

# Walmart

## México y Centroamérica

Webcast Results for the Second Quarter 2023

Mexico City, July 27, 2023

(FREE TRANSLATION, NOT TO THE LETTER)

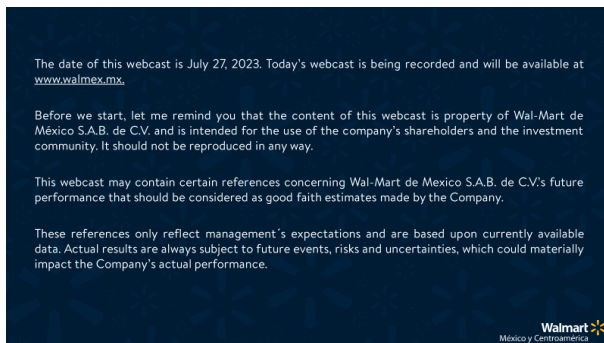


### SALVADOR VILLASEÑOR:

Good afternoon, this is Salvador Villaseñor, Investor Relations Director for Walmex.

Thank you for joining us today to review the results for the second quarter 2023.

Today with me is Guilherme Loureiro, President and Chief Executive Officer of Walmart de México y Centroamérica and Paulo Garcia, our Chief Financial Officer.



The date of this webcast is July 27, 2023. Today's webcast is being recorded and will be available at [www.walmex.mx](http://www.walmex.mx).

Before we start, let me remind you that the content of this webcast is property of Wal-Mart de México S.A.B. de C.V. and is intended for the use of the company's shareholders and the investment community.

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Now, it is my pleasure to turn the call over to our CEO, Gui Loureiro.



### GUILHERME LOUREIRO:

Thanks, Salvador. Good afternoon, everyone and thank you for joining us to hear about our second quarter 2023 results.

During the second quarter, we achieved a 9.3% revenue growth, mainly due to a positive month of June benefitting from the performance of our *Hot Sale* event.

In June, we celebrated Bodega Aurrera's 65<sup>th</sup> anniversary, which has become one of the most valuable brands in the country, with more than 2,300 stores and offering our customers an omnichannel shopping experience, which lets them access an ecosystem of services that allows them to access the benefits of the digital economy while complying with our philosophy of helping our clients to save money and live better.

During the quarter, we opened our first "*Innovation Center*" of Our Brands, where product tests and evaluations are carried out in an agile manner with both, consumers and trained panelists.

We continue with our focus on price perception, we know it is a more volatile metric, however, once again we were able to increase it by 90 bps during the 2Q vs. the same period of last year.

With our purpose of helping people save money and live better in mind, during the 2Q Our Brands' sales penetration grew 10 bps vs. 2Q22. Active Bait users more than doubled vs. 2Q22 and remittances' transactions grew 13%.

All the above helped us grow ahead of the self-service and clubs' market measured by ANTAD on the 2Q23, gaining share in 35 of the last 38 quarters.

Now, let's review our performance during the 2Q23.

Please consider that, when we talk about results in Central America, we are referring to figures on a constant currency basis.



During the quarter, consolidated total revenue grew 9.3%, as a result of Mexico and Central America delivering a 9.9% and 10.6% sales growth respectively.

On a two-year stacked basis, consolidated total revenue growth for the second quarter continued to accelerate reaching 22.4%.

Now let's review sales performance in Mexico...

Same-store sales grew 8.5% in Mexico, presenting a positive effect related to seasonal events during the quarter, such as Children's Day in April, Mother's Day in May, Father's Day in June and *Hot Sale* from late May until early June.

Growth in sales was led by Sam's Club, which opened its 168<sup>th</sup> unit in the country. At this new store, we implemented a new layout, which consists of having double headers in the central aisles, which enables views and promotes "Win in Fresh".

During May, we launched our Mother's Day campaign, where we sent more than 3 million personalized messages to our mom members generating sales growth of +36%.

Additionally, Plus member's sales reached a penetration of 45% in the second quarter of the year, which represents a 50bps expansion versus 2Q22.

Also at Sam's, we launched an app called "*Receiving*", which optimizes the reception time of merchandise at the Clubs, including reception from suppliers, dry products and perishables from Distribution Centers, and night receptions by more than 35%.

Bodega remains focused on winning the appreciation of our customers due to our accessible prices and an optimal assortment, which allowed us to increase price perception during the quarter.

Our summer campaign "*Ola de calor*" reported a traffic increase of 22% and an average number of offered items rising 30%.

During the quarter, we implemented successful seasonal campaigns, such as *Cuaresma*, Mother's Day and Childrens Day, this last one reporting a close to 30% y/y growth at Walmart. It was the first year that we implemented our 3x2 wine and liquor campaign in Walmart Supercenter, exceeding our expectations for both Walmart Express and Supercenter and driving a 115% growth between these two formats.



At Walmart Express we adjusted our value proposition by improving our quality in perishables, assortment, infrastructure, and service model. These changes are generating an improvement in the growth momentum of the pilot stores. We recently inaugurated Walmart Express *Punta Zero* in Toluca, with a performance that is exceeding our initial expectations, yet results to be seen in existing stores.

Our Walmart Pass active users increased 90% vs. last year and now represent more than 35% of on-demand sales of Walmart and Walmart Express formats. Walmart Pass users are relevant customers for us since they have a higher frequency per month vs. on-demand non-members, 3.5x vs 2.6x respectively.

Now let's look at eCommerce performance.

During the second quarter, eCommerce GMV and sales grew 25% and 21% respectively, representing 5.7% of total sales in Mexico and contributing 1.1% to total sales growth.

On-demand remains as the main driver. Deliveries within 3 hours represented 26% of all on-demand orders, achieving a high Net Promoter Score as a result of improved efforts related to on-time and perfect order ratios. As it relates to improving our customer experience, we keep on efficiently investing through the opening of 2 new Delivery Stations, first of their kinds in Queretaro and Puebla. These Delivery Stations will allow us to control internally the last mile operation replacing third party logistics (3PL), which will help us improve the service and overall control of the operation. As an example, our new Delivery Station within the Las Animas Puebla Walmart store, will be able to serve 379 zip codes, reducing cost per shipment by 40% versus 3PL, with a 76.3% NPS and a 96% on-time ratio.

We keep on improving our service level, benefitting from the R&D and tech innovation that Walmart develops globally. Glass Platform, which is the one used by Walmart US, accelerates and simplifies the search, navigation and purchase of products, providing a more intuitive shopping experience. The new interface of our sites offers users personalization according to their purchasing trends, as well as improvements in search algorithms to quickly find what they need and real-time display of inventory and current promotions, reducing friction in their purchases.

Additionally, by implementing this platform migration, we will enable access to a broader base of cross border sellers and SKUs, we now have 3.4x more cross border SKUs vs 2Q22, since connectivity to Walmart's 3P global base is now available in our country.

We have already finalized the transition to the new platform in our Walmart formats and we are currently working on the migration process for Bodega Aurrera and Sam's Club.

We enhanced our on-demand proposition including more seasonal items offering more than 80,000 SKUs from more than 380 stores in Walmart and Walmart Express, out of which 317 stores offer deliveries within 60 minutes.

In Bodega, "*Despensa a tu Casa*" also had strong performance, posting a higher than 80% growth vs 2Q22, driven by a 38% growth in the number of stores enabled with on-demand. We are now offering more than 60,000 skus from 586 stores in 299 cities.

Regarding Extended Assortment, we continue further developing our marketplace, more than doubling our number of SKUs vs





December 2022 and reporting a higher than 40% y/y growth in marketplace GMV.



This year's *Hot Sale* event posted a 17.5% omnichannel GMV growth reaching more than 9% and 7% growth in traffic and ticket respectively while the marketplace GMV grew 56% vs. the same event of 2022.

Once again, this was an omnichannel event where our customers were able to access great deals both online and at our stores.

Regarding the performance of Extended Assortment during the event, we registered an increase in sales of 30% in comparison with last year's event, with more than 70% of orders being delivered by our own logistic network, 60% of total orders delivered within 48 hours achieving a 96% on-time ratio.

Our connectivity vertical, Bait, also gained from *Hot Sale*, adding more than 174 thousand new users within the 9-day event.

Now, let's talk about another of our new verticals. Starting with Financial Services.

Since the announcement back in April of the acquisition of the Mexican Fintech called Trafalgar, we have been working on the integration with Cashi, which will allow our users to access an open loop system and will provide our customers with a safe, friendly, convenient, and seamless solution to handle their finances.

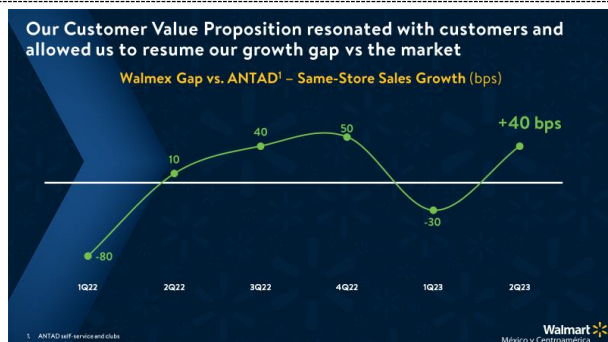
During the second quarter we enabled an additional lender on Cashi's digital credit marketplace, offering loans starting at \$2,000 pesos up to \$18,500 in subsequent loans.

Additionally, during the quarter we launched the "Scan & Go" feature in Cashi, which will help improve the checkout experience of our Sam's Club members, further enhancing payments and rewards ecosystem.

Bait reached 6.4 million active users, doubling the number of active users vs. 2Q22.

Walmart Connect delivered strong performance during the quarter, posting a 18% growth, and implementing 30% more campaigns vs. 2Q22, reaching a 34% growth in the first half of the year vs the same period last year.

In May we held the "Celebrating Mom" omnichannel campaign with Nestle, where we connected remittances, Cashi and Walmart Connect. For example, participating items in Bodega during this campaign grew 30% and eCommerce sales increased more than 130%.



Now, concerning our performance compared to the market.

During the quarter, we were able to grow ahead of the self-service and clubs market measured by ANTAD by 40 bps, also gaining share in terms of volume vs. the market measured by Nielsen.

We are listening to our customers to further understand what they want, and we keep working to enhance our Customer Value Proposition and commercial offering which has allowed us to reestablish our growth gap vs the market.

As I mentioned in the previous quarter's call, we will continue working towards expanding our growth gap vs. the market both in sales and volume.

Moving towards our Central American operation...

Same store sales grew 9.5% during the quarter, compared to the second quarter of 2022. Nicaragua and Guatemala had the highest growth, followed by Costa Rica, El Salvador, and Honduras.

We continue rolling out our “biformato” strategy, which is allowing us gain market share by focusing on basic items, accessible opening price points and focusing on our price gap against competitors in both formats Bodega and Discount.

Our Brands remain a key element of our strategy. We had approximately 150 new product launches for the summer, organization & cleaning and health & beauty campaigns. Our Brands penetration in Central America reached high teens in the 2Q23, improving by approximately 70 bps vs. 2Q22.

eCommerce in Central America, which is now available in 78 stores, reported an approximate 30% growth in the second quarter of the year, with on-demand orders increasing 50%. Given the relevance and success of eCommerce in Mexico we are confident that the potential of this new business line in Central America will be significant.



Now, let's talk about new stores growth...

During the quarter, we opened 22 new stores, all of them in Mexico. These openings include a Sam's Club in Puebla and 2 Walmart Express stores, one in Toluca and one in Aguascalientes.

New stores contribution to consolidated sales growth was 1.5% for the quarter.



To finalize, let me tell you about our main efforts on Environmental, Social and Governance matters.

We commemorated the “World Environment Day” with the inauguration of our first pollinator garden, installed in our Culiacan Distribution Center. This space seeks to promote the preservation of species in a safe habitat.

Continuing with our commitment to be inclusive, we enabled the first store in Mexico in which people with visual disabilities can move easily and independently within the store while making their purchases through simple and intuitive voice commands using our app on their mobile devices. This is one more step in moving towards a more diverse and inclusive customer centricity.

Also, during the quarter we were recognized by Grupo Expansión and TOP Companies, with first place in the Super Companies for Women 2023 ranking, for having the best practices to promote and retain female talent.

I am proud of all our associates that made this recognition possible, especially all our female associates who make our company a place where women can develop professionally.

Finally, like always I would like to thank our customers for choosing our formats, as well as all our associates for their hard work, without whom it would not be possible to have achieved these results.

Thanks again for joining us today and I leave you with Paulo who will go through the financial results of the quarter.



## PAULO GARCIA:

Thanks, Gui and good afternoon, everyone. Thank you for joining us today to review the results for the 2Q23.

I'll start by covering Mexico's results and then I'll cover Central America.

Please consider that, when I talk about results in Central America, I am referring to figures on a constant currency basis.



Let's look at Mexico's results first.

As Gui previously mentioned, total revenue grew 9.9%, driven by same-store sales growth of 8.5% and eCommerce which contributed 1.1% to total sales growth.

Gross margin contracted by 30 bps, mainly as a result of pricing strategies related to our "Hot Sale" event, which was partially offset by new sources of revenue.

SG&A grew 7.8%, 210 bps below revenue growth, representing 15.0% of revenues. I will go through the SG&A breakdown in a moment.

Considering the above mentioned, operating income grew 9.8%, while EBITDA margin contracted by 10 bps to a 10.5% margin in the quarter.

**In Mexico revenues grew 9.9% whilst SG&A grew 7.8%**

**Mexico 2Q results**

(\$MXN Millions)	2Q23		2Q22		Var.
	\$	%	\$	%	
Total revenues	178,702	100.0	162,587	100.0	9.9
Gross margin	41,342	23.1	37,967	23.4	8.9
General expenses	26,786	15.0	24,852	15.3	7.8
Earnings before other income, net	14,556	8.1	13,115	8.1	11.0
Other income, net	177	0.1	305	0.2	(42.1)
Operating income	14,733	8.2	13,420	8.3	9.8
EBITDA	18,817	10.5	17,201	10.6	9.4



Now let's review SG&A.

We continue implementing productivity initiatives like *Superfuncionales*, which is now implemented in more than 900 stores. This is an example of how we are fostering our Every-Day Low-Cost mindset and how we can become more efficient with our expenses. During the quarter, we were able to offset labor cost increase and to leverage our "Run" expenses by 70 bps.

We continued to invest behind our strategy to further accelerate growth, during the quarter investments impacted expenses by 40 bps.



All in, we leveraged expenses by 30 bps, which now represent 15.0% of revenues.

Now let's review Central America's results... Please consider that, when I talk about Central America, I'll refer to figures on a constant currency basis.

Total revenues increased 10.6%, driven by a 9.5% same-store sales growth. As Gui mentioned, same-store sales growth was broad-based across all countries.

This quarter supply chain efficiencies more than compensated price investments, generating gross margin expansion of 60 bps.

SG&A remained at 17.7% of revenues.

With the above-mentioned results, operating income grew 10.7%, and EBITDA margin contracted by 20 bps to 8.7%. The latter impacted by a booking in other income, as you can see in the Central America P&L.



**In Central America Operating Income margin remained stable at 6.0%**

**Central America 2Q results**

(\$MM Millions)	2Q23		2Q22		Var. (%)	
	\$	%	\$	%	Paso trimestre	Constant currency basis
Total revenues	35,023	100.0	33,032	100.0	6.0	10.6
Gross margin	8,480	24.2	7,803	23.6	8.7	13.2
General expenses	6,187	17.7	5,847	17.7	5.8	10.1
Earnings before other income, net	2,293	6.5	1,956	5.9	17.2	22.5
Other income, net	(189)	(0.5)	9	0.0	(20.3x)	(23.7x)
Operating income	2,104	6.0	1,965	6.0	7.1	10.7
EBITDA	3,046	8.7	2,944	8.9	3.5	7.4

X = Times

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At a consolidated level, total revenue increased 9.3%. With new stores contributing 1.5% to total growth.

Gross profit increased 8.9% compared to the second quarter 2022, representing 23.3% of sales, while SG&A grew 7.4%.

Operating income remained at 7.9% of revenues and EBITDA margin was 10.2%.

Last quarter we disclosed an extraordinary, non-recurring charge, regarding tax issues in one country in Central America. At the time we made our quarterly disclosure, we believed this would be non-recurring based on all the information we had available to us. However, based on unsuccessful challenges in other judicial decisions in the same country during the quarter, we have booked an additional provision of US\$46M impacting the Other Income and Tax lines. This provision covers all remaining current outstanding tax assessments in that country.

Consolidated net income grew 5.1%, affected by the other income and tax effects that I just recently mentioned. Excluding this impact, net income would've grown 12.3%, 300 bps ahead of revenues.



## Operating Income grew 9.4%, slightly above revenue growth

### Walmex Consolidated 2Q results

(SMXN Millions)	2Q23		2Q22		Var. %
	\$	%	\$	%	
Total revenues	213,725	100.0	195,619	100.0	9.3
Gross margin	49,822	23.3	45,770	23.4	8.9
General expenses	32,973	15.4	30,699	15.7	7.4
Earnings before other income, net	16,849	7.9	15,071	7.7	11.8
Other income, net	(12)	0.0	314	0.2	(103.7)
Operating income	16,837	7.9	15,385	7.9	9.4
EBITDA	21,863	10.2	20,145	10.3	8.5
Net income	11,444	5.4	10,892	5.6	5.1

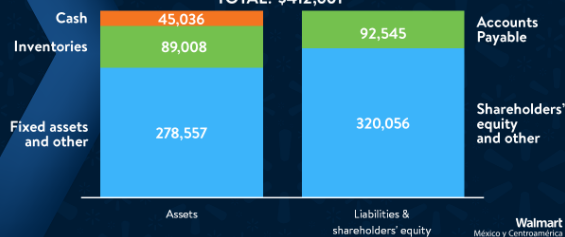
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## We continue to build upon our financial strength

### Balance sheet statement

(June 30, 2023 - SMXN Millions)

TOTAL: \$412,601



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And now moving to the balance sheet...

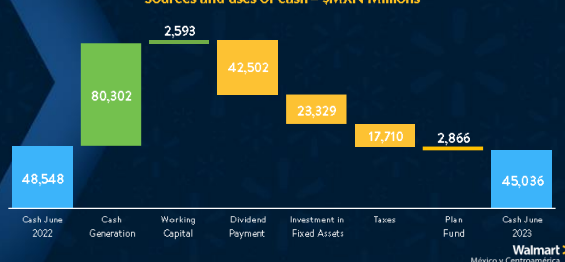
Cash decreased 7.2% vs. 2Q22, mainly due to the first installment of dividend paid back in April, excluding this impact the cash would have grown 19.4%.

Inventories grew 5.1%, 420 bps below revenues, driven by good performance of General Merchandise categories like electronics, seasonal and home. This has led to noticeable improvement in days on hand.

And finally, accounts payable grew 4.4%.

## Financial discipline resulted in strong cash flow generation

### Sources and uses of cash - \$MXN Millions



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In the last twelve months, we generated \$80.3 billion pesos in cash and \$2.6 billion pesos through working capital.

We returned \$42.5 billion pesos to our shareholders as dividends, 50.8% more in the last twelve months vs. the same period of last year. We also invested \$23.3 billion pesos in high return projects.

We paid \$17.7 billion pesos in taxes and our plan fund required \$2.9 billion pesos.

All in, our cash position finished the second quarter at \$45.0 billion pesos.

# WALMEX

results 2Q23

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To sum up, I'd like to leave you with three key messages of the quarter:

1. Topline is gaining momentum which allowed us to resume our growth gap vs the market in Mexico.
2. EDLC mindset driving SG&A leverage.
3. We continue executing our 3 strategic priorities to further accelerate growth.

Thanks again for your interest in our company and rest assured that we will continue working to meet our long-term objectives and to maintain the trust that our investors have placed in us. As always, we will make ourselves available to answer the questions you may have.