Management's Prepared Remarks

Q3 2021 Earnings Call

November 10, 2021

JP O'Meara

Senior Vice President, Head of Investor Relations

Thank you operator, and good morning everyone.

I'm J.P. O'Meara, Head of Investor Relations and I am delighted to welcome you to our Q3 2021 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.

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.

Before I turn over to Frans, I would like to remind you of our upcoming Investor Day, which will be a virtual event held on November 15th. We are excited to share our vision for the future, and look forward to you joining us.

I'll now turn the call over to Frans.

Frans Muller

President, Chief Executive Officer

Thank you JP.

Good morning everyone.

Our Q3 results once again showcased the strength of our omni-channel business model, as our local and trusted brands showed resilience, building further on 2020's COVID-19 related sales gains.

The pandemic continues to underpin the importance of maintaining food and product supplies to local communities – a vital role that we remain focused on fulfilling. And we remain thankful for the efforts of associates, who have put a consistent emphasis on safety, while at the same time providing great customer service and community support.

The quarter also did not come without some other unexpected external challenges. Our businesses – and especially the communities we serve -- faced disruptions from the Belgian floods, tornadoes in the Czech Republic, fires in Greece, and Hurricane Ida in the U.S. But as always, our associates acted swiftly and their dedication to their communities during these difficult times truly lived up to our core values. For that, I am truly grateful.

In these times, we will continue to focus on making additional investments to meet associate, customer and community needs.
We are aware of the recent increases in infection rates in many of our markets and will continue to provide assistance in all our communities, including COVID-19 vaccination efforts in the U.S. We remain on track to deliver on our pledge to contribute €20 million in Covid-earmarked charitable donations, spread evenly between the U.S. and Europe, during 2021. A top priority is also our continued support of COVID-19-related health and safety measures, where we invested €66 million in Q3.

Now let me highlight our key financial results:

Overall, we are very pleased with the underlying Q3 performance in both the U.S. and Europe, as we were able to grow sales and profits on top of a very strong quarter in the year ago period. We have been able to retain a strong level of underlying consumer demand by continuing to adapt to the enduring consumer behavior changes.

This strong result comes against a backdrop in which several communities across our markets reopened, suggesting that many consumer habits formed during the COVID-19 pandemic favoring food-at-home consumption and a focus on healthier eating are proving resilient. We have and will continue to make significant investments to address these trends.

Central to this and all of our strategies, is our omnichannel platform, which continued to drive strong market shares during the quarter. Our online business posted strong double-digit growth in the third quarter, with these trends expected to continue.

Due to the strong growth and continued Save for our Customer initiatives, our underlying operating margins were again very strong in the context of historical levels prior to COVID-19. As a result, I am pleased that we can once again raise our 2021 underlying operating margin, underlying EPS and free cash flow guidance, reflecting the strength of our year-to-date results

Natalie will go into more detail on the third quarter financial performance as well as our detailed outlook for 2021.

But first, let me move onto slide 5, and spend a few moments on our omnichannel proposition where we continue to go from strength to strength. Whether it is bringing new unique customer-facing experiences, or evolving the speed and efficiency of our operations, each quarter, we are driving noticeable change. For example:

Our US supply chain transformation continues as planned, with 65% of our center store volume now self-distributed, up from 50% last year. And we are well on our way to being 100% self-distributed in 2023.

We recently opened our new automated eCommerce-fulfillment center in Philadelphia for the Giant Company, featuring two large, automated systems, one for ambient products and another for chilled items, which will allow us to drive increasing efficiency and productivity gains. Moreover, this facility is able to fulfill up to 15,000 orders per week that also allows us to extend our foothold in this important growth area for us.

Our Giant Company, Hannaford, and Stop & Shop brands in the U.S. have introduced new 30 minute delivery services, including fresh, prepared foods, and essential household products.

Albert Heijn has launched a new subscription service--"Albert Heijn Premium"—becoming the first food retailer in the Netherlands with a subscription plan. To encourage healthier eating, this service offers extra savings on organic products, as well as discounts on our bol.com and Gall & Gall subscription programs.

Our brands in CSE have also expanded their online grocery deliver services in the third quarter, For example, Greece has expanded to another 3 cities and the Czech Republic has significantly expanded their eCommerce coverage by 25%, helping them to maintain their highest NPS levels on record.

This all serves to underpin our relentless focus to be the industry-leading local omni-channel retailer in all of our markets. Through our unique fresh, healthy and private brand assortments and through our great-value, convenient and personalized shopping experiences, we have the ultimate winning formula to drive retention, acquisition and an increasing share of the wallet over time.

Now moving on to the specifics of our regional performance, Slide 6 highlights some of our key achievements in the U.S.

Q3 US online sales grew by +53%, bolstered by the continued expansion of our Click and Collect capacity as well as our FreshDirect acquisition.
Speaking of Click and Collect, we opened 102 additional Click & Collect locations during the quarter and remain on pace to end 2021 with approximately 1,400 Click & Collect locations, up from around 1,100 at the beginning of the year.

We also remodeled 11 additional Stop & Shop stores in the third quarter, bringing the total number of stores remodeled since the inception of the program to more than 110. And we continue to see solid sales uplifts from our remodeled stores.

Finally, from a brand perspective, I'd again like to call out Food Lion our fastest growing brand in the US, which achieved its 36th consecutive quarter of positive comparable sales growth. In addition, the 71 recently added stores in early 2021 have now been fully integrated are exceeding sales expectations.

Slide 7 highlights some of our key achievements in Europe.

Our Benelux ecosystem continued to perform well and we gained market share in the region during the quarter. This was driven by strong marketing campaigns and continued solid execution of our health and sustainability activities.

We are proud of the 19.2% growth in net consumer online sales at bol.com during the third quarter, which came on top of 45.6% growth in the year ago period. This is a strong, dynamic brand within our group and is a key platform for our future growth in Europe. The number of third party sellers on the platform also continues to grow, and now stands at 48,000.

Albert Heijn completed the acquisition of 38 DEEN stores in Q3. We expect all of these stores to be remodeled to the new AH fresh and technology focused format by mid-November.

In Belgium, the Delhaize SuperPlus loyalty plan which provides extra rewards and discounts to consumers of healthy and sustainable products, continues to gain traction providing a nice sales uplift. The program ended Q3 with more than 2 million members in just one year since it's inception.

Moving on to slide 8. We continue to make progress in elevating our Healthy & Sustainability strategy and I'll now discuss a few of these items.

bol.com, our online retail platform in the Benelux, has taken a new step towards its sustainable ambition by implementing new automated multi-packing technology. This makes bol.com the first in the world to pack with multiple custom items in one box; which means we have a faster and more sustainable process and fewer delivery trips – thereby reducing bol.com's overall CO2 emissions and making us more cost efficient at the same time.

Following the success of its SuperPlus program, Delhaize has added a healthy membership program for companies, which provides discounts on healthy products with NutriScore A or B at Delhaize Belgium. This allows us to introduce more healthier eating to these employees by providing a special discount but also extend the Delhaize reach to new consumers who hadn't previously shopped our brand.

And in September, our Albert brand was recognized as the leader in organic own-brand products by customers in the Czech Republic. This is in turn strengthening Albert's proposition with consumers, and it is driving market share gains at the brand.

All in all, our continued efforts have been recognized by MSCI, which upgraded our 2021 ESG ranking to 'AA' from our previous 'A' ranking. We are proud of this achievement as MSCI is the most widely used ESG benchmark by our investors. Our progress here reflects our ambition to be an ESG leader, and we will continue to work hard towards this goal.

Finishing on that positive note, let me now hand over to Natalie.

Natalie Knight

Chief Financial Officer

Good morning and thank you Frans.

I am also very proud to share another quarter of exceptional results. Ahold Delhaize teams around the world remain focused and disciplined. And our strong local brands, our scale and our robust business model are providing plenty of resilience as we face heightened pressures from the macro environment -- be it from rising Covid infections, inflation or continued global logistics and supply chain disruptions.

Our the third quarter was strong across the board, in particular with our brands sustaining their positive sales momentum. Net sales grew 4.6% at constant exchange rates to €18.5 billion. Group comparable sales ex-gas increased 1.7%, building on the healthy group comp sales growth of 10.5% in the year ago quarter.

Importantly within that figure, Q3 Group net consumer online sales grew 29.2% at constant exchange rates, including over proportionate growth in the U.S as well as in Europe for both the food and bol.com business.

Group underlying operating income increased by 0.7% at constant rates, to €812 million, with underlying operating margin down 20 basis points to 4.4% at constant rates. Put in the context however of last year's record levels, we again clearly leveraged our strong top-line and Save for our Customer initiatives to deliver a result that came in ahead of expectations.

Underlying income from continuing operations grew by 4.1% to €547 million in the quarter. And we repurchased 7.7 million shares for €207 million. As a result, diluted underlying EPS was €0.53, up 8.1% at constant rates, compared to last year.

Slide 11 shows our results on an IFRS-reported basis for Q3.

Now, moving on to slide 12, let's take a closer look at our comp sales trends on a 2-year stack basis in little more detail. In Q3, we posted 15.3% and 7.3% 2-year comp sales stacks in the U.S. and in Europe, respectively. On chart 13, you can see that after we adjust for the influences of weather and calendar, our sales trends are even stronger than those reported figures in both regions.

So we have not just maintained, but clearly have built on the momentum of the 2020. This underlines not just the stickiness of new consumer behaviours, which Frans has already mentioned, but also clearly demonstrates that our brands continue to execute very well in this fluid environment.

From a regional perspective, we posted a 16.1% adjusted 2-year comp sales stack in the U.S. in Q3, including adjustments for weather and calendar. This is an acceleration versus FY 2020 as well as Q1 & Q2's adjusted 2- year stacked comp sales growth rates of 14.6% and 15.9%.

In Europe, the adjusted 2-year comp sales stack for Q3 was 7.8%, after adjusting for floods in Belgium and other weather and calendar shifts. While decelerating versus prior quarters, the Q3 adjusted 2-year stacked figure remains visibly above pre-COVID growth rates due to market share gains for our Benelux brands as well as a rebound in several of the Central and Southeastern European countries, which were more challenged for much of the past year.

Moving on to our third quarter performance by segment on slide 14.

Net sales in the U.S. grew 6.8% at constant rates, to €11.5 billion. U.S. comparable sales ex-gas were up 2.9%, against a tough comp of 12.4% in the year ago quarter. It should also be noted that Q3 US comparable sales were negatively impacted by 0.8 percentage points due to calendar shifts related to the timing of the Fourth of July holiday.

With respect to net consumer online sales, revenues grew 52.9% in constant currency, driven by increased Click&Collect capacity as well our FreshDirect acquisition. Excluding FreshDirect, our U.S. online business grew at 26.2% in Q3, even as we lap triple-digit growth in the year ago period.

The step change in the way many consumers shop, favoring the convenience of online purchases is becoming more clear with each and every quarter we trade through. Our unique and brand-specific omnichannel offering is having a positive and sustainable effect on our U.S. business.

Our US underlying operating margin in the U.S. was 4.8%, down 0.2 percentage points from the prior year at constant exchange rates, as margins lapped record Q3 levels from 2020. Nonetheless, the Q3 2021 US underlying operating margin was very strong within the context of pre-COVID levels, due to continued strong sales leverage.

In Europe, net sales in the third quarter grew by 1.1%, to €7 billion and comparable sales were stable versus prior year. Sales benefitted from market share gains at several of our brands, as well as further growth at bol.com. It should also be noted that Q3 Europe comparable sales were negatively impacted by approximately 0.4 percentage points from floods in Belgium.

Net consumer online sales in Europe grew 20.1% in Q3, on top of 48.6% growth in the same period last year. At bol.com, our online retail platform in the Benelux, net consumer online sales grew 19.2% in the quarter. This includes a 24.6% increase in third- party sales as we continue expanding our position as the Benelux's leading online marketplace.
Underlying operating margin in Europe was 4.3%, flat versus the prior year at constant exchange rates, as the strong execution of cost savings programs offset rising cost pressures.

Moving on to slide 15.

Free cash flow in Q3 2021 was €516 million, which compares to €176 million last year. This development was largely impacted by working capital improvements, lower taxes, and, most importantly, higher operating cash flows.

Now turning to our outlook for 2021 on slide 16.

While recent trends with COVID-19 and a choppy macro-economic environment continue to create significant uncertainty, the strength of our brands, our deep customer relationships and excellence in execution have once again allowed us to over-deliver relative to our expectations in the quarter. As a result, we are raising our full year 2021 underlying operating margin, underlying EPS, and free cash flow outlook.

We continue to expect the comp sales trajectory to be better on a 2-year basis in 2021 compared to pre-COVID-19 levels. And while it doesn't affect our comp store sales, our Q1 acquisitions of Fresh Direct as well as stores from Southeastern Grocers, along with our Q3 acquisition of 38 stores from DEEN Supermarkets are providing us with incremental sales.

We are raising our underlying operating margin outlook to approximately 4.4% versus approximately 4.3% previously, reflecting the strong year-to-date margin performance. This margin outlook continues to embed over €750 million Save for our Customer savings initiatives, which have offset cost pressures related to COVID-19, as well as the earnings dilution from increased online sales penetration.

As a consequence of the higher margin, we are raising our full year 2021 underlying EPS outlook, which is now expected to grow by low-to-mid 20 percentage rates relative to 2019. This is up from our prior guidance range of high-teens growth versus 2019.

We are also increasing our free cash flow guidance to approximately €1.7 billion, compared to prior guidance of €1.6 billion. The upgraded free cash flow guidance is driven by our increased underlying operating margin and underlying earnings forecast. Guidance includes our commitment to increase our annual investments in our digital and omnichannel capabilities, which are current and future growth drivers for the Group.

Lastly, we are on track towards growing our 2021 full year dividend, predicated on a 40%-50% payout ratio on underlying earnings. And we remain committed to €1 billion in share repurchases during 2021.

As we get ready to close 2021, we are proud of our accomplishments over the past year. Our business is in great shape and we are ready for the opportunities and challenges ahead. With that in mind, Frans and I are looking forward to speaking to you more about our strategy, outlook and key initiatives across our brands and regions at our Investor Day this coming Monday. But for now, we are ready to take your questions related to the Q3 results.

Operator, would please open the lines for questions.

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