amidst the pandemic?

Kathleen McLaughlin
Executive Vice President and Chief Sustainability Officer, Walmart Inc.; President, Walmart Foundation, Walmart, Inc.

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Yeah. Well, 2020 was the year that surprised us all, wasn't it? So, I imagine the things that surprised me and us are the things that surprised everybody who's tuning in today. So, first of all, as a retailer, just how critically important access to food and essentials has been throughout the pandemic and our omni-channel model just got accelerated. And any plans that we had to expand grocery pick-up or home delivery just got magnified, accelerated because of the pandemic and the need to provide people with options to get food and essentials including coming into a store but also avoiding a store and still being able to get what they needed. So, that's one.

Second was really the scaling up of the safety protocols, so how could we adjust our operations to keep our people safe, our associates, and our customers. So, all the things that we put in place not only in terms of physical protections but other things extending emergency paid time off leave and a lot of other protocols to help people be safe at work and customers be safe on their shopping. And it was really challenging in terms of just the sheer number of government ordinances, local ordinances that were extremely variable across the country even within states across counties and municipalities. And so, managing a network in that complexity was a surprise and a challenge for everybody.

Third, just the whole how important it's been especially now with administering vaccines and trying to be part of that solution and help the country move as quickly as we can toward herd immunity and vaccine uptake. And then really the pandemic and just the events of 2020 including the murder of George Floyd really also accelerated the conversation and the reality of the role of business in society and the way that we can serve and address issues beyond the customer or the shareholder. So for example in addition to the things I've mentioned already just the role that we were able to play as a bridge employer, we hired hundreds of thousands of people and completely rewired our hiring practices to be able to hire people within a day, so that we could not only have additional people coming to work and relieve the pressure on our associates to feel like they had to come in, if they weren't feeling well or what have you, we wanted lots of other people around to alleviate that.

But also, for many folks, we acted as a bridge employer. As people might have lost their employment temporarily, they could come and work for us for a while. And some of them actually stayed on and have become permanent associates, and then others have gone back to work in other places. Also, the role that we play – played and continue to play with suppliers helping to provide paths to customers for suppliers to keep their businesses going across categories, and also to help manage volatility around supply and demand.

And then, just in terms of even things like racial equity which we can get into a bit later in our chat, the events of April, May, June and so on, I think prompted everyone in the country to reflect and raise aspirations on what we can do to advance equity and combat systemic racism, systemic inequity in our society. And then, finally, just community resilience. The role that we've tried to play not only through employment and access to food and essentials and so on, but in local community response.
So, you mentioned our food donations. We've been engaged in food security for a long time. So, partnering very closely with folks like Feeding America and others to try to get excess food to basically address the volatility and in cases where we had overages of certain items to get them out to people quickly and into people’s homes to alleviate the huge spike in food insecurity throughout this pandemic.

Oliver Chen
Analyst, Cowen & Co. LLC

Kathleen, you mentioned the role of business in society. I mean we really do believe in the stakeholder approach to companies and thinking about fairness and equity. But what should we know about your role in society as a business and how that has evolved? And as you do mention George Floyd and other factors, what's important to Walmart?

Kathleen McLaughlin
Executive Vice President and Chief Sustainability Officer, Walmart Inc.; President, Walmart Foundation, Walmart, Inc.

Yeah. Well, I'd say a couple of things. One is in the last few years there's been a great dialogue about the role of business in society and increasingly a recognition first of all that the only way a business can create sustained value over time is by serving stakeholders what we call shared value. Michael Porter's phrase that we really adopt that at Walmart. You can't create long term shareholder value unless you are addressing the needs of your customers, your associates or employees, suppliers, communities, etcetera. Those things can't be separated. But the only path to sustained financial value creation, sustained success as a business is if you're doing a great job serving the stakeholders. So, for us the events of the last year have just really validated that philosophy, that approach and that's really [ph] central (07:25) for us.

And so, when we consider ESG investing, the big uptick in interest in this is somewhat it's not surprising at all to us. And what we try to do is articulate for investors, for others, what's the ESG investment thesis in a company like Walmart. And we actually think investors in general should take that approach. Every company should consider things that way. What's the reason that you would invest a $1 in Walmart if you care about climate change, if you care about racial equity, if you care about COVID response, if you care about equitable access to food, whatever the issues are that are relevant for our business. What's our ESG investment thesis, meaning why is that issue relevant for business and society, what's the approach that we try to take at Walmart to address that issue, and what are the strategies that we're putting in place to pursue that, what are the results, disclosing progress and so on [ph] and free (08:27).

For me, in a nutshell, that's what ESG is all about, and that's what we try to convey through our own disclosures and engagement. And a couple of reflections on that and what's really, I think, been shown to be true in the last year or two, so I already mentioned this notion of shared value that the financial value creation for shareholders is hand-in-hand with the stakeholder value creation.

But a couple other things to point out, one is that the challenges we face as a society right now whether you take racial equity or climate, degradation of ecosystems, COVID, whatever the issue, they're so significant and so pervasive that we are now at a point that we need regenerative solutions, solutions that actually transform the systems that we rely on. So, it's not enough anymore for a business or anyone in society to say, well, my approach is to be "sustainable," I'm just going to operate in a way, right, and minimize my impact. That's not enough if ever it was enough.

To address those kinds of issues in a way that creates value for business and helps us make progress on those issues requires a regenerative approach, meaning we actually have to contribute to solutions that improve the situation, that renew, that restore, that regenerate, not just hold steady. And that requires transforming systems.
The second observation I would make is that we really strongly believe at Walmart is the path to transforming systems to create those better outcomes for society in terms of any of those issues are the paths that are going to build bridges across divides that are going to unite and not get caught up in polarization or extremes.

So, so much of our discussion certainly in our country in the US is about the extremes and the divide and polarization. Well, at Walmart, we serve everybody. Our customer base reflects America and people have a lot of different views. And we live in a three-dimensional world, not a single-dimensional world. And what I mean by that is if you take polarization on any issue, it's one-dimensional. We think there is ample scope in the middle in bringing people together and transforming systems to create outcomes that are really in the interests of everybody and that's where we try to focus.

And then the last thing I would say is there's tremendous synergy in solutions where it's a false tradeoff to say, well, we can have business or society, or we can sustain the environment or grow the economy. We think those are false tradeoffs, that the most creative solutions are at the intersection and optimized for social, environmental and economic outcomes where business is at the table working collaboratively with civil society, with governments as a partner. And that's where we're going to get the best solutions that really move us toward a sustainable climate, racial equity, getting through the pandemic, you name it, and there are lots of examples of that.

So really coming back to your question and investors what would we want them to understand, it is to approach this in that way themselves. So, all of the time and energy that investors put in to analyzing companies, creating the investment thesis, thinking about it financially, that's great, build on that now and you incorporate the environmental, social and governance factors. It's a holistic approach. And there ought to be as much energy and thought put into analyzing companies on that basis and understanding the links to value creation and to addressing the issues of society.

**Oliver Chen**
*Analyst, Cowen & Co. LLC*

Yeah, Kathleen, so what do you find Wall Street may underappreciate you most about your sustainability efforts? What are you prioritizing the most and what might be the hardest to achieve?

**Kathleen McLaughlin**
*Executive Vice President and Chief Sustainability Officer, Walmart Inc.; President, Walmart Foundation, Walmart, Inc.*

My observation around capital markets, asset managers, investors in general, is that people are evolving toward this more integrated understanding of value creation. And I've just seen that even the last three, four years where when we engage teams from our investors, three, four years ago it might have been one team and then there was like an ESG group that maybe would call a few weeks later. Now it's a single conversation.

And for us at Walmart the priorities that we have are four issue areas that we think are most relevant for us as an omni-channel retailer. So economic opportunity for our associates, for our suppliers. It includes racial and gender equity and our role that we can play in unleashing those things and advancing them through our jobs, our purchase orders, our engagement with community. Second, sustainable supply chains and transforming supply chains to decouple consumption from environmental social outcomes, basically to create much more regenerative product supply chains that are not only sustainable in terms of environment and people, but again this notion of regeneration add back are better, draw down initiatives, restore ecosystems, elevate people.
Third is community resilience and the role we play locally to enhance the resilience of communities in terms of social cohesion, food security, disaster response, those kinds of things. And then fourth, as a global business, aiming to operate with the highest standards of ethics and integrity and bring that into our policies and practices around things like digital citizenship, for example, stakeholder engagement and so on.

So those are our four priorities. And what we try to get across to investors is why are those relevant for business value creation and for our stakeholders and what are our strategies. What's the progress we're making, and again, what's that ESG investment thesis? Why is a $1 invested in Walmart a $1 that would not only return to the shareholder but would actually help make progress on things like climate action or racial equity or COVID or, again, any of those four big themes I mentioned.

Oliver Chen
Analyst, Cowen & Co. LLC

Q
Kathleen, what would be some highlights of things that you're measuring and tracking, and that Wall Street should measure and track and see your progress as well. I mean, it's a big open-ended question but would love your thoughts.

Kathleen McLaughlin
Executive Vice President and Chief Sustainability Officer, Walmart Inc.; President, Walmart Foundation, Walmart, Inc.

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I'll give a couple examples. One would be around climate action and the other would be around economic mobility. So, advancement of entry-level people through work and in particular the opportunity that the retail sector has to be a springboard for racial and gender equity through work and through advancement.

So, on climate, for a few years now, we've been informed by the guidance of the task force on climate-related financial disclosures in terms of doing a risk assessment around climate modeling out 2030, 2050, what does it look like in a 3-degree world or 4-degree world, and the answer is not good, and then what does that mean for our strategies and what we need to do to contribute to a net zero future.

And so, our climate strategy includes science based targets for emissions reduction. We were the first retailer to set science based targets back in 2016 and that includes our own operations as well as the supply chain, what people call Scope 3. So, we set targets that are aligned with the science based targets framework. And then last year, we elevated our ambition to say, well, we actually want to go farther and get to zero emissions in our own operations by 2040.

And so, we disclosed our progress. We've been disclosing for over 10 years now, how are we doing in terms of our emissions overall as well as on a carbon intensity basis, the strategies we're pursuing to draw down carbon in our own operations and through the supply chain in a program we have called Project Gigaton. We now have over 3,000 suppliers engaged with us to decarbonize retail supply chains. And what's great about that is those suppliers supply all the other retailers, too, right? So, when they're taking actions, it's not just for Walmart, like they're changing their supply chains and that benefits everybody.

And that program has very specific strategies around energy, product design, waste, packaging, sustainable agriculture, forests. And so, suppliers are taking actions in each of those six areas. We support them with tools and programs. We help them get the ideas for how to go faster and to report through CDP, through our platform. So, we've been really driving folks toward reporting. I guess one of the reasons that CDP rated Walmart with an A both for our own emissions progress around climate action but also what they call their supplier engagement leader board because we're trying to democratize climate action in the retail sector and get everybody engaged and moving more quickly to decarbonize supply chains overall. So, we disclosed this in some detail in our ESG
Oliver Chen  
Analyst, Cowen & Co. LLC

Yeah. On that question, Kathleen, we've had incoming questions on labor and wages.

Kathleen McLaughlin  
Executive Vice President and Chief Sustainability Officer, Walmart Inc.; President, Walmart Foundation, Walmart, Inc.

Yeah.

Oliver Chen  
Analyst, Cowen & Co. LLC

Can you discuss your philosophy on raising starting wages and what may happen over the longer term and how might the Walmart Academy intersect with this as well?

Kathleen McLaughlin  
Executive Vice President and Chief Sustainability Officer, Walmart Inc.; President, Walmart Foundation, Walmart, Inc.

Yeah. Absolutely. So, the opportunity for retail as a sector in the broader labor market an economy is to be a place where the barriers to entry into work are minimal, removed. So, because we have – in retail there a lot of entry level rules. So be a place where people can get started and work but then whatever their starting point invest in upskilling those people on the job so they're learning while they're earning and then creating pathways that help them advance quickly. That's the particular role that retail can play. And it does require a shift in people's approach especially in terms of investment in human capital, helping people acquire skills in ways that they can while they're on the job and get access to those career paths. So that's really been our focus. It's been about access to work, stability in the job and then mobility through investment and training and career paths.

So, when it comes to wages, we pay competitive wages by role by format in the geographies where we operate. So, our starting wages and our average wages simply reflect what is the local market average for that type of job in that format in that market.

And what do I mean by that? Well, Walmart is an omni-channel company in the US is really a company with multiple formats embedded in it. So, we have our supercenter and our grocery formats. We also have a club format which is our Sam's Club. We also have an e-commerce warehouse company, if you want to think of it that way, in terms of our DC fulfillment centers and so on. And the wages that we pay both at a starting point and on average are reflective of the dynamics in those in those formats.

So, for example, club format, if you want to compare to, let's say, a Costco or what have you, our wages are very similar, north of $15 for the vast majority of our people. Same thing in terms of e-commerce warehouse fulfillment center and so on, our starting wages are north of $15.
So – and that's important. I think there's some misconceptions out there. Some people think that Walmart pays minimum wage which we don't. Our lowest possible wage anywhere in the network is $11. But then people think that's our starting wage for all of our jobs which is not. Our starting wage is very completely depending on what's the role and what's the local market condition.

So just to give you an example, even within our grocery format or our supercenter format, we have a whole career ladder of different jobs with different skill requirements that have different starting pay, depending on what those are. So, I already talked about the club format and the warehouse. It's been within the source organization. So, for example, for our digital associates, our stockers for grocery pickup and things like that, the starting wages can vary anywhere from $13 to $19 as a starting wage. So, the starting wage is $19...

Oliver Chen

**Q**

Kathleen McLaughlin

**A**

...for those roles depending on the market. So, it's just important to say. So, our focus is then, okay, we're paying competitively in the local market for that job, whatever it is, in a warehouse or a club format or in the stores, but that's just the starting point. And what we have found for the most part, people coming to us, they may or may not have had a chance to finish high school. They may be new to the country and learning to speak English. A retail job offers an incredible opportunity to get skill on the job and move up.

So, our focus then is on providing a package of benefits, paid time-off, access to affordable healthcare, quarterly cash bonuses, which are over and above the wage discounts and so on, which I could talk more about in terms of benefits. So, people are stable in the role in terms of total compensation. We have a majority full-time workforce, not part-time as many retailers, because we recognize for many people that that's their job and the more hours we can give them the better, scheduling practices that provide ample notice and flexibility to trade shifts with other people or to have a fixed schedule for months at a time.

So, we've spent a lot of time designing those jobs to improve the quality of the job, to provide the stability around total compensation and scheduling and so on. And then importantly, the investments in upskilling and we do that in a number of ways, so – and the purpose is, we want to develop that workforce and provide that access to career paths for the benefit of our associates but also for our business, again come back to shared value. It's in our interest to have a highly skilled workforce that stays with Walmart, that's excited and moves up and is with us. So, 88% of our open positions are filled internally, 75% of our store managers started as hourly or our management in general, the on-store managers [ph] in there (24:01).

And so, in those jobs, store manager is a $180,000 a year job. So, we're trying to see that pipeline and move people up. So, our investments in the academy and training are to help people get the skills on the job in advance. So, the ways people learn are on-the-job coaching and a whole variety of programs that people would get day-to-day just through their work experience and their interaction with their boss and their teams and digital tools. We have a number of apps that we use to coach people and help build soft skills as well as technical skills.

And then the academy which is advanced training to take on supervisory and specialty roles and then what we've done is extend that was something called Live Better You which provides free high school completion, English as a second language and so on. And then advanced degrees, the two- and four-year degrees in fields that are relevant for jobs, so retail supply chain management, pharmacy tech, those kind of things for a $1 a day in terms
of cost to the associate. And they're a bunch of supports we provide and so on because we're trying to drive to completion. So, all of that is in service of really helping people come into the workforce, get the skills they need to advance into positions of higher pay or higher responsibility, whatever it is that people want as their career path.

Oliver Chen  
*Analyst, Cowen & Co. LLC*

Thanks for that, Kathleen. Very helpful and comprehensive. A couple more came in. Gun control has been a hot button issue in the US, and you've taken a leadership position. Also, electric vehicles are quickly gaining in popularity. Could you just share with us some quick thoughts on those buckets of different kinds of questions?

Kathleen McLaughlin  
*Executive Vice President and Chief Sustainability Officer, Walmart Inc.; President, Walmart Foundation, Walmart, Inc.*

Yeah, happy to. In terms of the gun control, yeah, I mean, we had a horrible situation a couple of years ago with the shooting in one of our stores in El Paso, which I imagine most people recall. It was a really horrible situation. And it's not the first mass shooting in our country. So, it did cause us to reflect and put in place some changes to our approach.

So, at Walmart, we have a hunting and fishing department. Many of our customers love to go camping and hunting and fishing. That's a favorite pastime for many, many people. And so, the question was how can we continue to support those customers but in a way that can respond to the situations that we've experienced? So, many years ago, we had discontinued some forms of firearms. So, long time ago, we used to sell handguns. We've got out of it a long time ago, so that wasn't an issue.

When it comes to hunting rifles though, we had some more tactical firearms and so on that we also discontinued a number of years ago. So, really, it was a question of what we were left with in terms of hunting rifles and things like that and ammunition that went with them. So, we took a look at the ammunition, and we discontinued many of the items that we didn't feel were necessary for the hunting.

And then, we also asked our customers not to open carry which, in many states, if people – there are open carry laws. But as a private company where we can put in place what we'd like to. So, we asked them not to do that because it's alarming to people to walk around and see people carrying guns. So that was an important step. And we had also raised the age a number of years ago for purchase to 21. And then I think, most importantly, we have incredibly stringent processes and standards to apply for licenses and to actually purchase ammunition and firearms and so on. And those background checks, we won't sell if they don't come back clean. We've got a number of IT systems that we are sharing with other retailers. We're quite happy to share that information, so that people can adopt similar things if they would like to. And so, those were all important steps that we took. And it's a good example of trying to find solutions that aren't partisan, but actually are commonsense and make forward – makes sense for everyone.

Oliver Chen  
*Analyst, Cowen & Co. LLC*

The other question, Kathleen, was on electric vehicles and EV charging stations. And the last one on our mind is also actually mental health amidst the pandemic and how you're thinking about that and employee welfare and any closing remarks you may have as we're bumping up against the end of the time. Thanks, Kathleen.

Kathleen McLaughlin  
*Executive Vice President and Chief Sustainability Officer, Walmart Inc.; President, Walmart Foundation, Walmart, Inc.*
Well, just briefly, EV charging, we're pretty excited about because as you noted, things are moving in that direction. There are more and more car companies. It feels like everyday people talking about moving toward electric vehicles. So, I'm looking to see the exact number because I don't want to — I don't want to give you the wrong number, but we have well over 1,000 EV charging stations around the country. And what's great about Walmart is we tend to be pretty close to major roads, so it's a pretty convenient place to come and plug in.

Oh, here's my number, 1,400 in 41 states, and that's just a start, right? So, we'll see — we will see where we go. But it's great because people can pull in, charge their car, go do their shopping and come out, the car is charged and off they go, and that's really ideal. And it's a great shared value example, great for our business, great for our customers, great for the environment. So, we're obviously incredibly bullish on renewable energy. We have a goal to get to zero emissions by 2040. So, this is all part of that journey.

**Oliver Chen**  
Analyst, Cowen & Co. LLC

Thank you. And I am curious about your thoughts around employee welfare and mental health. I know it's the pandemic. In many ways Walmart pharmacies are important part of the fabric of communities as well. Any closing remarks you might have.

**Kathleen McLaughlin**  
Executive Vice President and Chief Sustainability Officer, Walmart Inc.; President, Walmart Foundation, Walmart, Inc.

Yeah. That's been another thing I think we're all learning and still coping with. Like even me I'm sitting here in my house. I've been trapped here. I mean I'm lucky to have a home, first of all, let me be very clear. But I think all of us see different ways. It's been stressful for us. So, for employee well-being we have a program called Resources for Living which is available to all of our associates. And it's a counseling service on demand and helps people with mental health challenges among other things.

We also have a partnership with Thrive Global, which provides additional resources to our associates for mental health and adjustments to lifestyle for well-being. There are a number of other programs that we've been running for years. One's called ZP Wellness which helps people connect with each other and makes small lifestyle changes or behavioral changes in service of their mental health, physical health, and so on.

And then in our clinics which we are piloting, experimenting with, expanding, we have an integrated mental healthcare offering that we've been testing which we think is really important and fundamental for physical well-being as well. So, it's a critical issue. I would say it's early days for many companies including Walmart in terms of scalable solutions, but we are investigating and testing many.

**Oliver Chen**  
Analyst, Cowen & Co. LLC

Well, that was really interesting. And, Kathleen, thanks for sharing with us your priorities and also the real approach to transforming and enabling and bridging at — one of the world's most important companies for sure. Thanks for your time.

**Kathleen McLaughlin**  
Executive Vice President and Chief Sustainability Officer, Walmart Inc.; President, Walmart Foundation, Walmart, Inc.

Thank you very much, Oliver. It's been great to be with you.