

Walmart

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Simeon Gutman: Thank you. Sorry, we ran a couple minutes late. I'm Simeon Gutman, Morgan Stanley's Hardline, Broadline and Food Retail analyst. And it is my distinct pleasure to welcome Doug McMillon, President and CEO of Walmart to the stage. You graced our presence two years ago. I'm glad to have you back and thank you for the support. I'm going to make a quick intro, read a quick disclosure, and then we will get underway.

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I'm going to butter you up with an introduction. I know you're not going anywhere anytime soon, but I covered Walmart from the beginning of your tenure, and if you look back at your predecessors' ten years – there's only been a handful of CEOs – I look back at how to define the last call at 10 or 11 years. Omnichannel transformation, narrowing of the portfolio of International, you've gotten through the COVID period, click and collect, the Walmart second P&L, and you can argue that your ten years were among the most disruptive of the entire history of the company.

You've had no excuses to make this year, because the results have been good. And all of this seems to be happening while the best is just starting. So, it's a great position to be in. It's been fun to follow it. So, we'll start with an enterprise level question.

You once said, you're not going to get everything right at the same time, and you don't seem to be holding your promise to that. The changes that you've made to the International business, the strength of Sam's, and now we're witnessing the transformation of the US business. We are starting to see a lot of things work at the same time.

What – Walmart's checking a lot of the boxes, so what do you think investors are not seeing the full measure of the Walmart story?

Doug McMillon: Simeon, first of all, thanks for paying attention to us, and to – and for doing it for so long. I've known Simeon a long time, and he's asked me a lot of hard questions in hallways

and in conference rooms, as some of the rest of you have. And I'm looking around the room and there's a lot of familiar faces and I want to apologize upfront that I probably will not say anything new. Like you've probably heard all of this before. So, I hope you're interested in consistency.

It does feel to me like we've made progress, and at the same time, we're kind of just getting started. I think what I'm encouraged by and proud of is how the team has changed. Our way of working is different, the way we think is different, the businesses that we're building are different, and we're still doing all the stuff that we've always done to try and make sure our associates are happy and excited to come to work, and that we're running good stores, managing in-stock. All that stuff is still necessary, but the way we're doing it, and the way that our team has embraced digital and change gives me optimism that not only can we deliver over the next few years, but we can deliver in a longer term way because the culture is different.

And so, as it relates to what might be misunderstood, it's that – it's that the inside of the company has changed. We say these days, we're a people-led tech-powered omnichannel retailer dedicated to helping people save money and live better, and that's very literal. Like it is a people-led organization. We are about people, and about customer service. We're about associates. We're still out visiting stores, thanking people and making sure they're OK during Thanksgiving week. But the tech-powered part of the company has really changed.

Simeon Gutman:

I want to ask about, you're a retail first company, and we haven't witnessed retail first companies go through the omnichannel transformation that you did. And now it seems like we're on the cusp of scaling. You said we're just getting started. That's what we're trying to figure out, what it looks like. That was a preview of the second P&L. And you said what's not fully appreciated about it. So where – what does this business look like three years and five years – and by the way, last time we met, you did tell us something new. You told us that the combination of better scale and throughput through this omnichannel model will result in higher margins. And we've begun that path, and this is before it started. So, sorry, back to the – what are we just getting started on and what does this look like three years and five years from now?

Doug McMillon:

Yes, and one of the things that's happened over the last few years is that our businesses across the world have started to look more the same from a strategic point of view. And that to-do list, if I can describe it that way, includes running great brick and mortar stores, building a first party commerce business, building a third party marketplace, building fulfillment services, membership in a sophisticated way, data monetization. So, the to-do list is the same now, and I've recently been in China and Mexico. As I visit places like Canada, when I hear our leaders talking, they have that same prescription for what the future can look like.

So, our confidence then to build tech products once that leverage across countries goes up, for example, which brings efficiency and speed. And our confidence in our five-year plan and the shape of the business model and the impact from supply chain automation, for example, causes us to have confidence to know that our business mix and productivity improvements will cause profit to grow faster than sales.

But we wake up every day, by the way, focused on growth and sales. And you'll hear me and our other leaders always emphasize customer experiences and the customer value proposition we have, and then profits are secondary. But profits are coming from this change in the composition of the business. And so, I look at this current moment and ask our team, and we ask ourselves, OK, what's beyond that?

So, we have the talent and the resources to go execute that plan, and we build our long range plan looking at a five year point of view. But let's not get exclusively focused on executing what we can already see, although there's a lot of goodness in what we can already see. Let's stay open and curious about what else is mutually reinforcing that could get added on that will increase the velocity of the flywheel.

Simeon Gutman: The election just happened. I know we don't know what policy will look like. What do you think it means for your customer, for your employee? I wanted to ask you about VIZIO, but you closed the deal today, so I guess that's in the past. But employee, customer, any – for your – for your workforce.

Doug McMillon: I can finally talk about VIZIO, and you're not going to ask about it now? (audience laughter)

I don't know what's going to happen policy-wise. We're all reading the same news. What we've learned through the pandemic and through all the other things that we've been through is to be able to react fast. So, we have the ability to do that. We've got a depth of experience, and we can navigate whatever policy changes come. I am sensitive to how our customers feel as it relates to these issues. I'm sensitive to how our associates feel about the environment that we're in, and we just have to stay empathetic and communicate, make the best decisions we can along the way in what will be a volatile and surprising world as it has been for years now.

Simeon Gutman: Congratulations on VIZIO, by the way.

Doug McMillon: Thank you.

Simeon Gutman: Yes. The health of the consumer. You've talked about the consumer staying resilient with the delta along the way, added strength or contribution from hiring consumers. Can you talk about the health of the consumer, especially on the heels of the holidays. I'd say what you're seeing, but whatever you can share.

Doug McMillon: Yes. The pandemic hits in 2020 and 2021, and there are things that happened like inflation on the tail end of that as the supply chain gets stretched. And for years now, if I go back to, I don't know, 2021, 2022 – as I was talking to my peers, CEOs of suppliers, other business leaders, we all kind of felt the same way, that there are storm clouds on the horizon, and there might be a hard landing. There might be this or that. And it feels like that for more than 24 months I was looking at those storm clouds, but the wind never actually blew them this way. And they kind of dissipated.

And now I don't feel the same way, like I've – I don't know what shocks are going to happen to the system, but knowing what we know at this moment, the economy's held up well in this country. We've seen a little bit of softness post-elections in other markets.

And the customer has been pretty consistent. The pressure didn't actually flow this way towards retail, as far as we can see.

But I want to be sensitive to those that have lower income levels and acknowledge that this inflationary cycle has been really detrimental and created a lot of pressure for them and their families, and we're sensitive to that. We're a purpose-led company that wants to help people save money and live better. We really mean that, and that motivates us, and it's been a challenge to go through the last few years with these higher costs, and we're doing everything we can to try and get prices down, including having 6,000 rollbacks in the US right now.

So, people that are at the lower end of the continuum from a financial point of view have stress behaviors, like we've always seen. And people at the other end of the continuum, and everybody at this point, to some degree, is shopping at Walmart. They may be cherry picking categories, depending on what they're looking for, but those people with more money are liking what we've done from a convenience point of view and responding to the breadth of assortment that's online now in a positive way. And that, along with membership, gives us some confidence that regardless of what happens with the cycle and regardless of how price sensitive people are, we can still effectively serve people at lower incomes, and we can serve people with higher incomes.

Simeon Gutman: Promise this will be the shortest term question I'll ask. What has Walmart done differently to prepare for this holiday season, given the shortened holiday?

Doug McMillon: Yes. In this calendar instance, the pressure per day is just a lot higher. The throughput that we will do between now and Christmas is at a level that requires really good inventory planning and flow. So, that's one area of focus. Flow is intensified. We are taking markdowns in a timely fashion on the things that we need to take markdowns on so that river of merchandise flows on through and on 12/26 and Jan 31, we're in good shape.

Simeon Gutman: OK. Beyond holiday, what we can talk about how you're positioning yourself with inventory decisions, merchandising and pricing, as you look around the corner to '25?

Doug McMillon: Yes. Front footed, both in Food and in General Merchandise – not just in this country, but in others. We're playing offense and buying accordingly. But I'll tell you, I'm just so impressed not just with the Walmart US and Sam's US teams, but the International teams and the way that they've managed inventory through the environment that we've been through. You know, there were some challenges in 2022 for retail, and they worked through those really well, and our in-stock levels are up, and our turns are up, and our back rooms feel better now as in stores last week. And I just feel really great about the inventory management job.

Simeon Gutman: May I ask – I feel a year ago, it was maybe front footed for the second half of '24, but the first half, if I recall, maybe the inventory was being bogged down. This sounds like front footed – different tone.

Doug McMillon: We're buying for sales increases.

- Simeon Gutman: OK, fair enough. As we think about – oh. You mentioned your consumer and the low-end consumer being a little soft. You’ve also gained market share, and a lot of it. And there’s only five companies that I cover in 35 that are growing their sales this year. So, market share factors into sales being up. How does that affect the calculus of Walmart’s ability to grow, and thinking about the spreads of that growth, they look like they’re widening. How does that factor into how you look throughout the go-forward?
- Doug McMillon: Yes. In all businesses, I suppose, and certainly retail, you only get what you deserve. And people are super practical, and if they can get a better deal somewhere else holistically, they’ll go get it. And so, what we think about is price, breadth of assortment, the experience they have shopping with us, whether it’s e-commerce or in stores, and trust. Those are the four dimensions of the customer value for us.
- And when we gain share, it’s because the combination of those four things is winning. It’s preferable to some number of people that are choosing us. So how much should we invest in price? We like where our price caps are. We made an investment, a large investment, years ago, to reset where we were on pricing. We’ve been maintaining those price gaps through pandemic periods of time, and through inflationary periods of time, and that continues up until this day. And we’ll keep managing price gaps by day and by week.
- We’ve got an assortment that’s really growing, and the experience is getting better. We’re just saving people more time. I was really encouraged a few months ago to get a survey back that showed that our customers felt about as good about us on convenience as they do price.
- And the Supercenter, at one point, was one stop shopping. The internet happened and changed what breadth of assortment looked like, for sure. Supercenters are still thankfully really relevant, but experience and assortment both got redefined because of what omnichannel brought to us. So, the way we think about market share gains and being the first and best place that someone would shop is through that lens of, what are we doing to earn it? So how much better can we be on those dimensions?
- And we feel pretty good about where we’re at on price. We think we’ve got a long way to go on assortment, and we’ve got lots of things to invent related to experience. And we want to do everything we can to build trust. And the input metrics that drive those things are what we’re focused on.
- Simeon Gutman: Yes, and it seems like the capabilities and the infrastructure are in place to get better on those other two items.
- Doug McMillon: The supply chain automation really helps. There are some cool things happening at store level. I’m excited about the test bones – well, it’s more than a test, the rollout of what Sam’s Club did with exit technology. We opened a club in Grapevine, Texas not long ago that doesn’t have checkouts in it. And we had a plan to rush checkouts out if the members were really upset, but they weren’t. And for weeks now, people have been using scan and go to scan their own items and then just walk out the door.

So now the question is, how many Sam's Clubs do you remodel in this country and potentially in other countries that don't have checkouts. One of the benefits of that is that you now pick up a whole lot more data. So, every member that's going through is using our app to interact, to transact. There's lots of opportunities to enhance scan and go with different features that would make that an even stickier product. So, I think there's just an opportunity in front of us as it relates to innovation, to keep making things better.

Simeon Gutman: I'm going to digress on the same point, on product. And it seems like now – and you're in a position that if you build it, the customer will come. You build a marketplace that's forward positioned in inventory. You're bringing more sellers into the loop, and you can control your own destiny with first party inventory. So, it feels like you're in that positive feedback loop where you can bring these capabilities now and get credit for it and get reward for it.

Doug McMillon: Just have to keep getting better. Like, if you look at the marketplace, it's still subscale to what it should be. And it's understandably – there's a reason for it. It's understandable in that our seller experience wasn't that good. And we started inviting sellers to come together once a year, and we've now done this a couple different times, and they – they tell us very directly, you need to make it easier to become a seller, you need to be – make it easier for us to onboard items, you need to make it easier for us to get data related to our advertising. If you build these tech products, we'll bring more volume, we'll bring more products, we'll get more aggressive on pricing [inaudible], so you just get what you deserve.

So, I think you just can't stand still. Like it's – the marketplace experience for sellers, for example, has just got to keep getting better.

Simeon Gutman: I'm going to go backwards. Inflation. A year ago, I think your prediction, or the company's prediction, was flattish, and I think it looks like it ended up being so in Grocery and Food. What does the outlook for inflation for '25 look like?

Doug McMillon: I'm disappointed to see food inflation start to tick back up. It's primarily driven by eggs and what's happening with dairy right now. But it's not just those categories – there's pressure on cocoa and some other inputs.

So, we look at pricing compared to last week, last month, last year, but we also look at it compared to pre-pandemic. And if you look at all of food, prices are a lot higher than they were before the pandemic, which is not what the customers want and not what we want. We have some suppliers who are stepping forward to help drive volume, and we appreciate that very much and we want everybody to do that. And we have a lot of rollbacks, trying to get prices back down. And eggs and milk will adjust faster than dry grocery categories would, for example.

But it feels to me like that processed food doesn't go back down to pre-pandemic levels and may not come down much during the course of this next year. But I would like to see customers get some relief on that side of the equation.

On the General Merchandise side of the business, prices have largely gone back down, and if you look at our basket of goods, our best estimate compared to pre-pandemic

prices, even though some of the items would of course have been different, prices are just a little bit higher – low single digits higher than they would have been pre-pandemic, 4% percent lower than last year on top of a decrease a year ago. So customers are getting some relief on the General Merchandise side, and we've been able to drive dollar increases even though we're 4% deflated in Walmart US. So that's good, and I'd like to keep that going and I'd like to see more progress on the Food side.

Simeon Gutman: But it sounds like we'll probably get some food price inflation in '25, based on the –

Doug McMillon: Starting off that way.

Simeon Gutman: Yes.

Doug McMillon: I don't know what the whole year is going to look like. I hope and I think it could be better, as these commodities adjust, some of them.

Simeon Gutman: Private label. You know, over the last 30 years, there's been starts and stops and it continues to gain share. Looks like Walmart is putting their best foot forward and the game is changing a bit, in that you have more mindshare with consumers. They're shopping you more regular, they're engaged in your app. You're a mega-platform in that regard. And you've put out a new private label product, brand, that looks great.

Do you think the scales are tipping? They're never really a tipping point, because you serve what the customer wants, which still is national brand, but where are we in that, where the pendulum is swinging?

Doug McMillon: I recently read an intelligent report about the subject that you wrote, that others now want to read too. It might – it might be, but I kind of hope it doesn't happen that way. We want brands to grow. We want to have a situation where customers can compare prices, and that's just easier on branded products. So, we're trying to help CPGs and others invest for innovation, drive growth, win – while not holding back private brand. Like we're going to do the best job we can, whether it's Better Goods or Equate or other Walmart brands, or it's Members Market Sam's, which is really great these days.

We've been on trend, cleaner labels from an ingredients point of view. Just like great value and newness, and I think those private brands are really growing and Better Goods is off to a good start, because those teams have just done a great job of innovation, execution with private brand suppliers. But we want both. We want brands and private brands.

Simeon Gutman: Fair enough. Next question is more of a take a temperature on which one resonates more. What's been more remarkable – and this is reflecting on the US business – the ascent the business has had in Grocery, and from outside looking in, you're the largest grocery player growing among the fastest in the industry, so large on large, big numbers on big numbers. Or, the nascent success and rise of the marketplace?

Doug McMillon: Probably the marketplace. I think that most people would have found it easier to believe that we could improve at executed food, but it was an unknown whether we could become an e-commerce company and do things like launch a successful marketplace.

And I agree with you, it's nascent, but it's got momentum, and we are confident we can build there. And all the other things that go with it, which is so helpful from an income statement point of view.

You know, if I rewind the clock a little bit to the beginning, as you pointed to when we started, we didn't know what the e-commerce model was going to look like today. We just knew customers wanted it. And it was painful to go through all those investments, and I'm really grateful to our Board and to the Walton family for letting us invest. And they let us do a lot at once, which took some faith. We invested billions in price, we invested billions in wages, we invested a lot of money in e-commerce and technology, so four dimensions modernizing the tech stack. That is four dimensions of pretty significant investment all at once. And you guys saw the operating income percentage of the company come down as that happened.

So, it was a bet on the future that this team, big team of associates, could figure out how to get the company positioned for the next generation of retail, and they let us have enough time to figure it out. And now you can see a business model that looks like it's going to work, and we've got to fuel it.

Simeon Gutman: Just an innings question on the marketplace. Is it early, is it pre-game still? Where – where would you put it?

Doug McMillon: Yes, super early.

Simeon Gutman: Yes.

Doug McMillon: I don't know – maybe second inning or something like that.

Simeon Gutman: OK. I want to ask about Sam's. It's a wonderful business. It's had this virtuous circle of membership momentum. It's been a tech-led business that you probably – the US business has learned a lot from.

What are the next steps, and have – I threw this in there for fun. You and the Board feel you get appropriate value for keeping Sam's part of the whole.

Doug McMillon: Yes. It dawned on me recently that John Furner, Kath McLay and Chris Nicholas have all led Sam's Club better than I did. (laughter) Which should give you confidence for the future. They've just done such a great job. John set it on a solid foundation. Kath really scaled it during her period of time, and of course, the pandemic impacted that. And Chris is just doing a fantastic job.

And Sam's is a great business, not just in the US but in Mexico and China. Our Sam's business in China is amazing. I was there in October, and I was in a building that had just – it was going to cross \$400 million for the year. We've got some buildings that do more than that. We've got 50 of them now and more in the pipeline, and they're all winners. Like folks in China just love Sam's Club. So it's not just the US that's doing well.

We – I don't know if we get full value for it. When I talk to you all about it, I get feedback that we need to share more data. Maybe we should. You can keep telling Steph what you need and maybe we'll figure something out. But it's a great business, and a great business across markets, and it looks like it's got a really good future.

Like I don't think Sam's Club has made the most of the omni opportunity. We adjusted to curbside during the pandemic, but we haven't really exploded delivery, and there is more upside in curbside, in addition to more upside in the box. And this Grapevine, Texas club that I mentioned – if you're in the Dallas area, please go see it – has different adjacencies. There's a lot that's different in there other than just not having checkouts, you know.

Simeon Gutman: International. Ten, 11 years ago, we didn't talk about it as much. I think it's coming up on every call now. The portfolio has been narrowed, optimized, and we're talking about the incremental contribution that International is making on your P&L, which is growing nicely.

Doug McMillon: Yes.

Simeon Gutman: China, India, Mexico – just some highlights, and I'll talk about India in a second, but what is underappreciated still like in our eyes that we don't see? Because we don't spend as much time thinking about it.

Doug McMillon: Yes, I underestimated the value of giving up on some things. I – I was responsible for International for five years before I did this job, and when we finally made the decision to start closing some stores, we started in Brazil where we had some difficult units, we eventually closed some stores in China. I started learning – our culture was not to give up on something. I started learning that as those closures happened, it was like breathing oxygen into the room.

And then eventually, we made the decision because we could see the level of investment that it was going to take to transform into a digital omnichannel business in the US, in Mexico, and in other markets. We eventually – it dawned on us that we're not going to be able to invest enough fast enough in some of these other markets.

Each country had its own story – Brazil, Japan, the UK, Argentina. But as we exited those markets, just like in the store closure experience, oxygen started coming back to the room, and things like the tech platform that we're building that is more common picked up some speed, because they weren't working on tax compliance to support a business in Brazil. And I wish I had figured that out and we'd figured that out and done it faster, because it definitely helped us a lot.

And now I think what's kind of misunderstood about International is, how great the independent businesses are that we've kept, but the fact that the sum can be greater than the total of the parts – the total can be greater than the sum of the parts, I should say. Because of what's happening with tech, with sourcing, with talent, with things like the Sam's Club business sharing Members Mark across, you start to get a business that looks more like one business.

So, we present to you in the silos of Walmart US, Sam's US, and International, and that was true to a – more true to a larger extent as to how we ran the business, because we grew internationally by acquisition and picked up different tech stacks, different brands. And we operated it pretty independently. But over time, it's been more like a tech company in that you just build one customer experience platform, you build one advertising platform. You build these products in a way that you get speed, not just leverage, but in terms of expense, you get speed, because you're building something once instead of five or ten times, which gives you bandwidth to go do something else in parallel.

And Lee – you know, I think about Lee Scott a lot. Lee was our CEO for a number of years, and he and I used to laugh about the fact that the company could seemingly do one thing really well, but you ask us to do two things, and we struggle and forget doing three things at once.

But now, we're scaling an ad business, building membership. We're doing multiple things at a time because of the talent that we've been able to attract and promote, and that's very exciting.

Simeon Gutman: You have two businesses in India, and you've been getting them in order. That's been a message that we're patiently listening to. Is there any rush to monetize the assets there?

Doug McMillon: We should just do it as soon as we're ready. I don't know about a rush. But the – those investments, which started out as being Flipkart with PhonePe inside of it and now are separated and run independently – those two businesses are behaving in a way that's very consistent or better than what we had originally modeled and what we've thought. I'm thankful and encouraged by the job that those teams have done to make that the case. And as soon as we're ready, some sort of event for each one of them will happen.

Simeon Gutman: How pleased are you with Walmart+? Is the offering exactly what Doug McMillon would want to get out of the offer? And why wouldn't you subsidize this new member? Why would you subsidize membership going forward if it's so powerful bringing that customer into the flywheel?

Doug McMillon: We really do like the behavior we see when someone becomes a member. You know, they're spending more, they're coming more often, and they shop more in store, so we obviously want more members.

We've been thoughtful about what we say about Walmart+. I didn't want that singular metric to define us, and at the moment that we launched it, we weren't quite ready. Like our e-commerce customer experience wasn't as good as we wanted to be, it wasn't as good as it is now. And I was worried about launching a membership and letting people down.

But the world was moving, and delivery had to happen. And so, I think we launched in 2020, Walmart+, but we kind of tried to downplay it to a degree because we wanted to make sure the quality of the experience was right. As that improved, we've become more aggressive in terms of marketing.

But I don't want it to become some proxy for the value of the company, because there's so much more to Walmart than just – just Walmart+.

So, are we pleased with where we are? No, we should have more memberships and we're working towards that. Do we think the offer should change? Yes. I think the primary core offer of delivery, I wish more people knew that it was delivery on millions and millions of items, not just what's in the store. I think sometimes customers can think, well, I know Walmart, I'm there all the time, I see it. And they don't understand what we've really got available online.

So, delivery's a core offer. The fuel discount is great. We'll figure out how to add more stuff over time to build a stronger membership. But I think the fundamental component of Walmart+ will probably forever be ease of delivery, saving you time.

Simeon Gutman:

I want to talk about the algorithm that we're getting used to – 4% revenue growth, and operating income something faster than that, although we have bigger numbers than faster than that in our minds. You're on track to exceed the basic algo for the third straight year, an alternative for becoming a bigger piece of the mmix.

So thinking about this balance – I was thinking about this in an earlier meeting. You just delivered 10% EBIT growth. Does that in a way constrain that it keeps you, forcing you to deliver higher and higher levels of EBIT growth, or if there's some investment decision that still needs to be made, you take that balance back down, at the risk of disappointing investors?

Doug McMillon:

It's the latter. I mean, we've – in the investor conference we had in Florida a while back, we said four, greater than four, and John David put up a slide that shaded a range. We haven't changed what we're saying about that. And we will protect the long term, you know. If there are price investments that need to be made as the market changes, or wage investments that need to be made as things change, we'll make those.

I have – we've experienced what it's like to play catch-up and go make a wage investment that you should have made before, and that wasn't a very pleasant process. So, I'd like to stay on top of that, rather than revisiting it, if that's OK.

So as we plan our years and plan our five-year long – what we call our long-range plan, we're asking ourselves, where should the investments go, and looking at what does the data say about the last ten years in terms of price investments for customers, wage investments and educational investments for associates, what went to shareholders, what did we reinvest in the business, do we like the shape of that, should it be different? Where's the market on wages? Where are price gaps in detail versus key competitors? And it looks to us like we're making the right level of investments at this moment in price and wages and there can be flowthrough.

I just want all of it, whether it's the advertising business, or the membership aspects. I just want it to all be sustainable. I don't want us to have to undo something in five or ten years because we missed something in the short term.

I think we're doing the right things for the long term and starting to pay the shareholders back that let us make all those investments. I love that idea of, hey, you believed in us and you tolerated this period of time, and you should be rewarded for that. And what we tried to say at the Florida investor conference is, it's time that you should expect that process to begin.

Simeon Gutman: And a year ago, when we were starting to see the initial benefits, I think we got reeled back in a little bit, saying OK, slow down – it was the last year's third quarter, I believe. And you used the word, I think, cumulatively – it will build cumulatively. But this year has been anything such – it's been very powerful and impressive, and we're not laughing, some of the markdowns that occurred in '22, which helped fuel some of '23. So back to the initial point about getting started. It feels like we're at the start of a new cycle and there is upward bias, and you have to make decisions of what you reinvest at this point.

Doug McMillon: OK, that's right.

Simeon Gutman: Fair enough.

Doug McMillon: Is there a question in there?

Simeon Gutman: No, it's a comment. I want to ask this question and maybe go back to automation, because I – in interest of time, disruption, and what disrupts Walmart. I'm thinking the next five and ten years. You're working with drones. But the big are getting bigger in retail, and it's getting harder to see what disrupts these mega-platforms. But there is always something. So, what are you – you know, what do you think about?

Doug McMillon: Totally possible to die. (laughter) I don't think size protects you at all. And retail history teaches us that in spades around the world. And some of the markets, it's super fun to watch how the competitive landscape is changing faster. Like China for many years now has been on fast-forward. And it looks one way, and then it's not, and somebody else emerges. And that can happen here as well.

I think about the things that are moats, and the things that are strategically significant like having so many great associates with a great culture and having a physical supply chain that you have modernized. And I look at those things and think those are going to last. Like there's a lifespan to those kinds of things. As long as you treat people well and keep nurturing culture, that can create a special company.

The digital stuff is faster in terms of change, and we have to stay front-footed. So social commerce is very much on our minds. I think the digital front doors change when we imagine top of funnel. There are a lot of people coming our way in person, there are people coming through our app and site, and we are present on various platforms where social commerce is being conducted today. Those ebb and flow by country and ebb and flow over time, and – but we need to be playing in those.

And when I was in China a couple weeks ago, we had associates doing livestreaming from the sales floor talking about beauty products. And it was done in a first class, professional kind of way.

I think social commerce, including livestreaming, is going to be part of our future here. Things like personalization engines are going to be more important. A personal shopper is going to be more important. We've got one in beta now that is improving week to week. I think that's what the next generation of [break in audio] looks like. I was really excited to see what generative AI did for us as it relates to search, that we shared at the Consumer Electronics Show in January of this year. Step changing from the – you know, hunt for one item at a time, get a laundry list, to, I'm throwing a birthday party with this theme, what do I need? Now moving on to a personal shopper that over time knows you in such a way that it just solves – helps solve your problems, saves you even more time. Gets to that point where we're eventually replenishing you on the things you buy all the time and serving up items from a discovery point of view that you haven't seen or thought of yet.

And that's a really exciting future, but that's a digital future built on increasingly intelligent software that will change and grow and improve on top of things that are more permanent in nature like great associates and a great supply chain, which are hard to replicate.

Simeon Gutman: And expensive in a supply chain to build, and it's going to be hard to keep up with companies of your scale, who are going to keep investing in technology.

Doug McMillon: Being able to flow the volume of omnichannel across that supply chain, both a big store volume combined with a growing e-commerce business has advantages.

Simeon Gutman: Yes. I'm able to close on supply chain – it's a little awkward. I meant to close on the other one. But this, I think, overhaul of the supply chain, you're automating it, which you are future proofing the business. A lot of retailers are still early stages of this. And this is a massive potential unlock to the P&L as well.

So where – the phasing of it, both the upstream, from DC to store, and then downstream, store to customer, where that architecture is, and then the – you know, how satisfied you are with that journey, and the potential growth uplift you can get from it.

Doug McMillon: Spending most of my career in merchandising and being involved in inventory management, I love this stuff, and I'm so excited about what's possible today compared to what we used to have. It's logical that the company built the ambient supply chain to do discount stores, and then built a perishable supply chain to do supercenters, and then built an e-commerce FEC network to do e-commerce. But the big win is obviously how you connect those together. And so years ago, we started building software, building layers of an operating system that enable us to connect it all up, aim towards a greater level of inventory optimization.

So, when you imagine now generative AI layered on top of that, where demand forecasting can get better, and that river of merchandise can improve because the nodes are all connected out but increasingly intelligent, there's goodness that flows from that. So, as it relates to the projects, we can see the IRR of the big ambient centers was symbiotic. The big perishable centers with suppliers like [Vitron]. The big e-commerce fulfillment center with KNAPP. And those are all happening at the same time. they don't have exactly the same timelines as you would guess, but over a period of a few

years, they all get put in place. And so far, they're behaving equal to or better than we've modeled as it relates to the metrics.

But what you can't see beyond those individual projects is, how does it actually all add up? When all of the merchandise is coming into the back room of a store, for example, and it's palletized, it's department ready, maybe even [inaudible] ready, what's the goodness that flows from that, from an in-stock point of view, from a productivity point of view? We don't know, so we decided to put it all in one market so that we could start to see interdependencies, not just isolated projects.

That – that's something that's to come, that we'll learn our way into. And it's fun to talk about how last mile, EV and drones will play a role in it, too. Like where I live now, I can get Walmart in-home delivery into the refrigerator in our garage. So, if Shelley and I are traveling, we build a basket together, hit go, and when we get there, the product's there. That's cool. Walmart raises my garage door, puts it in there and lowers it. And I can order on drone.

I was telling a group earlier, a few weeks ago, Shelley was making chicken marsala, and she said out loud, I forgot the cooking wine, which meant I was supposed to get up off the couch and stop watching football and go get marsala cooking wine. I'm married and I understand how these things work now. (laughter)

But what we had was a drone delivery in less than 15 minutes that dropped it right at my front door, and that was pretty cool. I think our future looks like big baskets moving slowly at a value, and urgent deliveries happening in a really fast time in a variety of ways. And back to price assortment experience and trust, experience gets kind of blown up as all these things come together to work.

Simeon Gutman: Well, I appreciate you sharing that, and how Walmart is being a critical part of that, of the future. So, I appreciate it. Thanks for being here.

Doug McMillon: Thanks, Simeon.