Ahold Delhaize

Management's Prepared Remarks
Q1 2023 Earnings Call
May 10, 2023

JP O'Meara
Senior Vice President, Head of Investor Relations

Good morning, operator, and thank you very much, and good morning, everybody else.

I am delighted to welcome you to our Q1 2023 results conference call.

On today's call are Frans Muller, our President & CEO and Natalie Knight, our CFO. 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 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.

Therefore, I'll hand over to Frans.

Frans Muller

President, Chief Executive Officer

Thank you JP and good morning everyone.

I am pleased to report a strong start to the year which clearly reflects the trust and confidence our customers continue to place in our great local brands.

In times like these, our international portfolio of number one and two local brands provides many advantages.

On the one hand, it provides operational bandwidth and financial stability. And this means we can remain focused on our long-term growth and omnichannel transformation agenda.

On the other hand, it allows us to successfully navigate short-term market volatility. This means we can actively counterbalance divergent trends to best support our communities and associates.

For the quarter, the headline numbers are strong: net sales grew by more than 6 percent to 21.6 billion euro and diluted underlying earnings per share were up 10.5 percent to 61 cents.

Our earnings trends were consistent with our expectations, driven by strong operating performance in the U.S. This was partially offset by increased energy costs in Europe and impacts at Delhaize Belgium (which I will come back to later). Foreign exchange shifts were also a positive in the quarter, which as you know are expected to become a negative as we go through the rest of the year.

While I am pleased with these headline figures, most important to me is the fact that we gained market share in most of our markets. The trends we have delivered in recent quarters continue to stick. Customers are buying more fresh and healthy products, more own brands and are increasingly utilizing our growing omni-channel ecosystem. And this is not by chance, its by design.

As you know, our business is built on some key fundamentals that have fueled sustained success year-in and year-out. Ánd these include:

- Building relative market share and brand strength by knowing our customers inside out,
- Relentlessly delivering a high value, high-touch customer proposition reflecting the needs of local communities,
- And constantly introducing new high-tech, innovative and scalable platforms across our operations to keep:
  - costs low,
  - waste low,

- and convenience and efficiency high.

As we boost this formula by adding more integrated and real-time data into the mix, we are creating smarter and more sustainable customer journeys. This will dramatically speed up the pace of innovation we are able to bring to market, stretching our capability gap to competitors even further.

So, to contextualize a little more, let's look at a few examples, where our innovation and operating excellence is really shining through.

Let's start with Albert Heijn, our largest brand in Europe. With inflation levels in the Netherlands at 18 percent in the first quarter, I am proud of how quickly the team pivoted the assortment to support customers. For example, Albert Heijn expanded its price favorites ('Prijsfavorieten'), which is a high-quality product, private label at discount prices, they increased that range to 2,000 products, including the brand's most popular fruits and vegetables.

Even more interesting for the long-term, however, was the first deployment of new technology around dynamic pricing and markdowns. Developed over three years by an excellent team of data scientists, this proprietary first-of-its-kind and at-scale solution is a game changer. And it is only possible given the maturity of integrated processes at Albert Heijn, linking together store processes, electronic shelf labels and machine learning algorithms. I am excited about the future value we will be able to extract for our company from this type of technology, creating more value for our customers and at the same time also helping us significantly reduce food waste.

The second example is about building deeper digital relationships at scale. A fully-fledged, fully-integrated, 360-degree digital shopping experience is no longer a nice to have. It's in the meantime, a must have.

And our foundation here is strong. For example, the loyalty programs at Giant Food, Food Lion, and Stop & Shop were named among 'America's Best Loyalty Programs 2023' by Newsweek.

In Q1, we delivered 2.7 billion personalized offers to almost 30 million households, with the number of those households digitally engaged also up well over 10%.

The percentage of completely new customers to ADUSA brands in new sign-ups is also rising, a tell-tale sign of how important the digital ecosystem is becoming when consumers begin looking for value across the competitive set.

This year, we will make further progress with the roll-out of our PRISM platform that brings together all the benefits of personalization, monetization and creative experience.

The third example I would like to highlight is about the importance of store modernization. Food Lion exemplifies how powerful a clearly defined long-term plan can lead to in terms of growth and momentum. While there were other factors, there is no doubt that the store modernization plan of the entire fleet of Food Lion stores from 2014-2021 contributed significantly to the 42 consecutive quarters of comp store sales growth we just reported.

And as I outlined last quarter, Food Lion is now beginning its new multi-year wave of remodels under its Omnichannel Remodel Program, starting with 70-plus stores this year. The first batch of 29 will be completed this month in Wilmington North Carolina. Here sustainability also plays a major role in our plans as we also look to extend Food Lions tremendous 22 year track record as Environmental Protection Agency ENERGY STAR Partner of the Year Award for its work reducing energy consumption. The omnichannel retailer is the only company in the United States to receive this honor for 22 years.

Moving on to Healthy and Sustainable on Slide 11. We discussed the bigger picture as it relates to this topic at length at our recent AGM. However, it is also important to look at the tangible steps we make (big and small) quarter in and quarter out that make the difference, and I am proud of the many accomplishments you can see.

In our sustainability work, collaboration across the whole value chain and transparency, supported by external validation, is critical.

As a society, we will only succeed with our climate plans if we work together. Good examples here are Albert Heijn and bol.com, opening up their best practices and programs to other industry players. For example, Albert Heijn has recently opened to third parties the ‘Better for Farmer and Nature’ program. This program aims to improve animal welfare, the environment and farmers’ earning power.

bol.com is also going to help its sales partners, becoming more sustainable by offering a network of advisory and support parties. This should make it easier for bol.com's 52,000 sales partners to quickly find good help in mapping their carbon footprint, reducing and offsetting emissions and making their assortment more sustainable.

And in terms of external validation of our programs, I’m proud that both Albert Heijn and bol.com are taking the step towards B Corp certification, which is awarded to companies that meet high standards of corporate social responsibility.

This work also extends to financial markets. In March, we successfully priced our inaugural Green Bond for €500 million. With this, Ahold Delhaize became the first corporate European borrower to issue three different ESG-related formats, confirming our ambition to set the pace in sustainable finance. The bond proceeds will be allocated towards projects contributing to our healthy and sustainable targets.

As a final comment on the quarter, I would now like to give you some additional color on the recent announcement by Delhaize management.

On March 7th, Delhaize announced its “Future Plan” with the intention to affiliate all 128 existing owned supermarkets in Belgium in order to guarantee a sustainable future for Delhaize in Belgium.

This intention is fully supported by Ahold Delhaize, and we acknowledge the team’s courage to change course to ensure a viable and healthy underlying business for the long term.

Delhaize has been one of Belgium’s favorite retail brands for over 150 years and 4 out of 5 Belgian consumers regularly shop at Delhaize. Delhaize is the leader for fresh, healthy, quality food with an emphasis on sustainability. The company has a large network of 764 locations in Belgium and is a pioneer in terms of digitalization, in particular with its SuperPlus digital customer loyalty program.

Currently there are already 636 independent affiliated Delhaize stores under the AD Delhaize, Proxy Delhaize and Shop & Go brand names.

And as you all know, the Belgian market has been difficult for many years, overstored, highly competitive and not very flexible.

With the proposed change, Delhaize wants to reflect even more market trends, evolving consumer behavior and local presence. As such, its intention is to make the company future-ready, with an emphasis on local presence and entrepreneurship, by relying on its successful affiliate partnership model.

This model is the only option for achieving renewed growth for these 128 supermarkets and also presents local entrepreneurs with a unique opportunity to join Delhaize and develop the brand's future, together with our experienced, skilled supermarket employees.

Delhaize will continue to invest centrally in areas such as logistics, sourcing and marketing to provide optimum services to its network of stores.

In terms of the process, following the announcement we launched an information and consultation procedure in which we have had 8 meetings so far with the union representatives. A next meeting is planned before the end of May. Discussions have not been easy and there have been some actions in our supermarkets and distribution centers, the impacts of which Natalie will cover in her remarks.

However, more and more supermarkets have been reopening in the past weeks: today all integrated supermarkets are open and serving again our customers. Sales are also gradually evolving back to a normal level.

The Delhaize team remains committed to the social dialogue and on reassuring associates by repeating what they've promised from the start: offering the associates to keep the same wages and conditions according to the contracts after the transition.

On that note, that concludes my comments on Q1 2023. Let me now hand you over to Natalie, to talk more about the financials, and I will be back to discuss our Outlook.

Natalie Knight

Chief Financial Officer

Thank you Frans and good morning to everyone.

Our performance in the first quarter once again highlights that we are a unique and resilient company, and clearly reflects the trust our brands earned from our customers.

With the price/value equation of the utmost importance to customers as spending power comes under more pressure these days, our group's ability to move fast and proactively to visibly support customers on their shopping journey is clearly paying off.

- Net sales grew 6.3 percent, or plus 9.4 percent at actual rates, to 21.6 billion euro. This is supported by Group comparable sales growth in the first quarter of 6.2 percent.

- Group underlying operating margin was 4.0 percent for Q1, a decrease of 20 basis points versus Q1 2022. Strong U.S. margin increases partially offset declines in the European margin and a reduction in GSO insurance gains. Excluding the impacts of inflated energy costs and strikes, underlying operating margin modestly exceeded the prior year level.

- Diluted underlying earnings per share in the quarter was 61 euro cents, up 10.5 percent, driven by the strong underlying operating performance in the US and, to a lesser extent, by positive U.S. dollar exchange rate effects.

Slide 15 shows our results on an IFRS-reported basis for Q1.

The difference here versus our underlying figures are mainly due to restructuring and related costs from the Accelerate initiative and Belgium.

On slide 16, you see comparable sales growth by region including and excluding weather, calendar and other effects, which shows we delivered a strong consistent trend over the past four quarters.

To share more on these developments, let’s turn to our regional performance.

In Q1, the U.S. brands continued to deliver consistent and strong performance. U.S. sales increased by 5.7 percent or up 10.5 percent at actual exchange rates. Comparable sales ex-gas grew 6.2 percent and 8.1 percent, excluding weather and calendar shifts that had inflated prior year numbers.

And it is clear that customers are finding great value through our brands' various omnichannel propositions. Online sales were up 11.9 percent, with grocery online penetration rates increasing 40 basis points to 8.5 percent.

In term of brand performance, Frans already discussed the continued strength of our biggest brand Food Lion. Elsewhere, Hannaford also continued its impressive accomplishments, gaining market share now for 7 straight years since 2016, and growing 29 out of the last 30 quarters. At Stop & Shop, we continue to realize strong sales momentum from the remodeled stores, especially those 12 we have re-opened in the New York metropolitan area, where we achieved an uptick in both traffic and units.

Underlying operating margin in the U.S. was 4.8 percent, up 40 basis points from the prior year. In addition to continued sales leverage, this was also driven by lower logistics and distribution costs associated with our much-improved supply chain efficiency versus a year ago. We now have a higher proportion of self-distribution, covering over 80 percent of the supply chain in the US, enabling us to deliver important cost savings for our brands in the region.

Turning now to Europe, sales increased 7.2 percent. Europe’s comparable sales increased by 6.1 percent. Excluding the impact of strikes in Belgium, Europe’s comparable sales increased by 7.7 percent.

From a market point of view, Eastern Europe led the way with strong double-digit growth in every country. This is supported by our new CSE transformation program in which we are aligning business models, sourcing and other scale drivers across the region. Progress here continues to exceed our own internal expectations. Also of note in Q1 is that grocery online sales in Europe increased by 4.6%, and importantly, we are seeing strong progress on ecommerce profitability, which is fully on track to become profitable in 2025.

Our Q1 underlying operating margin was 2.8 percent, down 70 basis points from the prior year. The impact of the energy headwinds – where costs are now more than 3 times their 2021 levels – and the aforementioned strikes in Belgium, accounted for nearly a percentage point reduction to underlying operating margin in the quarter. Excluding these two limited-duration impacts, underlying operating margins modestly exceeded prior year levels.

At bol.com, Gross Merchandise Value (GMV) excluding VAT was 1.3 billion euro, up 1.2 percent, growing over-proportionally with third-party sellers. bol.com continues to be one of the leading brands in the retail market which is showcased by the fact that we won the award for best Dutch Retail Brand for the ninth time in a row. With each passing month, the online market is showing more signs of recovery, with a particularly strong March for bol.com driven by campaigns like “bol7daagse”. We also see the strong traction in our Advertising and Logistics growth drivers, with

13% growth in partners using our Advertising services year-over-year and a 5 percentage points total increase in network volumes through our logistic services.

Moving on to slide 20, Q1 free cash flow was 21 million euro, which represents an increase of 42 million compared to Q1 2022. This was mainly driven by higher operating cash flow, partially offset by higher income taxes paid.

That wraps up my financial review of Q1 2023. As this will be my last call for Ahold Delhaize, I would also like to thank you in our analyst and investor community for your engagement and open dialogue.

As I look towards the future, I have full confidence in the Ahold Delhaize team’s ability to maintain their position as a retail front-runner, that consistently delivers strong, prudent financial results. It’s been a pleasure to be part of this team and to contribute to the continued success of the organization.

With that, let me pass the baton back to Frans for our 2023 outlook.

Frans Muller

President, Chief Executive Officer

Thank you very much, Natalie.

As we look to the next quarters, our strong global portfolio of number one and two local brands provides ample opportunities and support to navigate the environment.

Quality, consistency and prudent decision-making win out in difficult times.

With our U.S. business remaining strong, our extensive and proven toolkit to manage inflation, the strengthening of our 1 billion euro Save for Our Customer cost saving initiatives and additional proactive actions through our Accelerate initiative, we are reiterating our 2023 Full Year guidance today.

In the U.S., our brands are well positioned as inflation levels and government support (in particular SNAP emergency allotments) start to moderate.

In Europe, although inflation rates remain in the double digits, our brands are taking the right measures to continue to raise the bar competitively to drive long-term relative market share gains.

In 2023, we are also speeding up some of our big initiative within our omnichannel ecosystem, monetization and mechanization, which I am convinced will drive long-term competitive advantage and benefits for our customers.

We are also continuing to explore new opportunities with our global, regional and brand leadership teams to create more agile organizations, to capture more scale and empower our people to take action to drive efficiency as part of our Accelerate initiative.

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

So let me wrap up by saying we have a healthy outlook for 2023, with clear momentum. As high inflation persists and the recession index continues to rise, I am convinced tougher times will further amplify the strengths and resilience of our business.

Lastly, you will all have seen our announcement last week that Jolanda Poots-Bijl will join us as our new Chief Financial Officer in October. I am happy that Natalie and the finance leadership team will ensure a smooth transition to her.

So that just leaves me to say thank you again Natalie.

Natalie's financial expertise and leadership have contributed to delivering strong financial results over the last several years. Also, her focus on sustainability and diversity have been greatly valued and will be truly missed.

And with that, thank you for your continued interest in our company and Operator, please open the lines for questions.

[END]

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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 continu(e)/(ing), well positioned, taking steps, towards, will, outlook, transition or other similar words or expressions are typically used to identify forward-looking statements.

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