Management's Prepared Remarks
Q4 2021 Earnings Call
February 16, 2022

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 Q4 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, which provide 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.

Frans Muller
President, Chief Executive Officer

Thank you JP.

Good morning everyone.

We ended 2021 on a strong note, with positive fourth quarter Group comparable sales momentum, and Group margins in line with the prior year levels. As we begin the next phase of our Leading Together strategy announced at our Investor Day last November, we are well positioned to execute against our ambitious growth plans.

This is all down to the continued dedication and hard work of our people. Looking back on the past year, I am again most proud of how associates brought our values to life – in the way they responded to the ongoing developments associated with COVID-19 as well as natural disasters including major floods in Belgium, tornadoes in the Czech Republic, fires in Greece and Hurricane Ida in the U.S. Through it all, associates rose to the challenge to care for customers and communities.

For the full year, our COVID-19 care investments totaled €364 million, including our commitment of €20 million in additional 2021 charitable donations spread evenly between the U.S. and Europe. In total, our brands contributed nearly €200 million in food donations and other charitable initiatives across the globe in 2021.

The pandemic highlights the importance of maintaining food and product supplies to local communities – a vital role that we remain focused on fulfilling, together with our brands and suppliers. As a result, we enter 2022 with deeper relationships and trust with customers across our brands' markets with strong and growing market shares in both regions to build upon.

Now let me highlight our key financial results on slide 5:

The good news is, our financial results in 2021 significantly exceeded our original expectations, with positive full-year sales growth and stable 52-week underlying earnings on a comparable basis versus record results in 2020. You can see the 52-week comparable numbers in the Appendix for context.

Our stable underlying earnings is of particular note, as we were able to deliver this result despite significant supply chain challenges, increasing inflationary pressures and the dilutive effects from rapidly expanding our omnichannel proposition. Due to our strong revenues and continued excellent delivery of our Save for our Customer cost saving initiatives, our underlying operating margins were again very strong relative to historical levels prior to COVID-19.

As a result, I am pleased that we exceeded our initial and later increased guidance for underlying EPS. Free cash flow generation, which is extremely important in this environment, also well exceeded our expectations. This allowed us to take some additional decisions towards the end of the year, that Natalie will walk you through later.

Behind these results, our investment in our omnichannel platform once again proved its worth during 2021. With 15 million active mobile app users and 1,642 pick-up points and click-and-collect locations globally, Group net consumer online sales grew by more than 38% compared to 2020, representing a two-year stack growth of more than 105%. This positively impacted our 2021 Group net sales, which, at €76 billion, was up 3% versus 2020 at constant rates, with 96% of our sales coming from markets where we hold the number one or number two position.

In terms of the fourth quarter, we maintained the momentum we built throughout 2021, and produced Group two-year comparable sales stack growth of 14.2%, accelerating from the 12.2% growth achieved during Q3.

As I said at Investor Day, and represented on slide 6, I truly believe we have a repeatable formula for growth in the US and in Europe. We have a strong operating model, with our leading local brands supported by service brands who operate at scale, and who leverage their best capabilities globally.

Between now and 2025, we have four big priorities we are doubling down on for the next four years.

- Serve our customers through deeper digital relationships
- Accelerate the omnichannel transformation and continue to be the best local operators
- Lead the transformation into a healthy and sustainable food system
- Create the ecosystem for smarter customer journeys

These priorities tie straight to our vision: To create the leading local food shopping experience.

With that in mind, let me spend a few minutes on some of the key operational highlights for the quarter, and give you a sneak preview of what to expect in 2022.

Looking at our Consumer Value Proposition on slide 8 and 9:

- In the Netherlands, we launched the Albert Heijn Premium Loyalty subscription program; which already boasts >300.000 customers
- Giant Food soft-launched Ship2Me, an online marketplace solution, initially offering an additional ~40,000 general merchandise and food items. And this has been extended to The GIANT Company as of January this year
- Delhaize started it's first in-store kitchen in collaboration with Tastyoo
- In CZ, Albert expanded their eCommerce service to greater Brno and Olomouc
- And our U.S. brands also added new click-and-collect locations in Q4, for a total addition of 270 in 2021 to 1,386, and we plan to add a further 150+ in 2022.

Looking at our Operational priority on slide 10 and 11:

- In terms of using the power of data, we rolled out Machine Learning based store optimization tool for store managers at Albert Heijn,
- And rolled out a proprietary network optimization engine in the US, leveraging predictive analytics, which will be scaled to Europe in 2022
- In stores, we continue to drive efficiency with electronic shelf labeling and expect ≥ 80% of European grocery stores to be equipped by 2022
- We are also proud of TheGIANT Company's new e-commerce fulfillment center that opened in the Philadelphia market in Q4. It is supporting our ambitions to increase the amount of automation and speed in our supply chain, an important pillar of our Leading Together strategy. We will be looking to take learnings and pilot similar initiatives in Europe in 2022.

Controlling our own destiny across our entire distribution network is an important principle we firmly believe in, particularly when it comes to fostering pace and agility in building out new digital capabilities. In the near term, this will be particularly visible at bol.com, where we look to reinforce the modern infrastructure we have carefully put in place for the brand over the past years.

Momentum at bol.com remains solid despite significantly less tailwinds as we lap the harsher lockdowns from the COVID-19 pandemic of the last 12 months. The investments we plan for 2022 will kick start a multi-year phase of investment to put the infrastructure in place to match the volume growth and new revenue opportunities we expect from:

1. The underlying ecommerce market growth projected in the coming years, where the Total Addressable Market including VAT, or the TAM, is expected to increase from € 46 billion in 2021 to € 63 billion in 2025.
2. Our plans to increase our position in under penetrated categories as well as cross category selling, which includes the deeper collaboration with our Benelux brands announced at Investor Day.
3. As well as the build out and scaling up of highly accretive service capabilities in advertising and logistics. We estimate the Digital Advertising market alone in the Benelux has a TAM of just under € 5 billion.

For 2022, the sub-IPO of bol.com is one of our top priorities. We are excited about this chapter in bol.com's evolution and continue to progress on our plans to get bol.com ready for a sub-IPO during the second half of 2022. Natalie will also share more details on our progress here in her commentary.

Moving over to our Healthy and Sustainable priority. Throughout 2021, food-at-home consumption and a focus on healthier eating were trends which proved very resilient. I am particularly pleased with the share of total own-brand food sales from healthy products of 53.6% in 2021.

At Ahold Delhaize, we believe that what’s healthy and sustainable should be accessible and available to all. We are working towards this with our “Grounded in Goodness” strategy, that focuses on both healthier people and a healthier planet.

Grounded in Goodness, officially launched in 2021, is based on the idea that the world’s health crisis and climate crisis are intrinsically linked. We believe that if we get it right for ourselves, we usually also get it right for the planet. And acting responsibly today is imperative to securing a better tomorrow for generations to come.

In this respect, during the fourth quarter, we were pleased to have earned an upgrade to our MSCI ESG ranking to ‘AA’ from our previous ‘A’ ranking. We also maintained our standing as a leader in the Dow Jones Sustainability Index.
Our score of 83 out of 100 was well above the industry average of 26 points and placed us highest among food retailers in Europe and the U.S..

We also expressed our intention to make continued progress on the ESG front through our decision in Q4 to pull forward our commitment to reach net-zero carbon emissions across our own operations by no later than 2040 for scope 1&2. We focus primarily on reducing energy consumption (more than half of the emissions), refrigerant leakage (more than one third) and transport. And we will actively apply this lens as we invest in our future. For example, at bol.com, we recently reached an agreement to acquire a majority stake in Cycloon, a green and social delivery expert, which will help support bol.com's last mile delivery ambitions and their sustainability efforts at the same time.

As we look towards 2022, another top priority for the company is doing more homework on what it will take to become a net-zero business across our entire supply chain, products and services by 2050 (scope 3), if not sooner. In our industry, scope 3 represents around 95% of our emissions. Our value chain is immense: we sell over hundreds of thousands of products and have thousands of suppliers worldwide. We are currently working towards an updated target and detailed plan for scope 3, which we will announce later this year.

We have joined the business ambition for 1.5°C, a global coalition of UN agencies, business and industry leaders, in partnership with the Science Based Targets Initiatives and the UN led campaign 'Race to Zero'. This means we also set interim science-based targets across all relevant scopes and in line with the criteria and recommendations of the Science Based Targets initiative.

Three important elements in our approach:

- We need to actively help farmers with a green transition
- We need to standardize healthy and environmental product information for consumers
- And we need full support from governments in setting clear standards and regulation.

Finally, let me spend a moment on our outlook for 2022 on slide 15. While we have already talked about several key initiatives to support comparable sales growth and further elevate our best-in-class omnichannel offering, let me address the one hot topic in the financial community for this year; inflation.

Our role as retailers is to provide value to customers. We pride ourselves on being the best local operators, and we will prove our strength in this area and turn the headwind into a competitive opportunity as we navigate the inflationary environment.

I have said many times before, that the supermarket business has a deflationary role for customers. This is because we have strong insights into which price increases are justified, via our "should-cost" models, which deconstruct products down to component materials (raw materials, packaging, energy, transport etc.) so that we have a good sense of what a product should cost. Given that ~30% (U.S.) and ~50% (Europe) of our products are own-brand, which is industry leading, we have exact and broad knowledge which gives us a significant advantage over competition.

While negotiations with suppliers are tougher in this kind of environment, we work hard to make sure to only accept price increases that are justified to pass on to customers. And you will have seen in the press just how prepared we are to hold the line aggressively with our suppliers when we see unjustified price moves in our markets.

Beyond that, and keeping the customer basket in mind, it's important to stress that our 19 brands offer price ranges for every wallet, this also goes for healthy products, so customers can maintain a healthy lifestyle. An attractive private label offering, good promotions, but also everyday low prices, like with the Prijsfavorieten/Price favorites with Albert Heijn, or extra discount on healthy products with the SuperPlus loyalty program in Belgium or the GIANT choice rewards loyalty program in the U.S., are part of our toolkit to help customers continue to enjoy a good value and healthy basket.

From a business perspective, as you will have seen with our Q4 numbers, we are navigating the elevated levels of inflation very well. Our gross profit continued to grow in line with sales. In general we see pretty rational behavior amongst competition in the markets we serve, as this is an industry wide phenomenon. And while we are still waiting for some data, our market shares continued to improve, underpinning the quality of our customer value proposition. While current inflation levels are indeed elevated, we expect inflation to moderate in the second half of the year, also as supply chains get back on track.

So taking all our priorities together, 2022 will be another busy year for our company. And we believe another rewarding one for shareholders. Given that we currently see many signs of reopening from the pandemic around the world, our 2022 outlook reflects further strong underlying operating performance in that context. We will work hard on achieving our goals and keeping the focus on long term value creation.

Finishing 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.

Natalie Knight
Chief Financial Officer

Good morning and thank you Frans.

I am also very proud to share another quarter of exceptional results as we finished the year strong, meeting or exceeding all of our original commitments for the year.

As you can see on slide 17, Q4 net sales were €20.1 billion, up 0.1% at constant exchange rates, or +2.8% at actual exchange rates, driven by positive contributions from comparable sales growth excluding gasoline of 3.2%, as well as acquisitions, and foreign currency translation benefits, which were partially offset by last year's inclusion of a 53rd week. Excluding that, Q4 net sales grew by 6.7% at constant exchange rates.

Net consumer online sales grew 13.2% at constant exchange rates versus Q4 2020, due to continued growth at bol.com and the overall online grocery business and the FreshDirect acquisition. On a more comparable 13-week basis, Q4 Group net consumer online sales were up 21.5% at constant exchange rates, which builds on top of 71.7% growth in Q4 2020.

In Q4, Group underlying operating margin was 4.2%, unchanged compared to 2020 at constant exchange rates, as sales leverage and strong cost-saving initiatives offset higher supply chain costs and inflationary cost pressures. Group underlying operating income increased by 1.0% at constant rates, to €838 million.

Underlying income from continuing operations grew 6.7% to €598 million in the quarter. And we repurchased 9.9 million shares at an average price of €30.17 for €299 million. As a result, diluted underlying EPS was €0.59, up 7.6% at constant rates, compared to last year.

Put in the context of 2020's record levels, we again clearly leveraged our strong top-line and Save for our Customer Initiatives to deliver a result ahead of our expectations. Slide 18 shows our results on an IFRS-reported basis for Q4 and slide 19 and 20 shows our results for the full year on an underlying and IFRS-reported basis.

Moving on to slide 21, on a two-year comparable sales stack basis, growth for the Group of 14.2% in Q4 2021 compares to the 12.2% growth posted in Q3, showing a nice acceleration.

On chart 22, you see that after we adjust for the influences of weather and calendar, our Q4 sales trends are almost identical with the reported figures in both regions.

In the U.S, we posted a 15.9% adjusted 2-year comp sales stack in the in Q4, keeping the pace of previous quarters.

In Europe, the adjusted 2-year comp sales stack for Q4 was 11.6%, accelerating compared to Q3 due to market share gains for our Benelux brands.

Now let me go a little deeper on to our fourth quarter performance by segment. Starting with the U.S. on slide 23, net sales grew 1.5% at constant rates, to €13.8 billion. And excluding last year's 53rd week, fourth quarter sales increased 9.2% at constant exchange rates.

U.S. comparable sales ex-gas were up 4.8%. Unfavorable weather negatively impacted these sales by approximately 0.2 percentage points. Online sales in the segment grew 30.5% in constant currency, driven by the continued expansion of click-and-collect facilities and the FreshDirect acquisition. Excluding FreshDirect, U.S. online sales grew 7.5% in constant currency, building on top of the significant 128.5% growth in the same quarter last year.

In terms of brand highlights, Food Lion achieved its 37th consecutive quarter of positive comparable sales growth. The 71 stores acquired from Southeaster Grocers in early 2021 also continue to exceed sales expectations. At Stop & Shop, we also completed 19 remodels in Q4 bringing total remodeled stores in 2021 to 55. Remodeled stores here also continue to exceed sales expectations.

Our US underlying operating margin was 4.4%, up 0.5 percentage points from the prior year at constant exchange rates, driven by strong cost-savings initiatives and reduced COVID-19-related expenses.

In Europe, as seen on slide 24, net sales in the fourth quarter decreased 1.9% at constant exchange rates to €8 billion. Excluding last year's 53rd week, Q4 net sales in Europe grew by 3.0% at constant exchange rates. Despite lapping strong comparable sales growth excluding gasoline in Q4 2020 of 10.6%, comparable sales grew year-over-year on the back of continued market share gains.

Albert Heijn was a particular standout in the quarter, with positive market share results driven by strong execution and successful marketing campaigns. We successfully converted all 38 stores acquired from DEEN to the Albert Heijn banner in less than 10 weeks. Albert Heijn To Go was also introduced at 86 BP fueling station locations in the quarter, which will scale up to 100 next year.

Net consumer online sales in the segment were up 7.4%, following 73.4% growth in the same period last year. Underlying operating margin in Europe was 4.1%. This compares to an underlying operating margin of 5.1% in the prior year quarter when margins benefited from strong leverage related to the strict lockdown conditions in Europe.

Moving to slide 25, let me spend a little more time on bol.com and provide you with some additional disclosure and update on the sub-IPO process.

Ahold Delhaize

In Q4, net consumer sales grew by 7.8% in Q4, or +15.3% on a comparable 13-week basis, which comes on top of nearly 70% growth in the same quarter last year. Bol.com's sales from third-party sellers grew 9.1% in the quarter or 17.2% on a comparable 13-week basis, representing 56% of net consumer sales.

In December, we formally kicked off the sub-IPO process with internal working teams established and external advisors appointed. In terms of timelines, we are fully on track with our preparations to be ready to launch in the second half of 2022. More details will be shared in the prospectus and other related documents in due course. That being said, however, I am in a position to give some additional color on 2021 for context on slide 26.

Bol.com net sales, and note this is a new figure, increased 21% to €2.8 billion. Net consumer online sales for the year were up 27% to €5.5 billion, fueled by our growing merchant partner network, which now stands at around 49,000. Gross Merchandise Value (GMV) excluding VAT was €5.6 billion an increase of 28%. Merchant partner sales grew 36%, and now represent over 60% of GMV. Including VAT, which many external commentators benchmark, GMV was over €6.5 billion in 2021 approximately. Profitability was also strong, with underlying EBITDA of €166 million, keeping pace with the prior year, which is a strong result given the significant leverage effects due to the pandemic. bol's net capital expenditure for the year was €159 million. Free cash flow came in at €162 million, a record result for bol.com. The strong financial progress that bol.com has shown over recent years highlights the strength of the underlying business model, Frans already discussed in detail earlier.

Moving on to slide 27, and switching back to the Group, as I stated at Investor Day in November, you've always been able to count on us to deliver reliable growth and free cash flow. In Q4, free cash flow was €379 million, which represents an increase of €118 million compared to Q4 2020, mainly driven by higher operating cash flow, working capital improvements and lower net investments, which were partly offset by U.S. pension contributions and higher income taxes paid.

The pension payment was a $190 million (~€170 million) pension liability which we paid in the U.S. ahead of schedule, following our 2020 U.S. Multi-Employer-Pension withdrawals and was already reflected in our November FCF guidance.
The increase in taxes mainly relate to the payment of an additional assessment notice of approximately €380 million that our Belgian subsidiary Delhaize received in December. We decided that the basis of such an assessment is without any merit and, as we have communicated also on previous notices and as such, we recorded a receivable for the full paid amount. We decided to pay the amount to ensure there are no disruptions created from the assessment notice to our ongoing modus operandi as timing of a resolution to the matter remains unclear.

On a full year basis, free cash flow generation was a very healthy €2.2 billion, and €1.6 billion on a reported basis, underpinning the strength of our business model and our continued confidence in balancing investment in growth and shareholder returns.

I'd now like to make a few comments to our outlook 2022 on slide 28 and 29.

We remain very confident in our growth potential, as indicated during the November Investor Day, albeit it with some phasing as we go through the year as we lap periods of lockdowns and opening related to the pandemic.

With supply chain disruptions, inflation and rising costs pose as well as the expected easing of government subsidies pose challenges for the industry, Group underlying operating margin is expected to be at least 4.0%, in line with the Company's historical profile, as our brands continue to offer consumers a strong shopping proposition and are well positioned to maintain profitability in the current inflationary environment.

Margins are expected to be supported by a strong Save for Our Customers target of above €850 million. This should help offset significant cost pressures related to inflation and supply chain issues, along with the negative impact to margins from increased online sales penetration. The 2022 target builds on €967 million of savings from 2021, which significantly exceeded our original expectation of savings of €750 million. In addition, we also expect complementary revenue streams to grow at least 20% in 2022, building off a solid base of €355 million in 2021.

Underlying EPS is expected to decline by a low- to mid-single-digit rate versus 2021, driven primarily by a return to historical margin levels in 2022 compared with elevated 2021 levels.

Free cash flow is expected to be approximately €1.7 billion. And that's despite a step up in net capital expenditures which are expected to total around €2.5 billion, reflecting higher investments in digital and omnichannel to support accelerated sales growth. Both this free cash flow and capital expenditure guidance for 2022 reflect approximately up to € 200 million incremental spend as we begin our multi-year investment strategy in bol.com.

When it comes to shareholder returns, we also remain committed to our annual dividend policy and share buyback program in 2022. With that in mind, I am also pleased to announce today our proposal to increase the dividend per share by 5.6% for 2021 to €0.95 per share, subject to approval at the AGM, and that we started our €1 billion share buyback in January as planned.

Finally, let me spend a few moments to add some additional granularity on our 2025 financial guidance as we outlined in detail at our Investor Day.

As you can see on slide 32, we expect to deliver a visible and sustainable uptick versus historical growth rates, which will translate into 10bn euros of incremental sales between 2023 and 2025. We see big potential to drive this only through our efforts at bol.com and enhanced collaboration in the Benelux. We believe there is also big upside in the US business as well.

Combined with our Save for Our Customers goal of €4 billion cumulative savings, and our €1 billion target in complementary revenue streams, this provides a powerful backdrop to continue delivering industry leading operating cash flows.

As we also outlined at Investor Day, Leading Together is a future-focused growth an investment plan. Moving to slide 33, where you see our capital expenditure split, we plan to shift close to 20 percentage points of overall spend towards online and new more omnichannel focused stores in 2025 compared to our 2020 split, as we also complete several large supply chain and other infrastructure projects.

A significant part of the investment plan, or an additional 50 basis points of capex on average per year relates specifically to bol.com over the period. If we exclude this step-up in investment which is largely geared towards warehousing, logistical, platform and last mile infrastructure, and look at the grocery business on its own, we expect capital expenditure and free cash flows to continue to be consistent with historical norms. Excluding bol.com, our grocery business capex guidance will continue at prior averages of ~3%. These additional investments will ensure momentum at bol.com remains strong, and will primarily be funded by the strong projected free cash flow generation of our grocery business of at least €7 billion for the period 2022-2025.

In closing, we are very proud of our accomplishments at Ahold Delhaize over the past year. We have taken big steps to strengthen our business foundation during 2020 and 2021 and we are ready for challenges and opportunities that lie ahead of us in 2022. Our plans for 2022 clearly underpin our goal 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. Frans and I are looking forward to taking your questions.

Operator, please open the lines for questions.

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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.

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