**Management's Prepared Remarks**

**Q2 2023 Earnings Call**

**August 9, 2023**

**JP O'Meara**

**Senior Vice President, Head of Investor Relations**

Thank you operator, and good morning everyone.

I am delighted to welcome you to our Q2 2023 results conference call.

On today's call is Frans Muller, our President & CEO. After a brief presentation we will open the call for questions.

In case you haven't seen it, the earnings release and the accompanying presentation slides can be accessed through the Investors section of our award-winning website, aholddelhaize.com, which also provides extra disclosures and details for your convenience.

To ensure everyone has the opportunity to get their questions answered today, I ask that you initially limit yourself to 2 questions. If you have further questions then feel free to re-enter the queue.

To ensure ease of speaking, all growth rates mentioned in today's prepared remarks will be at constant exchange rates unless otherwise stated.

So with that, over to you, Frans.

**Frans Muller**

**President, Chief Executive Officer**

Thank you very much, JP, and good morning everyone.

On today's call, I will cover both our business performance and the key financials. Following our EGM in July, we look forward to welcoming Jolanda Poots-Bijl as our new CFO on October 1. Next week, Jolanda will begin her extensive and immersive onboarding to our company. In the short interim, the finance leadership team will ensure a smooth and successful transition to her.

So today, for a change, I will start with the key financial highlights and follow up with my usual commentary on the main business drivers and finally touch on the outlook for the remainder of the year.

One of the key ambitions of our Leading Together plan is to grow faster than our historical average, and I am very pleased we once again did so in the second quarter.

- Net sales grew 4.3 percent, to 22.1 billion euro, supported by Group comparable sales growth of 4.6 percent.
- Net consumer online sales grew 9.3 percent, driven by strong growth at bol.com and further increases in online grocery penetration.

- Group underlying operating margin was 4.1 percent, in line with the prior year. A slight decline in our U.S. and European margin was offset by insurance benefits at our Global Support Office.
- Diluted underlying earnings per share was 62 cents, up 4.7 percent at actual rates. The solid operating performance was partly offset by negative U.S. dollar exchange rate effects.
- Our 2023 interim dividend is 49 cents, up 7 percent from 46 cents in 2022, and is a straightforward mathematical calculation in line with the Group's interim dividend pay-out policy.
- In the first half, we bought back 18.9 million shares for a consideration of around 560 million also in line with our one billion euro annual plan.

On the balance sheet, compared to the prior year, net debt decreased from 15.3 billion to 14.7 billion euro. And finally of note, Q2 free cash flow was a healthy 864 million, which represents an increase of 269 million compared to Q2 2022. The main driver of the year-over-year increase was related to the collection of the income tax receivable following agreement with the Belgian tax authorities which we outlined last quarter.

When starting 2023, we set a clear agenda for our company: ensuring the right balance between navigating the complexities of the immediate environment, while at the same time positioning the company for long term growth and success.

Reflecting on these, I am proud of where we are, and also of where we are heading.

In our formula for success, I see three things that have been critical to this:

1) Being Agile and Adaptable to meet and exceed customer needs;
2) Embracing Transformation in our operating model; and
3) Continuing to advance our Sustainability agenda.

As for being agile and adaptable, the speed and flexibility that our brands and associates are showing, adjusting in real-time to meet customers' needs, underpins the strong culture of care our company delivers to our communities. I would like to thank all of our associates for their dedication and always going the extra mile to support their communities, particularly in times of need.

Through our brands' loyalty programs, the scale and leverage provided by our global portfolio and award-winning own brand proposition; and our €1 billion Save for Our Customers program, by those we continue to help customers navigate these dynamic times.

From a top-line perspective, Slide 9 captures some of this dynamic where you see the last four quarter trends in comparable sales growth by region.

In Q2, U.S. comparable sales excluding gasoline increased by 3.6%, or 4.0% excluding the impact of weather and calendar shifts. In Europe, comparable sales increased by 6.3%. Excluding the impact of strikes in Belgium, this would have been 7.6%.

In the U.S., powered by growth in loyalty sales and increasing online penetration, we more than compensated for the negative headwinds related to a reduction in SNAP and moderating inflation rates.

A hallmark of our company is our great local brands with deep roots in their communities.  The Giant Company is a great example here. This year, The Giant Company is celebrating 100 years anniversary. With 193 stores and 186 pick-up points, they serve more than 3 million customers in the states of Maryland, Pennsylvania, New Jersey, Virginia and West Virginia.

Already in 1979, The Giant Company introduced Bonus Buys and Everyday Low Prices, paving the way for GIANT Choice Rewards award-winning loyalty program. Today, Giant has 95 percent of sales coming from its loyalty programs, and has the highest e-Commerce conversion rates in the U.S.

Food Lion continued its impressive performance of 43 consecutive quarters of comp store sales growth. The performance of the first batch of the planned 70 remodelled stores in the Wilmington/Greenville markets in North Carolina is going according to plan. Constructions has also started on the next batch of stores in the Raleigh and Charlotte markets.

At Stop & Shop, 17 of the 22 New York City stores have been remodeled. These stores are showing better results than anticipated, both in sales and in household traffic.

In Europe, a great example of agility is how we have leveraged our long history and leading position in our own brands. For our total European assortment, we moved fast and now have 6,500 EDLP / Pricefavorite SKUs on our shelves, which is up 15 percent compared to last year. Our Eastern European brands also continue to benefit from the CSE transformation program in which we are aligning business models, centralizing our sourcing activities, harmonizing own brand and working on other scale drivers.

In terms of brand performance, with a double-digit online penetration rate and after crossing 800,000 paid AH Premium subscribers, Albert Heijn's omnichannel strategy goes from strength to strength. While food inflation remains high in the Netherlands, 11.5% the latest print for July, Albert Heijn continues to invest in the brand's most popular fruits and vegetables to ensure healthy and sustainable products are available and affordable for all customer wallets.

Albert Heijn also continues to pioneer new industry innovation, recently launching its own AI start-up called Gen AI Labs. One of their first applications is the Recipe Scanner. This tool is available via the Albert Heijn app and allows customers to take a photo of a random recipe which is then automatically converted into a shopping list with Albert Heijn products.

Bol.com also stands out for its agility and adaptability, as gross merchandise value ("GMV") increased by 10.5 percent year-over year to 1.4 billion euro.

This is a big turnaround in less than 12 months since the team overhauled its mid-term strategy, again highlighting the tremendous value of the bol.com company.

Bol.com's GMV sales from its nearly 52,000 third-party sellers increased 13% and represented overall 66% of sales. In addition, we see strong partner take-up of our value added services with Advertising services, up over 70%, and Logistics offerings, up over 25% compared to last year.

Moving below sales…

Underlying operating margin was flat with the prior year at 4.1 percent. In the U.S. underlying operating margin was 4.6%. The reduction in the SNAP federal assistance program, moderating inflation rates, as well as the dilutive effect of our increased Pharmacy sales were only partly offset by lower logistical expenses driven by our continued supply chain improvements.

Underlying operating margin in Europe was 3.2% in Q2, down 0.2 percentage points from the prior year mainly due to strikes in Belgium and the impact of higher energy costs. Together, these factors impacted European margins by about 70 basis points. These impacts were partly offset by the non-cash service charge for the Dutch employee pension plan, which decreased 15 million euro as a result of higher discount rates in the Netherlands.

Slide 16 shows our results on an IFRS-reported basis for Q2.

Our IFRS-reported operating profit and earnings were mainly impacted by charges related to the Belgium transformation and the Accelerate initiative, including impairment charges for store assets in Belgium of 108 million euro, and for the Jersey City fulfillment center of 40 million euro as well as restructuring and related costs of 40 million euro.

As I said in my opening, embracing and driving transformational change in our operating model to set our company up for long-term success is one of the critical agendas we are driving this year.

Given our big transformation ambitions, in new business models, in technology, in automation and in data, we committed to higher investments in tech capabilities to fuel growth, reinforce our long standing Save for our Customers program and securing our industry leading margins.

While some of these actions, like those initiated by Delhaize Belgium, take a lot of courage and are disruptive in the short term, I am confident these measures will ensure the long-term success of our brands, for the benefit of all our stakeholders.

So let me give you a quick update on the most important initiatives.

Let's start with Belgium, and the "Future Plan" which the local management team communicated in March. As stated then, by having all 128 owned stores operated by local entrepreneurs, Delhaize will have a better opportunity to respond to changing market conditions and evolving customer needs.

As announced earlier this week, Delhaize has signed agreements for the first 15 integrated stores, which will be affiliated in October and November.

5 of these acquirers already operate other Delhaize supermarkets, 5 entrepreneurs join the Delhaize family for the first time and 5 acquirers are associates of Delhaize.

In total, we have 400 potential acquirers for the 128 stores. Announcements about additional stores making the transition will be made at regular intervals over the coming months. The present development shows the confidence in our brand of Delhaize, but also the care we have to transfer our employees to the new acquirers with the same type of conditions on the labor front.

Looking at the U.S., our Connected Customer strategy and omnichannel transformation continues to deliver exceptional results. Here are a few facts just from Q2:

- Online traffic was up 13%, primarily from app traffic which was up 24%.
- And our focus on personalized offers is paying off with 7% more offers being redeemed per household than this time last year.

To sustain the right trajectory, as part of our Accelerate initiative, the U.S. teams have taken a close look at the entire omnichannel operations, with a view to achieve fully allocated e-Commerce profitability by 2025.

One such concrete action is to orient our online fulfilment capabilities towards more efficient, less asset intense same-day delivery models such as click and collect. In line with this, we decided to close the aforementioned facility in Jersey City, which coincides with the lease expiring next year. Instead, we will utilize our existing Stop & Shop store network and partners to service customers with more same day delivery and pick-up options, providing a more enhanced service and leveraging our existing asset base to better effect.

Finally, let me spend a few moments on the third critical factor contributing to our success: our commitment to sustainability. We remain dedicated to making progress on our sustainability ambitions and are proud to share that we have achieved a triple A rating from MSCI. Being categorized into the highest rating indicates that Ahold Delhaize is a leader in the industry in managing its most significant sustainability challenges and opportunities. This would not have been possible without all the initiatives that our brands are continuously implementing in their organizations; a selection of these examples is shown on the slide.

From a holistic perspective, Hannaford is a great example of where our growth and sustainability ambitions reinforce each other.

Their impressive performance of 27 quarters of market share gain, during the last 29 quarters, is a testament to this.

The backbone of Hannaford’s success is their ongoing investment in their Fresh & Convenient Strategy, which continues to resonate with consumers and is a clear driver of these great results.

Hannaford is deeply committed to the important role they play in the local communities by continuously investing in Hunger Relief, Healthy Eating, Sustainability, and Diversity, Equity and Inclusion initiatives. This is also in line with Hannaford’s purpose to be Greater than Groceries and can be highlighted by some great examples:

- More than half of Hannaford’s own brand sales, which are the highest of all ADUSA at 35%, come from items rated as healthy within our Guiding Stars nutritional rating program.
- Hannaford achieved zero food waste going to landfills in 2021, making them the first large-scale grocer in New England and New York to reach this achievement. In 2022, these efforts resulted in

donating nearly 26 million pounds of food to our anti-hunger partner organizations throughout the Northeastern states.

- And there is more to come: in 2024, Hannaford stores’ electricity consumption will come 100% from renewable sources.

Another major sustainability achievement in the quarter was bol.com's attainment of B Corp Certification. With 13 million customers and 52,000 local sales partners, we are proud that an e-commerce platform of bol.com's size has achieved this recognition.

And finally, I am a big believer that through creativity and innovation we can create more transparency and positive impetus at the customer level.

An Albert Heijn pilot currently being conducted in the Gen AI Lab is 'VegaSwap'. With this application you automatically get a vegetarian version of a recipe in the Allerhande magazine. Soon you will also be able to opt for an alternative that reduces CO2 emission.

Wrapping up for today…

- With our strong culture, known for its agility,
- With our ability to drive transformative change,
- and With our commitment to sustainability…

I am very confident we are well prepared to navigate the complexities of the current business environment.

In terms of what to expect in the coming quarters, here are a few things worth noting.

1) On a positive note, we see more evidence that inflation has passed its peak. But inflation still remains at more elevated levels, due to higher energy, commodity, transport and labor costs. These factors will continue to impact second half profitability, particularly labour as we implement changes related to our new CLA agreements.
2) While inflation coming down is clearly a good thing for the customer, the consumer environment is still fragile extending from the pandemic. This is clear in the U.S. for example, where we see the impacts of the reduction in the SNAP federal assistance program on sales growth rates. We expect this headwind to persist in the remaining quarters of the year, being a low-single-digit impact on our U.S. comparable growth rates.
3) With the strain on household budgets and dynamics in the political environment we see a widespread rise in social tensions, which are, unfortunately, leading to more incidents in our stores.
4) We continue to see different patterns and disruptions from climate impacts, such as the fires in Greece, or in general more seasonal volatility in weather which is affecting harvests and supply chains.

Nevertheless, from a competitive perspective, this environment plays to the strengths of our company, and we are well positioned to deal with whatever comes our way.

Therefore, taking all the moving parts together, I am pleased that we are in a position to increase our free cash flow guidance for 2023 to a range between 2 and 2.2 billion euros. We also reaffirm the rest of our guidance.

As I said earlier, I am proud of our performance and where we are heading, and you can continue to depend on us and our great teams to....

- Deliver consistent financial performance
- Leverage the strength of our portfolio and to complete our transformation projects
- Evolve our loyalty programs and own brand assortment to drive brand strength and relative market share gains
- And above all, remain focused on our central role as an active member of the communities that we serve - offering solutions for every wallet, both online and offline, and through offering extra help and care in times of need.

With that, I would like to thank you for your continued interest in our company and Operator, please open the lines for questions.

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*This communication includes forward-looking statements. All statements other than statements of historical facts may be forward-looking* *statements. Words and expressions such as continue, expects, outlook, leading, transition, planned or other similar words or expressions are typically used to identify forward-looking statements.*

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