Management's Prepared Remarks
Q1 2022 Earnings Call
May 11, 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 Q1 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.

I'll now turn the call over to Frans.

Page Break

Frans Muller
President, Chief Executive Officer

Thank you JP.

Good morning everyone.

I am pleased to report a strong start to the year for Ahold Delhaize.

In times like these, our strong global portfolio of number one and number two local brands, provides distinct competitive and societal advantages.

On the one hand, these allow us to successfully navigate short-term market volatility. On the other, the they provide operational bandwidth and financial stability so we can remain focused on our exciting long-term growth agenda.

But before I get to that and our numbers, let me first start with the customer.

For consumers, Q1 was characterized by significant challenges within and outside of our markets, headlined by the war in Ukraine.

While we do not have direct operations in the Ukraine or Russia, I am extremely proud of associates at our brands.
They quickly jumped into action and provided crucial support to those affected by this war.

Our brands in Europe, together with Ahold Delhaize, donated more than 1.5 million euro worth of cash and in-kind support, and generated an additional 1.2 million euro in customer and associate donations to organizations like the Red Cross.

Several brands are also supporting associates who are volunteering their time to provide on the ground support, and are actively promoting jobs to Ukrainian people displaced by the violence.

We will continue to provide support for as long as it's needed.

We also know that consumers globally are feeling the pressure of high inflation rates. Therefore, we are working hard and having firm negotiations with suppliers to mitigate price increases where possible.

We are also ensuring price increases are realistic and necessary via our "should cost" models. As you know, we too are a manufacturer with our own private brands. Therefore, we can deconstruct products down to component materials (raw materials, packaging, energy, transport etc.) so we have a good sense of what a product "should" cost.

Moreover, we also have the powerful backdrop of our Leading Together strategy and the four priorities we are leaning on, to unlock even more value for our customers and all of our stakeholders.

That starts with our customer value proposition. As you can see with the many examples from the quarter on slide 8, Ahold Delhaize's local brands are continuously helping customers manage their omnichannel shopping baskets more efficiently. Our brands are also laser focused on helping consumers manage their spending by proactively highlighting savings opportunities along the consumer journey.

Powered by data and insights we do this by:

- Providing great value offers, spearheaded by omnichannel loyalty programs,
- Prioritizing healthy food options through Guiding Stars- and Nutri-Score-linked promotions,
- And expanding the assortment and availability of high-quality low cost own-brand products and bulk offerings.

For example as you can see on slide 10, own-brand assortments, which offer great quality at a reduced cost versus national brands, are being positioned more prominently and conveniently in stores and the omnichannel shopping journey through our apps and websites.

As a reminder, we are very well positioned with our own brands relative to peers. In the Benelux, own-brands represent over half of all our brands' food sales. In the U.S., own-brand penetration stands at approximately 30% and our brands will continue to extend and invest in their presence and visibility in stores and online throughout 2022.

All of the actions I just mentioned are clearly paying off and we believe there is even more to gain going forward.

Brand strength and relative market share are our most important measures of success. Our performance on these metrics again shines through in our results, which exceeded our original expectations.

In Q1, net sales grew 8 percent to 20 billion euro and diluted underlying earnings per share was up 1 percent to 55 cents.

Now these results are coming off a very strong 2021, with large pandemic-supported gains, especially with bol.com being a big beneficiary. We therefore are very pleased that we have maintained the majority of these gains on an absolute basis, and consolidated our market share positions in the process.

In the U.S., Food Lion was a clear outperformer and right now is one of the fastest growing brands in the U.S. with close to double-digit comps. And we continue to make very good progress building new capabilities and consolidating activities in our support hubs, which is a central part of how we add speed, and leverage scale, to accelerate growth and drive costs lower over time.

With a well-supported consumer environment in the U.S., we are in general, more optimistic about our performance

In Europe, the reopening of societies across our markets, and a return to normal life for most citizens, created a challenging comparison in the Benelux. This resulted in declining Q1 comparable sales and underlying operating profits for Europe.

However, we see customer trust and loyalty as an important indicator of how well we are doing. This is clearly reflected in the fact that our overall market share is increasing, being particularly robust at Albert Heijn and bol.com.

We expect the Q1 performance trends in both regions to continue in Q2 and potentially even intensify in Europe, as inflation rates continue to peak.

Therefore, to counter the market conditions we see in Europe, particularly challenging markets like Belgium, we will be proactive and swift, and are focusing on two main approaches to strengthen our brands as well as intensifying our cost savings efforts, which Natalie will address in a moment.

While adding additional short-term mitigation actions, our Leading Together operational priorities remain front and center in our work.

Our omnichannel transformation agenda is core to this and as you can see on slide 12, we again accomplished a lot in the quarter.

We continue to use a blend of organic investment and strategic partnerships to make smart choices to expand our grocery omnichannel proposition and reach. As the industry is rapidly shifting to more same-day delivery options, we are positioning ourselves to accelerate in this space. For example in the U.S., we have over 1,400 pick-up points and have added new instant delivery options with partners such as Instacart.

In Europe, Albert Heijn recently began making instant deliveries in Amsterdam by expanding its existing partnership with Deliveroo and Thuisbezorgd.nl, to give customers more ways to put a fresh, healthy meal on the table. We remain confident our brands will be big winners from this long-term trend, and fully expect to take significant market share as the more challenging environment shakes out competition.

This is a good opportunity to spend a few minutes on how we intend to leverage our portfolio priority to make “the big bigger” in this respect.

Creating the ecosystem for smarter customer journeys is a clear passion of our company, and a key differentiator from our peers.

As you can see on slide 13, Albert Heijn and bol.com have increased collaboration on several fronts in the areas of joint loyalty, media monetization and introducing new convenient customer solutions like joint parcel lockers.

We have also made good progress with Stop & Shop and FreshDirect where we plan to increase collaboration to accelerate growth and market share in NYC. I look forward to sharing more on this in the second half of the year.

Finally, as you will have seen at our AGM last month, we remain fully focused on our healthy and sustainable ambitions, and have again made good progress on many fronts as can be seen on slide 14.

We were proud that Albert Heijn and bol.com were again recognized by the 2022 Sustainable Brand Index. Albert Heijn was voted the most sustainable supermarket chain in the Netherlands for the sixth year in a row and bol.com was recognized as the most sustainable e-commerce brand for the second year in a row.

Bol.com also became the first e-commerce company in the Netherlands and Belgium to be Climate Neutral Certified from Climate Neutral Group. In a similar light, our U.S. brand Hannaford also announced plans to be fully powered by renewable energy by 2024.

In summary, all in all, I am pleased with the performance of the business in what is an increasingly challenging environment, with Q1 results better than our expectations. And many of these Q1 trends are continuing in Q2.

Our strong global portfolio of number one and number two local brands provides ample opportunities and cushion to navigate the environment.

With our U.S. business remaining strong, our extensive toolkit to manage inflation, dependable cost saving initiatives and additional proactive actions planned in Europe, we are increasing our 2022 earnings guidance today.

On that note, let me now hand over to Natalie who will add her comments on the quarter, provide further specifics on the outlook, and update you on our progress on the sub-IPO of bol.com.

Natalie Knight
Chief Financial Officer

Thank you Frans and good morning everyone.

Our plans for 2022 and beyond underpin our clear goal to be the industry-leading local omni-channel retailer in each of the markets we serve. Even though we started the year in challenging market conditions, our operating model is proving to be very resilient, and our strong portfolio is well able to absorb macro-economic pressures.

In this environment, and unlike many of our competitors, we are able to lean in on our:

- Strong global footprint and market leading positions;

- Our longstanding and consistent track record of operational excellence;

- And our deep-rooted focus on delivering what matters for our customers in their daily lives.

As I have said on previous calls, our financials in 2022 will show some conflicting trends, as we lap country-specific lockdown periods as well as divergent consumer behavior patterns, particularly in absorbing inflation headwinds.

So while there are clear differences in our regional performance, there are nonetheless three key messages I would like you to take away.

- First, by collaborating with suppliers but also negotiating hard with them when necessary, we are keeping price increases in check for our customers, and have therefore continued to successfully manage to pass through inflation, albeit with differing levels of consumer elasticity by region;

- Second, our increasingly omnichannel formula is really working for us and the customer. The transparency we are creating through our omnichannel ecosystem is unlocking the power of data and insights. These in turn are helping us to speed up, innovate, shape and adapt our daily commercial initiatives at a local and personalized level, instore and online, fueling growth and/or market share gains;

- And thirdly, our attention to detail and proactivity in tightly managing our costs, planning our investments and proactively managing risks and exposures (like safety), ensures we can continue to provide strong visibility, agility and dependability in our cash flows and shareholder returns.

As you will have seen in detail in our press release, and summarized on slide 18, we can take a lot of confidence from our Q1 results.

- Net sales were 19.8 billion euro, up 3.6 percent at constant exchange rates, or plus 8.3 percent in reported terms. Excluding weather and calendar shifts, primarily related to the timing of Easter, Q1 Group comparable sales increased 1.2 percent.

Group net consumer online sales declined one percent at constant exchange rates, as solid growth and increasing online penetration rates in the U.S. were offset by the cycling of a very strong Q1 2021 in Europe, particularly at bol.com, arising from last year's lockdowns. For context, excluding bol.com, net consumer online sales increased 4.6 percent at constant exchange rates.

- Group underlying operating margin was 4.2 percent for Q1, down 0.5 percentage points compared to Q1 2021 at constant exchange rates, reflecting higher labor, distribution and energy costs than in the prior year period. Underlying operating profit also includes a 47 million euro increase in income from Global Support Office insurance activities compared to Q1 of prior year, mainly due to favorable discounting effect on insurance provisions driven by the increase in interest rates.

- Diluted underlying EPS was 55 cents, up 1.3 percent at actual currency rates. And 9.4 million own shares were purchased in the quarter for 268 million euro.

Slide 19 shows our results on an IFRS-reported basis for Q1.

Moving on to slide 20, you see comparable sales growth by region including and excluding weather and calendar, with the Easter shift playing a major role this year. In the U.S, we posted a 3.9 percent adjusted comp sales in Q1, keeping the pace of previous quarters. In Europe, the adjusted comp sales for Q1 declined by 2.8 percent, a deceleration from prior quarters due to the reopening of societies as well as inflation began to bite harder in the region since the beginning of the year.

Now let me go a little deeper on to our first quarter performance by segment. Starting with the U.S. on slide 21, net sales grew 5.8 percent at constant rates, to 12.2 billion euro.

On top of solid underlying comp growth, sales also benefited from favorable foreign currency translation rates, last year's acquisition of stores from Southeastern Grocers and higher fuel sales. Brand performance continued to be led by Food Lion, which has now delivered 38 consecutive quarters of positive sales growth.

In Q1, online sales in the segment were up 4.6 percent in constant currency. This builds on top of the significant 188 percent constant currency growth in the same quarter last year.

The underlying operating margin in the U.S. was 4.4 percent, down 0.4 percentage points at constant exchange rates driven by increased labor, distribution and energy costs, which were partially offset by higher pricing and cost savings initiatives. Importantly in the quarter, Stop & Shop signed and ratified a new 4-year labor contract with unions, representing over 60% of the S&S workforce. As such we have no other significant labor negotiations outstanding at this time.

In Europe, as seen on slide 22, net sales increased modesty to 7.6 billion euro, driven by the 2021 acquisition of 38 stores from DEEN in the Netherlands. Q1 comparable sales decline in Europe came as the segment lapped strong comp sales growth in Q1 2021 of 8.3 percent for the reasons already mentioned.

Nonetheless, as Frans mentioned, our market shares across Europe remained strong, even in some of our most challenging markets like Belgium. Albert Heijn was a particular standout in the quarter, with robust market share gains attributed to strong execution, successful marketing campaigns, sales uplifts resulting from the brand's store remodeling activities and contributions from the acquired DEEN stores.

In Q1, net consumer online sales in the Europe were down 3.8 percent, following 78.6 percent growth in the same period last year.

Underlying operating margin in Europe was 3.5 percent. This compares to an underlying operating margin of 4.7 percent in the prior year quarter. While last year's results included pandemic related benefits, we are clearly not satisfied with this result.

Therefore, we are doubling down our efforts in two key areas.

Firstly, we are strengthening our commercial proposition rolling out successful pricing and loyalty programs for customers in all our markets, and broadening our product offering to ensure affordable options for every wallet. Secondly, cost savings are currently more important than ever to be able to offer customers the most competitive price without sacrificing investments in growth.

As such, in the more challenged markets [like Belgium], on top of our increased Save for our Customer initiatives, we are committed to more intensely review additional structural costs. Overall, we are looking at SG&A, supply chain costs, store costs and further potential in combined sourcing for brands. This is necessary to align our cost base to the changing underlying dynamics of the market. We will provide an update on our plans in August with our Q2 results.

Moving to slide 23, let me now spend a little more time on bol.com.

In Q1, net consumer online sales declined by 6.5 percent, following strong sales growth in the prior year period of 76.6 percent when sales at bol.com were aided by lockdown measures limiting brick-and-mortar retail stores. Bol.com's sales from its 49,000 third-party merchant partners in Q1 declined at a slightly lower rate. Bol.com gross merchandise value excluding VAT was 1.3 billion euro in Q1 down 7% compared to the prior year, when growth was over 70%.

Against a market backdrop which is estimated to have been down mid-teens. The strong position of bol.com with customers and partners has therefore again yielded strong market share gains, estimated at near 2 points of market share in the quarter.

We will also officially open bol.com’s new fulfillment center on Monday next week, and since soft opening, it is already ahead of initial productivity expectations. We also completed the acquisition of a majority stake in delivery expert Cycloon last week.

We continue to make very good progress with the bol.com management team in our preparations to have bol.com ready for a sub-IPO in H2 2022, subject of course to the right market conditions and other factors.

We believe strongly in the value and the potential of bol.com. Our intentions remain firmly focused on securing the right future path to unlock this value and provide further funding for bol.com and Ahold Delhaize to execute our winning strategy.

Moving on to slide 24, and switching back to the Group, Q1 free cash flow was negative 21 million euro, which represents a decrease of 316 million compared to Q1 2021, mainly driven by unfavorable development due to the unwinding of COVID-19 driven working capital gains, higher net lease repayments and higher net investments, which were partially offset by lower income taxes paid.

I'd now like to make a few comments to our 2022 outlook on slide 25.

Higher than expected Q1 earnings coupled with a more resilient consumer climate in the U.S. as well as a stronger U.S. dollar are forecast to more than offset the challenging economic backdrop in Europe.

Therefore, we now expect underlying EPS to be higher than our previous guidance of a low- to mid-single-digit decline, and instead to be comparable to 2021.

Free cash flow is expected to be approximately 1.7 billion euro.

Net capital expenditures are expected to total a maximum of 2.5 billion euro, and therefore be lower than our original expectations as a percentage of sales for the year.
Given higher labor and raw material costs, we remain committed to executing and phasing the timing of investments with the same discipline and focus you have come to expect from Ahold Delhaize – which also means achieving required hurdle rates and return on capital metrics.

We are committed to our dividend policy and share buyback program. We again expect to increase our full-year dividend, and we are well on track 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.

- We have a strong competitive advantage rooted in our 19 great local brands.

- We have a clear, unique and efficient formula for growth.

- We are committed to and have a strong track record of delivering consistent margins and cash flows.

- And you can expect us to remain vigilant, proactive and agile in managing our financial performance in this environment.

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 ensuring, should, opportunities, will, continue, progress, accelerate, expect, will, focusing, manage, committed, forecast or other similar words or expressions are typically used to identify forward-looking statements.

Forward-looking statements are subject to risks, uncertainties and other factors that are difficult to predict and that may cause the actual results of Koninklijke Ahold Delhaize N.V. (the “Company”) to differ materially from future results expressed or implied by such forward-looking statements. Such factors include, but are not limited to, risks relating to the Company’s inability to successfully implement its strategy, manage the growth of its business or realize the anticipated benefits of acquisitions; risks relating to competition and pressure on profit margins in the food retail industry; the impact of economic conditions on consumer spending; turbulence in the global capital markets; political developments, natural disasters and pandemics; climate change; raw material scarcity and human rights developments in the supply chain; disruption of operations and other factors negatively affecting the Company’s suppliers; the unsuccessful operation of the Company’s franchised and affiliated stores; changes in supplier terms and the inability to pass on cost increases to prices; risks related to environmental, social and governance matters (including performance) and sustainable retailing; food safety issues resulting in product liability claims and adverse publicity; environmental liabilities associated with the properties that the Company owns or leases; competitive labor markets, changes in labor conditions and labor disruptions; increases in costs associated with the Company’s defined benefit pension plans; the failure or breach of security of IT systems; the Company’s inability to successfully complete divestitures and the effect of contingent liabilities arising from completed divestitures; antitrust and similar legislation; unexpected outcomes in the Company’s legal proceedings; additional expenses or capital expenditures associated with compliance with federal, regional, state and local laws and regulations; unexpected outcomes with respect to tax audits; the impact of the Company’s outstanding financial debt; the Company’s ability to generate positive cash flows; fluctuation in interest rates; the change in reference interest rate; the impact of downgrades of the Company’s credit ratings and the associated increase in the Company’s cost of borrowing; exchange rate fluctuations; inherent limitations in the

Company's control systems; changes in accounting standards; adverse results arising from the Company's claims against its self-insurance program; the Company's inability to locate appropriate real estate or enter into real estate leases on commercially acceptable terms; and other factors discussed in the Company's public filings and other disclosures.

Forward-looking statements reflect the current views of the Company's management and assumptions based on information currently available to the Company's management. Forward-looking statements speak only as of the date they are made, and the Company does not assume any obligation to update such statements, except as required by law.