

MANAGEMENT'S DISCUSSION AND ANALYSIS



This year our business proved to be resilient, constantly innovating and working with discipline in order to earn our customers' loyalty, while delivering results.

In 2020, the circumstances required us to work remotely, yet closer and more integrated than ever with our associates from stores, clubs and DCs. We are very pleased with how our associates are embracing agile as the way of working, with our progress in omnichannel and with how we managed to keep our customers and associates at the center of all our decisions.

Being true to our purpose of helping people save money and live better, now all our formats have an omnichannel offering that allows us to make things easier for our customers and help them stay safe during these unprecedented times.

DISCLOSURE OF NATURE OF BUSINESS

Walmart de México y Centroamérica is a leading retail sector company in the region.

As of December 31, 2020, it operated 3,489 units, throughout 6 countries (Costa Rica, Guatemala, Honduras, El Salvador, México, and Nicaragua), including self-service stores, membership clubs and omnichannel sales.

Walmart shares trade in the Mexican Stock Exchange since 1977; the ticker symbol is WALMEX.

MEXICO

During the year, total revenues increased 8.0%.

Throughout the year, we worked with our suppliers to continue to provide the lowest prices to our customers through programs like “Los Esenciales”. We were able to expand our price gap by 50 basis points and to expand gross profit by 20 basis points for the full year.

When we look at the full year, the team managed to keep the operating discipline, despite the high expense environment we experienced. Excluding one-time effects, expenses as percentage of sales were quite similar to 2019 levels. Underlying 2020 results were positive. Operating income grew 9.5%, 150 basis points ahead of total revenues growth and we were able to maintain our double-digit EBITDA margin of 11.4%.

During the year, same-store sales increased 6.7%, which led to an 11.1% two-year stack.

PERFORMANCE BY REGION

During the year, all the regions in Mexico grew in same-store sales. The North and Metro regions had the highest performance, followed by the South and Center regions.

PERFORMANCE BY FORMAT

Sam’s Club continued to post the highest same-store sales growth, followed by Walmart, Superama and Bodega.

PERFORMANCE BY DIVISION

Looking at same-store sales by category, Food & Consumables and General Merchandise posted the highest growth driven by in-home consumption.





OMNICHANNEL MEXICO

SASB **CG-EC-000.B, CG-EC-000.C, CG-EC-000.A**

While same-store sales growth continues to be strong and sustainable, eCommerce contribution to total sales growth is accelerating.

During the year, contribution increased 5 times compared to 2019, reaching 260 basis points. eCommerce sales growth was 171% for the full year.

eCommerce sales represented 3.8% of Mexico sales during the year, 2.5 times the penetration we had on 2019.

PERFORMANCE VS. THE MARKET

We have been able to outpace the self-service and clubs market measured by ANTAD for 6 consecutive years now. In 2020, we sequentially expanded the same-store sales growth gap compared to ANTAD, reaching a 130 basis points gap for the full year.

Our Every Day Low Price proposition continues to gain strength, and our efforts to operate with discipline and continuously improve our service levels are allowing us to gain our customers' loyalty.

CENTRAL AMERICA

Note: Sales growth percentages related to Central America are determined on a constant currency basis.

Topline growth continued to be softer in the region given the macro environment and the restrictions in place to contain COVID-19 pandemic. The team did a great job, in the commercial proposal adjustment to increase essential items supply, and reinforcing our pricing positioning to drive sales. Despite price investments, we worked together with our suppliers and were able to maintain a 24.2% gross profit margin in the region.

The team managed to keep expenses under control in such challenging times. We were able to achieve 10 basis points of expense leverage during the year, despite the additional costs incurred due to the pandemic. It is an example of our commitment to costs control and discipline.

As a result, EBITDA margin expanded by 20 basis points in the year.

We continue to face a challenging environment, yet we are managing to grow ahead of the market and to gain share in most of the countries.

Nicaragua, El Salvador and Guatemala managed to grow same-store sales, while in Costa Rica and Honduras sales were softer, given the macro environment and the restrictions in place to contain COVID-19 pandemic.

OMNICHANNEL CENTRAL AMERICA

We would like to highlight the omnichannel progress in Central America, which allowed us to serve our customers amid these unprecedented times. It is amazing how the team stepped-up to the challenge and provided an essential service to our customers.

We turned the challenge into an opportunity and enabled On Demand and pickup to continue providing an essential service, now online.

Our omnichannel proposal has been well received. In order to give an idea of the potential, eCommerce sales already represent 1% of total sales, and in some stores, the penetration has reached 20% of their total sales.

We will focus on service levels and on providing the best shopping experience; we believe it is critical to continue investing to improve our omni value proposition in order to win our customers' loyalty.



NEW STORES

We continue to invest in Mexico and in Central America despite an uncertain environment, as we believe in the long-term potential of the region.

We resumed new store growth at a faster pace. Following authorities' guidelines for construction and making sure conditions were safe, during the year, we opened 82 new stores: 63 in Mexico and 19 in Central America. This included two new Walmart Express stores, which had amazing results in their opening month. We're very excited about the potential of this format.

For the year, new stores contribution to total sales growth was 1.5%.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL ALLOCATION

Our financial strength becomes increasingly important at these times.

Operating cash flow generation has increased annually 9.2% (CAGR from 2010 to 2020) and we will continue to focus on further improving our cash position by managing the business in a disciplined way, so we can continue to invest and generate returns.



CAPEX

Last year we were not able to implement our investment plans as we expected to, but we managed to make strategic investments to better position our business, while continuing to generate returns.

We invested 16.7 billion pesos: 43% of the investment was allocated to the remodeling and maintenance of existing stores, 27% to the opening of new stores, 16% to eCommerce and technology, and 14% to the logistics network redesign.

We decided to shift our investment focus to omnichannel, automation, and technology projects to accelerate the implementation of our strategy.

DIVIDENDS

We are committed to delivering consistent returns to shareholders while investing for the future.

On February 17th, 2021, the Walmex's Board of Directors agreed to recommend a proposal to shareholders for an ordinary dividend of 0.90 pesos per share and an extraordinary dividend of 0.73 pesos per share; total dividends added up to 1.63 pesos per share payable in two installments, one in November and the other one in December 2021.

We expect the proposal to be approved at the Annual Shareholders' Meeting to be held on March 23, 2021.

We also generated returns in the form of capital gains. For the last five years, our stock price has reached a new maximum each year, despite the volatility in the environment.

