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Stock Highlight for the Quarter to 31 December 2020

This quarter we would like to focus on Walmart Inc, an American retail company founded in 1962 by Sam Walton. Walmart is now the largest retailer in the world as it operates approximately 11,400 discount stores, supercenters, and neighborhood markets under 55 banners in 26 countries and eCommerce websites. It is the largest company in the world by revenue and the largest employer worldwide with over 2.2 million employees.

Walmart offers merchandise ranging from grocery and entertainment to sporting goods and pharmaceutical products. Walmart operations are divided into three divisions namely Walmart U.S., Walmart International, and Sam's Club representing 66%, 23%, and 11% of revenues, respectively. Walmart has been part of the consumer staples sector of the Millennium portfolio since September 2006.



Historical performance (total return in %)
 Source: Bloomberg Finance L.P.

We have strong convictions in Walmart because it is the only American retailer that can so far compete with Amazon's retail offering. Walmart's size allows it to dictate terms and make it one of the most valuable outlets for top manufacturers in terms of dollar sales. Walmart developed organically and through acquisitions, enhancing global omnichannel capabilities by building a robust infrastructure system. The company has always been a leader in integrating tech into its supply chain. The pandemic only accelerated its involvement with tech ranging from data analytics to robotics and automation reinforcing Walmart's unique position as the likely long-term omnichannel leader.

Walmart has been one of the beneficiaries of the stay-at-home trends during the pandemic. As the CEO of Walmart said, "the shift in purchasing patterns at the start of the pandemic amounted to three to five years of acceleration in e-commerce in a period of weeks accelerating the digitization".

Instead of browsing store aisles, more customers are now shipping purchases to their homes and getting groceries dropped off at their doors. We believe these new customer behaviors will largely persist beyond the pandemic and Walmart is well positioned to serve customers that way.

In addition, it plans to secure enough wind, solar and other renewable energy sources to power its facilities with 100% green power by 2035. Walmart is a member of the We Mean Business Coalition, a group of companies committed to reduce emissions in line with the goals set out in the 2015 Paris Agreement.

Year-to-date, Walmart is up 23.3% (as of December 31, 2020) and is part of our top 20 contributors to return of the Millennium portfolio and the best performing stock of the consumer staples sector of the Millennium portfolio. Despite the strong performance this year, we believe Walmart still has plenty of room to grow. Walmart reported strong quarterly results in the third quarter of 2020 well ahead of expectations despite a delayed back-to-school season spending and less benefit from government stimulus spending versus the first half of the year. Total revenue was up 5.2% from a year earlier at €134.7bn boosted by robust eCommerce sales with strong traffic to Walmart.com.

Of course, Walmart is exposed to downside risks through potential weaker than expected global economic pressures due to the ongoing uncertainty and challenges related to the Covid-19 crisis. Walmart could be affected by unfavorable foreign currency movements, changes in wage laws, regulations, and trade policy causing financial costs. With low switching costs inherent to this industry coupled with customers habits evolving rapidly, and the level of strong execution required across a range of channels, Walmart could face strong pressures from competitors such as Amazon, leading to slower than expected sales.

Besides, as Walmart's online sales grow, the management of customer data and the cybersecurity risk should not be discounted.

As a conclusion, we think Walmart's business model would be very difficult to disrupt as it reached an unrivalled scale with valuable intangible assets, a strong brand, and a growing in-house developed e-commerce platform. Walmart's continued investment in price without sacrificing value and quality coupled with better and improving operations offers a truly customer-centric omni-channel shopping experience. Walmart is in a prime position to compete with the digital environment as investments in the digital continue to be a top priority which should boost its robust grocery offering, enhance its traffic and leverage costs.

The new subscription service, Walmart+, will continue to be an important part of the strategy as the company adopts new scan-and-go technology and builds up its delivery capacity. Thus, Walmart is extremely well-positioned beyond the Covid-19 pandemic as customers are embracing the new ways of shopping they adopted during the health crisis and as the accelerated shift toward e-commerce will certainly remain, while others, such as outsized baskets and trip consolidation may prove to be more transitory. The launch of grocery pick-up/delivery has been a game-changer for Walmart. As a result, Walmart benefits from a strong competitive advantage and a wide economic moat.

In subsequent quarterly reports we will bring you further case studies in our "Highlights" series.

As always, please do not hesitate to contact us if you have any questions or comments, about the contents of this report or your portfolio in general.

Portfolio Management Team ISGAM AG

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