**Management's Prepared Remarks**
**Q2 2022 Earnings Call**
**August 10, 2022**

**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 2022 results conference call.

On today's call are Frans Muller, our 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 please 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.

I'll now turn the call over to Frans.

**Frans Muller**

**President, Chief Executive Officer**

Thank you JP.

Good morning everyone.

I am pleased to report another strong and resilient quarter for Ahold Delhaize.

Every strategy at Ahold Delhaize starts and finishes with the customer. And let me assure all stakeholders listening to this call today, that particularly now, when times are getting tougher, we are leaving no stone unturned to support customers in our own unique way.

Powered by rich data and insights, our unparalleled understanding of customers, our broad assortment, and the stickiness of food-at-home consumption, are allowing us to play to our strengths. This in turn is driving continued market share gains and strong business performance.

For customer and businesses alike, these are without doubt, uncertain times. The war in Ukraine is causing an unprecedented energy crunch especially in Europe. Commodity prices are high. Inflation has reached record levels. Interest rates are rising. And the undeniable effects of climate change are a constant in our daily lives.

Rapid cost of living increases are putting consumers' household budgets under pressure. So in response, as you can see on slide 6, we are doing what we do best – visibly and proactively supporting customers in our stores and other omnichannel touchpoints; helping them to navigate and manage their spending efficiently.

Three things in particular are making a big difference.

- First, we have been fast and agile in introducing more entry-priced product solutions in stores and online – as always weighted towards affordable fresh and healthy food options.
- Second, we are expanding our high-quality, healthy and better value own-brand assortments,
- And third, we are ensuring our increasingly personalized loyalty programs continue to offer competitive and attractive solutions. For example in Q2 in the U.S., CRM campaigns excluding Fresh Direct run by the brands reached over 27 million households and delivered 5.3 billion personalized offers.

In a large part, we are able to fund these and other activities through our ongoing Save For Our Customer programs. For those of you who are unfamiliar with these annual programs: they help our great local brands absorb cost increases to invest in better customer propositions and to keep shelf prices as low as possible.

Our efforts in this respect are clearly paying off. Customers vote with their feet, their clicks and their wallets. They expect consistency from us in offering great value, convenience and innovation. And it is through this consistency and the relentless execution of our Leading Together strategy, that we are able to deliver the type of financial performance we are proudly reporting today.

With 4.7% growth in comparable sales excluding gas and diluted underlying earnings per share up 11.0%, our Q2 results exceeded our original expectations, and contribute to the raise in full year earnings and free cash flow guidance for 2022 that Natalie will talk about later.

Before that, let me share a few strategic highlights and proof points that underpin how ALL our brands delivered sequential improvements in comparable sales compared to the first quarter.

Starting with our Customer Priority as seen on slide 10. The focus of this priority is to unlock the creativity and innovation of our teams to cement deeper and more digital customer relationships. Some great examples include:

- Albert Heijn launched their innovative 'Best from the Netherlands' ('Lekkerste uit Nederland') campaign and introduced the "Beter Eten" festival for customers to experience firsthand the Albert Heijn mission – 'Make better food accessible for everyone'.
- Delhaize implemented 'Little Lions' with price reductions of 5-30% on a selection of 500 own-brand products. After the program's first month, Delhaize has already seen a 15% increase of Little Lions product sales.

- Food Lion introduced a rotating daily Meal Deal that feeds a family of four for $12 and a weekly Deli Deal on meat and cheese.
- And Hannaford redesigned their Time Savers program to increase visibility on the assortment of affordable ready-meals, aligning directly with their 'Fresh & Convenient' strategy.

Moving on to our Operational priority, which is the enabler of our omnichannel transformation geared to drive long-term operational efficiency.

We know that customers really value our omnichannel ecosystems, which offer them the flexibility and convenience of shopping whenever and wherever they want.

Looking at slide 11, we again accomplished a lot in the quarter.

- In Europe, Albert Heijn expanded their delivery area making online shopping now accessible to 90% of Dutch households. In Belgium, Delhaize launched delivery+, a subscription service for its online home delivery that offers unlimited free delivery.
- Additionally, we are proud of the successful transition of the York, Pennsylvania distribution center into the self-managed network. This brings our total number of network facilities to 22.
- ADUSA Supply Chain also implemented a new solution for all direct to store delivery vendors, which provides better visibility into cost, margins and profits on items received at stores.

The last two initiatives I mentioned in particular show how optimizing our supply chain is also scaling up to provide future operating margin support by reducing product costs and increasing product availability.

Moving on to our next priority, Healthy and Sustainable. For a long time, sustainability has had a central position in our organization. Not only is it one of our four key strategic focus areas, but more importantly, it is a critical driver of our purpose: Eat well. Save time. Live better.

In Q2, we again have many highlights to share which you can see on slide 12.

- Of particular note is the publication of our second Human Rights Report in June.
- In addition, Ahold Delhaize also maintained its MSCI ESG 'AA' rating, with improvements noted in several criteria.
- In the U.S., Giant Food has partnered with Loop, a circular reuse platform, to bring reusable packaging solutions to customers.
- And in light of the ongoing climate and energy crisis, Albert Heijn is accelerating the switch to renewable energy sources. Here, the brand will increase the number of electric trucks and delivery cars it uses, starting with a 100% electric delivery fleet in 2022 for The Hague city center, with Rotterdam, Utrecht and Amsterdam to follow in 2023. The brand aims to switch completely to biofuels for all transport by 2024 and to no longer rely on gas for climate control in stores in the Netherlands and Belgium by 2023.

Moving on to our final focus area, our Portfolio priority. This is a good opportunity to spend a few minutes to provide an important update on the intention to sub-IPO bol.com.

As you will remember, we first announced our intention to explore a sub-IPO for bol.com at our November Investor Day 2021 in order to build on the remarkable success, customer loyalty and leadership position of bol.com as a retail tech platform.

We continue to believe strongly in the value and potential of bol.com, underpinned by its ongoing robust market share gains as well as its high customer and partner satisfaction scores.

However, in light of current equity market conditions, we have decided that the second half of 2022 is no longer the right time to pursue a sub-IPO of bol.com.

We remain committed to securing the right future path to unlock value for bol.com and Ahold Delhaize. We will continue to actively monitor market conditions and revisit opportunities when market conditions are more conducive.

Like other digital companies in Europe, bol.com is also adjusting to a more dynamic economic climate. Therefore, we have completed a detailed review and revised bol.com's medium-term growth and investment plan, to provide additional flexibility and agility going forward.

Our revised plans will ensure we remain in a strong position to continue to out grow the market. This in turn is expected to yield healthy double-digit sales and EBITDA compound annual growth rates in the medium term, as well as deliver above Group average Return on Capital as the business scales.

As a result of these revisions, we are also updating our Group capital expenditure and free cash flow guidance accordingly. Group CAPEX will now average around 3% of Group sales from 2022 to 2025 versus our original guidance of 3.5%.

We will continue to focus these investments on our growth orientated omnichannel transformation, including:

- Elevating our store networks,
- Increasing automation,
- Unlocking monetization potential
- and increasing last-mile delivery infrastructure.

Throughout all these areas of investment, we are also commitment to furthering our efforts to reduce our climate impact.

Given the ongoing strength of our underlying operations, together with this new CAPEX plan we are also increasing our cumulative free cash flow expectations for the 2022 to 2025 period to around 7.5 billion euro, compared to our original expectation of over 6 billion euro.

One of the core strengths of our company is to generate cash. This gives us great protection to weather any storms the environment may throw at us, while at the same time, providing plenty of leeway to continue investing in our customers, our associates and future-proofing our organizational infrastructure as well as ensuring a fair remuneration of all other stakeholders.

Despite the expectation that challenging times remain ahead, I am confident that our brands are on the right path to support all our stakeholders and deliver on our ambitious goals. We have positive momentum going into the second half of the year. On that note, let me now hand over to Natalie who will add her comments on the quarter and provide further specifics on the outlook for 2022.

**Natalie Knight**

**Chief Financial Officer**

Thank you Frans and good morning everyone.

We have a lot to be proud of this quarter thanks to our strong team and business model.

So let's get into the detail, starting with the headline figures:

- Net sales were up 6.4 percent, or plus 15 percent at actual rates to 21.4 billion euro.
- Q2 Group comparable sales grew 4.7 percent.
- Group net consumer online sales increased by 4.8 percent. For context, excluding bol.com, our net consumer online sales in grocery increased 11.5 percent, highlighting the trend that online food shopping is here to stay.
- Group underlying operating margin was 4.1 percent for Q2, down 0.4 percentage points compared to Q2 2021. This reflects higher labor, distribution and energy costs, which were largely offset by higher pricing and cost saving initiatives.
- Diluted underlying earnings per share was 59 cents, up 11 percent. This was driven by higher operating income, a lower tax rate and a higher share in income from joint ventures which more than offset higher financial expenses which are mainly FX-related.

- Our EPS growth rate also benefitted from our ongoing share buyback program. We purchased 9.5 million own shares in the quarter for 255 million euro. This brings the total amount to 523 million euro for the first half of the year.

Slide 17 shows our results on an IFRS-reported basis for Q2.

Let's turn now to our regional performance.

Moving on to slide 18, you see comparable sales growth by region including and excluding weather and calendar effects. While results in the quarter were impacted by the timing of inclusion of Easter and the exclusion of the 4th of July in the States, however way you look at it, both regions saw very healthy sequential improvements on both metrics compared to the first quarter.

This is particularly visible in the U.S., where the consistent and robust performance of our U.S. brands continued. In the quarter, net sales increased by 7.7 percent, and comparable sales growth was 6.4 percent.

Net consumer online sales grew by 16.4 percent, with eCommerce penetration rates increasing 60 basis points to 7.3 percent, as we continue to scale up our operations and roll out new omnichannel opportunities for our customers.

The underlying operating margin in the U.S. remained at a robust 4.7 percent level, down only 0.3 percentage points from last year despite significant cost increases throughout the value chain.

In addition to the strong progress on supply chain initiatives Frans mentioned earlier, I am also pleased to report that ADUSA companies also successfully implemented SAP S/4 HANA, another critical initiative to transform legacy finance and IT systems. As we modernize our operational backbone in the U.S. region, I am confident in the value unlock to opportunities this will have to provide a further support to margins in the region over the coming years.

From a brand perspective, Food Lion continues to perform strongly, achieving its 39th consecutive quarter of comp sales growth.

Stop & Shop also delivered positive comps in the quarter and momentum has continued to improve over the course of the summer. To drive its turnaround in a more focused geographical way, we announced a $140 million targeted investment for New York City stores over the next two years. This investment is focused on improving store layout and product presentation, to showcase our assortment in a more compelling way, that embraces the diversity of the neighborhoods and communities Stop & Shop serves in the greater NYC area.

Turning now to Europe, net sales increased 4.2 percent in the quarter. Despite continuing to cycle prior year lockdown measures in the Benelux for part of the quarter, we delivered comparable sale growth of 1.8 percent (compared to a negative performance in Q1). This was supported by market share gains at Albert Heijn, bol.com and Central Europe.

Net consumer online sales were down 1.1 percent, following 27 percent growth in the same period last year.

Underlying operating margin in Europe was 3.4 percent, down 0.8 percentage points compared to last year, due to significant cost inflation, and an expected lower contribution from bol.com compared to a year ago.

I will come back to how we intend to address European margins, but first let me spend a moment on bol.com.

In Q2, bol.com net consumer online sales declined by 2.1 percent, which is much improved from the Q1 decline of 6.5%. Bol.com's sales from its now 50,000-partner strong third party platform network increased 2% in the quarter.

Bol.com’s gross merchandise value excluding VAT was 1.3 billion euro in Q2 down 1.7% compared to the prior year, which is a very strong result against a market backdrop which is estimated to have been down high-single-digits in the quarter.

Its strong position with customers and partners has therefore again yielded strong market share gains for bol.com, which we estimate to be well over a percentage point again this the quarter.

With the European macro-environment becoming much more dynamic and unpredictable, our EU teams are leaning in on our threefold approach.

Firstly, we will focus on driving volume, market share and customer loyalty with dedicated programs for these tough times. This includes a strong focus on leveraging everyday low price programs and own-brand product development, to which Frans has already given you plenty of examples.

Secondly, being prepared for tougher times means squeezing more juice from the lemon. Here, on top of our normal Save For Our Customer practices, we are looking even deeper at how we can accelerate lowering our structural costs and simplifying processes. This means wherever possible, empowering our people to create more agile organizations, leverage best practices and capture scale.

One such initiative is a new joint Central and Southern European strategy and operating model that leverages brand proximity to address similar challenges with common solutions across the markets. Here, we now have one common management structure and have already made the corresponding management changes. We are also moving to a common assortment, IT infrastructure and many other aligned ways of doing business.

In the Benelux, we are increasingly leveraging our regional platform to drive synergies more aggressively for Delhaize and our operations in Belgium. In fresh sourcing, we are moving more volumes to our strategic partners able to service both Belgium and the Netherlands. This creates a shorter, more transparent value chain, with less cost, ensuring better prices for both the farmer and the consumer.

We're also accelerating our journey to drive scale at our own label assortment by harmonizing our underlying processes and procedures across Benelux brand, with a particular focus on entry price product. I am confident that these and other future initiatives will lead to improving margin levels in Belgium already in the second half of this year and next.

Thirdly, we are keeping a tight eye on capital expenditure timing and scope to reflect the current dynamic and inflationary environment. We have talked about this in previous quarters. An important example is the revised investment plan at bol.com. In this new plan, which follows a phased approach, is less capital intensive while continuing to support bol.com's mid-term ambitions and growing infrastructure needs.

Taking all of these measures together, we expect to unlock between 250 and 300 million euro in additional cost savings cumulatively in the next three years. We are confident that we will see first progress on margins in H2 2022, and bring underlying operating margins for Europe back to the 4% mark in the coming quarters.

Moving on to slide 24, and switching back to the Group, Q2 free cash flow was 594 million euro, an increase of 166 million compared to Q2 2021, mainly driven by higher operating cash flow and favorable working capital development.

So in summary for today, following our strong half-year results, our proactive approach to managing the current economic climate as well as the positive momentum we are continuing to see in the U.S., we are increasing our 2022 guidance.

We now expect underlying EPS to increase by mid-single digits compared to 2021 and free cash flow to be approximately 2.0 billion euro.

The rest of our targets for the year remain unchanged, including our expectations of an operating margin of at least 4% and net capital expenditures are expected to total approximately 2.5 billion euro.

Let me emphasize that we remain committed to delivering strong shareholder returns now and in the future. Our 2022 interim dividend will be 46 cents compared to 43 cents last year, based on the Group's interim dividend policy. This means we are clearly on track to again increase our full-year dividend. We also know that our share buybacks are another key driver of EPS growth and we are more than half way to executing our 1 billion euro share repurchase program in 2022 as planned.

In conclusion, we are very proud of our accomplishments at Ahold Delhaize over the past quarter.

Our associates and leadership teams continue to show tremendous agility, striking a good balance between delivering on our short term commitments, while at the same time, advancing us steadily towards our medium- and long-term goals.

In dynamic and challenging times like these, above all else, we know it's important to keep things simple. We are focusing on our strengths and leaning in on those things under our own control.

Thank you for your continued interest in our company and Operator, please open the lines for questions.

END

## Cautionary Notice

*This communication includes forward-looking statements. All statements other than statements of historical facts may be forward-looking statements. Words and expressions such as will, re-enter, ensure, constant, now, strong, resilient, strategy, assure, getting tougher, support, allowing, continue(d), uncertain, unprecedented, rising, navigate, manage, towards, are expanding, able, efforts, expect(ation), consistency, guidance, strategic, priority, deeper, long-term, next, maintained, accelerating, by, moving on, opportunity, intention, ongoing, no longer, committed, more, adjusting, dynamic, increasing, furthering, may, confident, second half of the year, outlook, sequential, initiative, aiming, keeping, plan, remain, focusing or other similar words or expressions are typically used to identify forward-looking statements.*

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