Management's Discussion and Analysis

2019 was a challenging year. We dealt with adverse and uncertain socio-economic conditions across the region, nevertheless, we were able to deliver and create shared value for our customers, associates, shareholders, communities and suppliers.

This past year has been a year of transformation and investment. We are very proud of our associate´s hard work and progress. Executing our strategic priorities and making the right investments, we are building a stronger and even more customer-centric business that is positioned for sustainable long-term value creation.

Overall Business information

Walmart de México y Centroamérica is one of the most important commercial chains in the region.

As of December 31, 2019, we operate 3,407 units, throughout 6 countries (Costa Rica, Guatemala, Honduras, El Salvador, Mexico, and Nicaragua), including self-service stores and membership clubs.

Walmart shares have been traded in the Mexican Stock Exchange since 1977; the ticker symbol is WALMEX.

Operations results

Note: Figures referred to Central America are on a constant currency basis.

For the full year 2019, Mexico grew total revenue by 5.7% and Central America by 3.4%, which resulted in 4.9% consolidated revenue growth.

Same-store sales continue to be our main growth driver. For the full year, Mexico delivered an 11.1% two-year stack growth and Central America 2.5%.

In Mexico, all regions and formats delivered a positive performance. The North and South regions had the highest same-store sales growth, followed by the Center and Metro regions, which delivered softer growth due to the competitive dynamics and macro conditions in those regions.

Performance by format

Sam's has been the format with the highest same-store sales growth for the last 4 years. In Sam's we are focused on improving our members experience, so during the year we had another edition of the Socio Fest event, where we offered our members high quality merchandise with great value, especially on Fresh items. During the event, we also reinforced our value proposition for Plus members by offering exclusive items and prices, which resulted on the sign-up of thousands of new members.

We are very pleased with the progress we've made with Walmart in terms of omnichannel. We have taken their leadership in seasonal events to the online world, and successfully executed events such as El Fin Irresistible. We also leveraged our stores network to serve customers in a seamless way and expanded the on-demand service to about 60% of our stores, covering 59 cities. We will continue to deepen our digital relationship with our customers to strengthen their loyalty to Walmart even further.

At Superama, during the holiday season we were able to surprise our customers with special products and exhibitions, primarily focused on Fresh categories. We are also enabling our stores with technology, such as electronic pricing tags and self checkouts, to improve the shopping experience and productivity. Another example of progress in technology is the launch of the new Superama App, which improved conversion and our Net Promoter Score.

In Bodega, we are moving forward in terms of store expansion and omnichannel. In the last quarter, we opened 69 new stores and closed the year with 2,035 stores, reinforcing Bodega's position as the leading retailer in Mexico. We also stepped up our efforts in omnichannel, we opened more than 300 kiosks during the year, taking our omnichannel offer to the most price sensitive families, with great results. Among our formats, Bodega suffered the greatest impact from the change in disbursement of government support programs, especially in the Center and Metro regions. The team is focused on reinforcing even further our price positioning and on operating more efficiently to keep the productivity loop turning.

Performance by merchandise division and country

Food and Consumables division was our main growth driver, followed by General Merchandise and Apparel. Apparel sales were impacted by operational difficulties that stemmed from the issues we experienced with the merchandise imports at the beginning of the year. This has taken us to accelerate the execution of markdowns in order to maintain healthy inventories and resume growth.

Our merchandising team is already capitalizing the benefits of the adoption of an end-to-end and more customer-centric way of working. We coordinate a Walmex exclusive omncihannel event called El Fin Irresistible, which included one more day of sales, in record time. During the event, our customers found amazing merchandise at unbeatable prices across all our formats. We drove double-digit sales growth, despite a challenging base, and eCommerce sales represented 8% of total sales during the event.

The team is also doing a great effort to improve even further our pricing position. During the year, we widened our price gap by 20 basis points to support our most price sensitive customers in these challenging economic times.

In Central America, Nicaragua delivered the highest same-store sales growth, followed by Honduras, El Salvador and Guatemala. Sales performance in Costa Rica suffered the greatest impact from the unfavorable macroeconomic dynamics in the country.

We are committed to continue investing in Central America, not just to reinforce our prices to better serve our customers, but also to enable key assets in the region to continue to win in the future.

Omnichannel

We know the world is changing, customers are shopping in different ways and we want to be there for them and meet their demands.

We believe that in order to scale our omnichannel business and improve profitability, we need to leverage our strengths: our stores, our merchant DNA and our service culture. In line with this, we have been working to bring the best of the online and offline worlds to better serve our customers.

We are offering same-day delivery of thousands of everyday needs and about 12,000 general merchandise items through our on-demand service in over 256 Walmart and Superama stores.

We are expanding our reach to new customers through an extended catalogue, composed by a recently reinforced 1P operation plus a marketplace, where we have enrolled almost 1,300 sellers. Our customers can find this extended offering on our online platforms and across the 894 kiosks operating in our Bodega and Walmart stores.

We truly believe our physical footprint is a key competitive advantage, and to benefit from it, we have now 1,115 pickup locations operating across our formats, where customers can pick up their Grocery and General Merchandise orders with no additional cost.

During the year, eCommerce sales grew 52%, accelerating from the 40% growth achieved in 2018, and GMV grew 61%[1], driven by Grocery. eCommerce now represents 1.5% of total Mexico sales and contributed 50 basis points to total sales growth.

We still have a lot of work to do, but we are pleased that our results demonstrated solid progress against our plan.

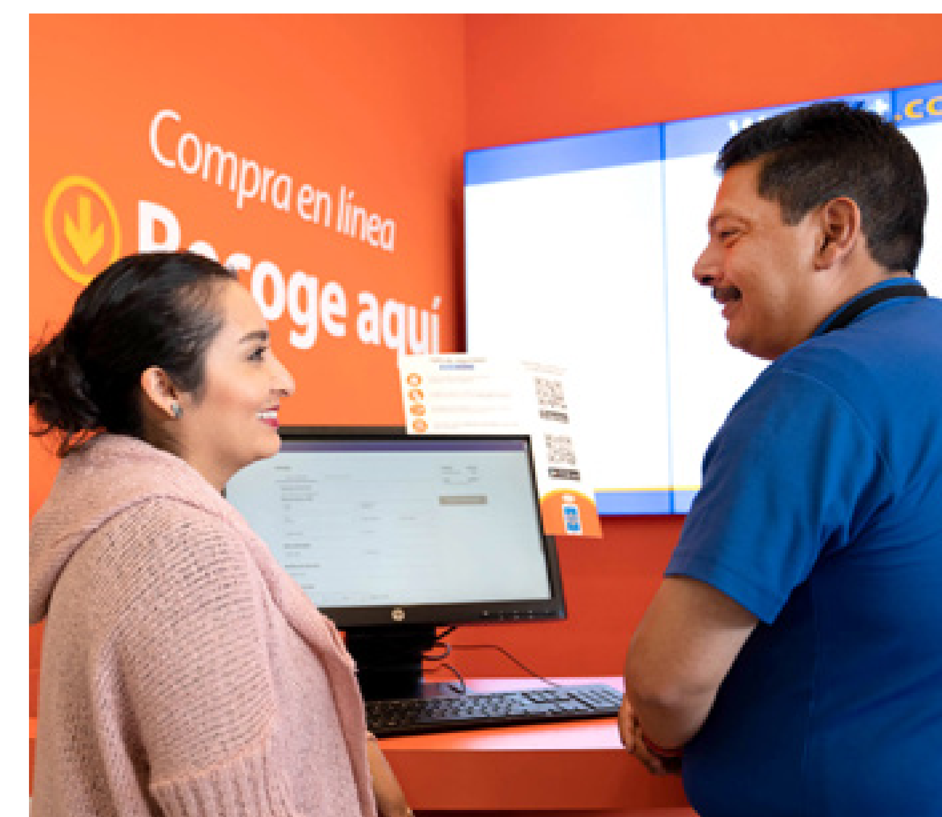
Performance vs. the market

In 2019, we outpaced the self-service and clubs market measured by ANTAD by 90 basis points. This marks five years growing faster than the competition, on every consecutive quarter. We have been able to capitalize on market situations and more importantly, to keep the share gains by winning our customers' loyalty with a consistent delivery of our value proposition.

New stores

During the last 2019 quarter, we opened 81 new stores: 72 in Mexico and 9 in Central America, this compares to 57 stores opened in 4Q18. We continue to invest in the region despite an uncertain environment. In the year, we opened 161 stores, which represent the largest number of new store openings in more than 5 years.

In 2019, new stores contributed 1.7% to total growth, slightly below the guidance, as 50% of the new stores opened during the fourth quarter and sales contribution from store openings in Central America was lower, given the market situation we are facing.



[1] eCommerce GMV's growth mentioned above excludes call center sales.

Logistics network redesign

This has been a year of investment, we opened two new distribution centers dedicated to eCommerce in Guadalajara and Monterrey, and we expanded Coyol distribution center in Costa Rica. With the expansion, this distribution center has become the greatest one in Central America.

Currently, three more distribution centers are under construction. One dedicated to eCommerce in Mexico City and two omnichannel DC in Mérida and Chihuahua. We expect to open the three of them in the first half of 2020.

Environmental, Social and Corporate Government topics

Regarding environmental, social and corporate government topics, in October, we launched the Gigaton Project with the goal of avoiding the emission of 1 billion tons of greenhouse effect gases in our value chain by 2030. Our suppliers are key for the success of this initiative; all of them are invited to be part of this effort.

We also launched the second edition of Recliclamanía, an event focused on creating a culture of recycling among our customers.

We are working to make trust a competitive advantage: building trust for low prices, with our associates and for the way we engage with the communities we serve. We believe leading on social and environmental issues is good for our business, for our shareholders, and for the countries in which we operate, and we will continue to focus on these issues going forward.

We are building the right foundations to better serve our customers and to strengthen our business.

We know in the upcoming year, we will face ongoing economic challenges. We will remain focused on our strategic priorities, especially on growth and productivity, while getting all the ingredients in place for a stronger omnichannel business.

Full year results

Note: In order to provide a better view of the underlying performance of our business, we are including a retroactive estimation of the effect the adoption of the IFRS 16 would have had on the 2018 financial results. These pro-forma 2018 figures are not audited, but are based on the 2018 audited reported results and adjusted with our best estimates to show the effects related to the IFRS 16 adoption. Please note that all the references regarding 2018 results are based on the 2018 pro-forma figures.

Mexico

We are facing a soft growth environment and more challenging competition; nevertheless, we have been able to generate savings and apply them to improve our price position and maintain healthy inventory levels, while outpacing the market and growing operating income faster than revenues.

Sales growth in 2019 was 5.7%. During the year, SG&A grew 3.5%, 220 basis points below total revenue growth, reflecting our productivity efforts and expense management. Gross profit grew 5.3% and gross profit margin decreased by 10 basis points to 22.6%. As a result, operating income increased 8.3% and 8.6% in EBITDA, resulting in an 11.4% EBITDA margin.

Central America

Note: Figures referred to Central America are on a constant currency basis.

Total revenues increased 3.4%. Gross profit margin remained stable at 24.2% as the team was able to reinforce our price leadership without reducing profitability.

On November, we reached a new agreement between our subsidiaries in Central America and Walmart Inc., for the payment of intellectual property royalties. This agreement is effective beginning in 2019, but the charge was registered in the fourth quarter, affecting last quarter expenses in 1.6 billion pesos.

However, the underlying performance of the business remains healthy. Excluding this impact, SG&A would've grown 2.6%, achieving 10 basis points leverage as a result of a higher operational discipline performed by the region.

Operating income represented 5.8% of revenue, without royalties' effect would've been 7.1%, a 20 basis points increase and a 7.1% growth compared to 2018. EBITDA margin was 9.1% of revenue, without royalties' effect would've been 10.5%, a 50 basis points increase and a 7.8% growth compared to 2018. Starting 2020, royalties will be registered as expenses in a quarterly basis.

Consolidated

In both regions, the team made good progress on cost controls and we were able to maintain expense growth below total revenues growth. This allowed us to invest in prices to keep winning our customers' loyalty and to further improve our competitive position.

Consolidated revenues increased 4.9%. Gross profit increased 4.5% with a 22.9% margin, we keep building on our financial strategy. Without royalties' effect in Central America, we leveraged SG&A by 20 basis points in order to made strategic investments in price, salaries, logistics, eCommerce and new stores. Operating income represented an 8.3% of revenue, excluding royalties' effect, it would've been 8.6%, a 20 basis points increase and a 7.8% growth compared to 2018. EBITDA reached 11.0% of revenue, excluding royalties' effect, it would've been 11.2%, with a 30 basis points increase and an 8.1% growth compared to 2018.

Financial situation, liquidity and capital resources

Capital allocation is aligned with the long-term strategy. During 2019, we made strategic investments to better position our business, while continuing to generate returns.

In line with the guidance we gave at the beginning of the year, we invested 20.6 billion pesos, 14.7% more than in 2018, 40% of the investment was allocated to the remodeling and maintenance of existing stores, 28% to the opening of new stores, 20% to the logistics network redesign, 11% to technology and eCommerce and 1% to Fresh upstreaming projects.

In addition, we are reducing our base expenses by implementing technology to operate more efficiently and becoming more productive in our remodels and new stores investments, thereby freeing capital to build strong foundations.

Our financial strength gives us the ability to deliver short-term results while we build structural competitive advantages to position the business for the long-term.

We closed the year with a cash position of 30.9 billion pesos, 20.5% less than last year, given that the dividend paid in 2019 was 41% larger than the one paid in 2018.

Inventories increased 6.6%, primarily impacted by the opening of 81 new stores during the fourth quarter, 24 new stores more than in 4Q18. Cash generation increased 5.4%, ahead of total revenues growth, reaching 63.7 billion pesos. After investing 20.6 billion pesos in higher return projects, we returned 36.0 billion pesos to our shareholders in the form of dividends. We are committed to delivering consistent returns to shareholders, while investing for the future.

On February 13th, the Walmex Board of Directors agreed to recommend a proposal to shareholders for total dividends payment of 1.79 pesos per share, which is made of one ordinary dividend of 0.87 pesos per share and one extraordinary dividend of 0.92 pesos per share.

We expect the annual shareholders meeting to be held on March 24, 2020 to vote on the proposal.

The proposed schedule for dividend payment is as follows: Ordinary dividends will be paid in three installments: the first one of 0.27 pesos per share in June and the second and third ones of 0.30 pesos per share in November and December 2020. Extraordinary dividends will be paid on two installments: the first one of 0.45 pesos per share on November 2020, and the second one of 0.47 pesos per share on December 2020.

To summarize the highlights of 2019:

- Despite a challenging environment, our operational standards and clear value proposition have allowed us to continue to grow ahead of the market
- We are driving profitability improvements while transforming our company to position it for the future
- We remain confident that the investments we are making in our business are key to balance short and long-term results
- We know 2020 will present new challenges, and all of us at Walmex are committed to delivering for our customers and shareholders. Throughout the years, we have built a resilient business, capable of adapting to changing economic conditions