# Walmart Inc

USA, Consumer Goods & Services

| Accounting | | Climate Assumptions | | Audit | | Date of analysis: May 22 2021 |
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| Judgements | Consistency with other reporting | Visibility | Paris alignment | Visibility in CAMs | Consistency check | Year end: January 2021<br>Report date: March 19 2021<br>AGM: June 2 2021 |
| | | | | | | Climate Action 100+ company, so seen by investors as key to driving global net zero emissions. |
| Significant concerns | Significant concerns | Significant concerns | Significant concerns | Significant concerns | Some concerns | |

Summary view:

- As a global mass merchandiser of grocery, general merchandise and health and wellness products, the company's emissions profile is significantly focused in its supply chain, which appears not to have been fully estimated as of its latest ESG reporting, and in its own operations the use of HFCs for cooling of products and air conditioning of facilities.
- New commitments for 2040 target zero carbon emissions (without the use of offsets) and by 2030, a reduction of 1bn tCO2e emissions by suppliers under Walmart's Project Gigaton™.
- The absence of any visible consideration of climate-related information or assumptions in the financial statements and the auditor's report stands in stark contrast to the risks identified and the commitments undertaken to reduce emissions disclosed outside the 10-K. In a narrow sense, the 10-K subject to the auditor's consistency check is internally consistent in not addressing risk, commitments, or financial consequences.

## Background

### The Business

- Walmart is a mass merchandiser of consumer products – grocery, general merchandise and health and wellness products – sold through retail, wholesale, eCommerce and omni-channel offerings. It operates through three segments: US, International and Sam's Club. These represent as a portion of 2021 consolidated net sales: 67%, 22% and 11% respectively. International includes all operations outside of the US. The Sam's Club segment includes membership-only warehouse clubs in 44 US states and Puerto Rico.
- International operations in the UK and Japan are classed as held for sale at January 31 2021[1].
- Emissions as disclosed in its 2020 CDP report (most recent available), were (in tCO2e): Scope 1 – 6.5m, including of 3.2m CO2, and 3.1m HFCs; and Scope 2 – 11.1m. Scope 3 is only quantified in part. The company reports only a portion of purchased goods and services at 143m, but this is limited to data self-reported by 262 of its suppliers. Walmart notes both a high degree of uncertainty, and that this represents only a fraction of its total emissions from purchased goods and services. Other Scope 3 amounts included 32.2m for the use of its products, and 3.3m for fuel and energy.

### Approach to climate change

- Risk factors in the 10-K include items that refer to climate-related risks. Risk is noted related to not identifying promptly or responding to customer trends or preferences, including a general reference that this may include sustainability. Climate change is discussed in the context of broader natural or human disasters having the potential to affect financial performance adversely. Slightly more specifically, Walmart notes that long-term impacts of climate change include physical and transition risks that are expected to be widespread and unpredictable, and could affect the ability to procure products and energy at the quantities and levels required. It also bears the risk of losses incurred as a result of physical damage to, or destruction of, any stores, clubs and distribution or fulfilment centres, loss or spoilage of inventory, and business interruption caused by such events.

[1] Walmart classified Asda, its retail operations in the UK, and Seiyu, its retail operations in Japan, as held for sale at end January 2021. Together, these represent assets of $19.2bn and liabilities of $12.7bn, classified as prepaid expense and accrued liabilities, respectively. These amounts are significant to the group, representing 21% of current assets and 7.6% of total assets. Pretax losses in connection with these two pending disposals were $7.4bn (nearly 36% of income before tax).

- Its climate-related commitments appear to be absent from its 10-K report, but can be found in the ESG report and on its website. Goals by timeframe include:
    - By 2025: Scopes 1&2 Goals to achieve an 18% absolute emissions reduction in operations (over a 2015 baseline and approved by the Science Based Targets initiative (SBTi)). Steps include increasing the energy efficiency of buildings, improving the performance of refrigeration systems, maximising the sustainability of the fleet, and powering 50% of operations with renewable energy.
    - 2030 targets focus on Scope 3, and in particular the supply chain, with a goal to reduce or avoid 1bn tCO2e emissions under Walmart's Project Gigaton™. By 2019, 230m tCO2e had been avoided since it began measuring progress in 2017. Alongside this goal, Walmart targets a reduction in GHG emissions by its suppliers in China by 50m tCO2e (vs 2016).
- In September 2020, Walmart announced a new target of zero emissions across its global operations by 2040, without the use of carbon offsets. It aims to deliver this by switching to: 100% renewable energy to power its facilities (by 2035); electric and zero emissions vehicles; and low-impact refrigerants for cooling and electrified equipment for heating (both by 2040).

### Accounting: judgements and consistency with other reporting

| Accounting judgements | | Significant concerns |
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- A US company so subject to US GAAP standards.
- There is no explicit reference to climate change in the notes to the US GAAP financials. It is not apparent that any consideration of climate has been built into the numbers.
- The 10-K does not appear to reference risks associated with HFCs (responsible for just under half of the company's reported Scope 1 emissions), or the September 2020 commitment to transition to low-impact refrigerants by 2040. It is not possible to determine the portion of property and equipment that may relate to assets currently using higher impact refrigerants. Whether any acceleration in the normal cycle of replacement is needed is not disclosed. Building and improvements of $98bn are depreciated over 3-40 years, and fixtures and equipment of $57bn are depreciated over 1-30 years. It is also not apparent whether the potential for reduced residual values or remaining useful lives has been considered as a result.
- Indefinite lived assets subject to annual impairment assessment included goodwill of $29bn and other intangibles (primarily trade names) of $4.9bn at year end. While the impairment testing of indefinite lived assets involves making assumptions of future cash flows, disclosure of assumptions (including any related to climate change or the company's emissions commitments) is not evident. It does not appear that any impairment was recognised in the year.

| Consistency with other reporting | | Significant concerns |
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- The absence of visible consideration of climate-related information or assumptions in the financials stands in stark contrast to the risks identified and the commitments made.
- Given the significance of commitments to address climate change and the prominence of steps to reduce emissions in the company's supply chain and operations, it is also concerning that separate disclosure is not more apparent, for example associated capex, the impact on margins and operating results, of steps being taken.

### Climate assumptions in accounts: visibility and Paris alignment

| Visibility of climate assumptions in accounts | | Significant concerns |
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- There are no apparent climate-related assumptions. There is thus no sensitivity analysis.
- While not related to assumptions used in the accounts, Walmart did undertake scenario analysis in 2017 to better understand the potential long-term impact of climate change on the

retail sector and its business. Scenarios for 2ºC and 4ºC increases in global temperatures were undertaken. Each extended to 2030 and to 2050, and included assumptions about: temperature, drought/water stress, extreme weather events, and sea level. The analysis also considered carbon pricing.

| Paris alignment | | Significant concerns |
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- With no visibility, there can be no alignment with the goals of the Paris Agreement.

### Audit: visibility in CAMs and consistency check

| Audit firm: Ernst & Young LLP | Responsible partner: Barbara Ann Marchini-Ellis |
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| Audit standards: PCAOB (US) | |

| Visibility in Critical Audit Matters | | Significant concerns |
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- There is no explicit reference to climate change in the auditor's report.
- The auditor's report notes two CAMs: (i) Contingencies (relating to legal proceedings), and (ii) the Valuation of Indefinite-Lived Intangible Assets.
- The second of these implicitly considers assumptions of future cash flows that could be impacted by climate change and associated risks. However, it is not apparent that climate change considerations were incorporated in the auditor's approach.
- The reference to the use of advice from specialists refers to valuation experts, who assisted in evaluating the valuation methodologies and significant assumptions such as discount rates and royalty rates, not those expert in climate change or CO2 markets.

| Consistency check | | Some concerns |
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- PCAOB audit standards require the auditor to read other information that is presented together with financial statements and the auditor's report thereon. The auditor's report is silent on the outcome of the review, which implies that no material inconsistency was identified in the other information within the 10-K.
- The 10-K appears to be internally consistent, in the narrow sense that Walmart's risk disclosure is limited and its commitments are absent from the narrative, and the fact that climate appears to be ignored in the financial statements.

| The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards. | | **Key** |
|---|---|---|
| | | Good practice |
| | | Few concerns |
| | | Some concerns |
| | | Significant concerns |

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