Management's Prepared Remarks
Q1 2024 Earnings Call
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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 2024 results conference call.

On today's call are Frans Muller, our President & CEO and Jolanda Poots-Bijl, our CFO. After a brief presentation, we will open the call for questions.

In case you haven't seen it, the earnings release and the accompanying presentation slides can be accessed through the Investors section of our website aholddelhaize.com, which also provides extra disclosures and details for your convenience.

To ensure everyone has the opportunity to get their questions answered today, I ask that you initially limit yourself to 2 questions. If you have further questions then feel free to re-enter the queue.

To ensure ease of speaking, all growth rates mentioned in today's prepared remarks will be at constant exchange rates unless otherwise stated.

I’ll now turn the call over to Frans.

Frans Muller

President, Chief Executive Officer

Thank you JP and good morning everyone.

I am pleased to report a stable first quarter, placing us well on track to reach our goals and aspirations for the year.

2024 is an important year for our company as we pivot to our refreshed strategy which we are very much looking forward to unveiling in two weeks.

As we tee-up for this next phase of our journey, we are working hard to ensure we are fit and ready to transition to a more robust growth profile. On that front, three areas in particular drive much of our operational agenda for this year:

- Our relentless focus on the customer, our price positioning and assortments, and leveraging the strength of our great local brands;
- Further simplification of our organization to sustain growth investments and drive innovation;
- And as always, continuing to be laser focused on cost control and cash flow delivery

So let me briefly step into the first two of those and Jolanda will cover the third as we reflect on the first quarter.

Although inflation is stabilizing in our markets, the price/value equation continues to be of utmost importance to our customers as household budgets remain tight. Therefore, our brands have been very active delivering great value, quality and savings to customers - creatively using the full spectrum of our own brand assortment and omnichannel toolkits.

- In the U.S., one example of this is at Giant Food, which has lowered prices on hundreds of its private-label items, and has expanded its Flexible Rewards loyalty program to include double points on Giant brand items purchased.
- Stop & Shop is partnering with the state of Rhode Island on its pilot governmental SNAP program called 'Eat Well, Be Well'. This program is the first of its kind in the U.S., providing SNAP recipients with up to $25 per month in additional financial incentives for purchasing eligible fruits and vegetables.
- And in Europe, at Albert in the Czech Republic, active users of the 'My Albert' app now receive a 15% discount on organic food and Nature's Promise healthy products. This is the third EU brand that rewards customers for choosing healthy products, following the Delhaize SuperPlus and Albert Heijn Premium programs.

Moving to the second area of our agenda for 2024, simplification of the organization. Unlocking the benefits of prior year interventions and building off the additional cost plans we put in place are delivering good results as we can see with the consistent margins we delivered in Q1.

The largest of those simplification initiatives was the Belgium Future Plan. One year into the plan, the Delhaize team are making great progress, with many key milestones already achieved.

- In February, the team finalized agreements to franchise ALL of the 128 own operated stores.
- To date, 76 stores have already transitioned to their new owners, and we are on a good cadence to complete the transitions in the second half of the year.
- From those stores already transitioned, the results are very promising, with store sales, customer frequency and basket size all trending upwards.

In the US, we made a major move in the first quarter to streamline our support brands into one Ahold Delhaize USA support organization. This shift will bring all support functions together to seamlessly partner with the five great local brands so they can do what they do best – be the trusted local grocer in their markets and accelerate omnichannel growth. JJ will share more on this and our vision for growth in the U.S. at our upcoming strategy day.

In addition, our decision to orient our online fulfilment capabilities towards more efficient, less asset intense same-day delivery models such as click and collect is also paying off. Our online sales in the U.S. grew 5% year-over-year in the first quarter on a like-for-like basis, fueled by new customer growth as well as strong retention of existing e-commerce customers.

We continue to make steps to further improve our e-commerce performance driven by:

- Labor efficiencies and cost rationalizations in all channels; transitioning from lower efficient fulfillment centers to our flexible “store first” network strategy; and
- The launch of our partnership with DoorDash is already off to a strong start with over 1,800 stores across all five brands now live with the DoorDash marketplace. The partnership is bringing new customers, which are primarily convenience shoppers that are typically purchasing smaller baskets but looking for a faster delivery time for an immediate need.

Driving more growth and leverage from our online capabilities is also a top priority for our European teams as we benefit from increasing demand and new external partnerships. One such aspect of the online experience that we are developing is an innovative proposition for business customers, with the ambition to offer quality and accessible services to a wide range of companies at an affordable price.

At Albert Heijn, the brand has entered into new B2B partnerships with large child care services and healthcare providers, including Holland Food Service a leading partner for care facilities. And they have also started offering all business customers a standard 10% discount on all organic and AH Terra products, Terra is Albert Heijn’s fully plant-based own-brand product line, as we extend our health and sustainability ambitions from the home to the workplace. Remember, our omnichannel customers are on average 2 times more valuable.

Driving healthy sales is a key selling point and one of our most important long-term ambitions. We are leaders in healthy product innovation and it is amazing the things that can still be achieved in product formulation. For example, in 2023 Albert Heijn reduced 115 million sugar cubes, 62 thousand kilograms salt and 275 thousand kilogram saturated fat from their own-brand products compared to 2022. And to enable customers to access more fiber rich foods, Albert Heijn also increased the number of wholemeal breads on the shelf while keeping the price similar to that of the white variety.

In terms of innovation on a more broader scale, two other new initiatives I want to highlight. Our participation in the Global Retail Innovation Fund, W23. And the launch of our new tech studio in Bucharest, called AD/01.

In April, we announced that Ahold Delhaize has joined forces with 4 other leading grocery retailers and have established W23 Global, a collaborative venture capital (VC) fund to accelerate innovation across the grocery retail ecosystem. The focus of this fund will be on investing in globally scalable, tech-led innovation transforming retailing and addressing common ESG challenges.

We also launched a new tech studio in Bucharest, called AD/01. The first talents are currently coming on board; the plan is to have around 250 top tech talents involved in this tech studio within the next few years, while fostering a vibrant inclusive engineering culture. They will work together on innovations with the aim of providing leading customer experience at Ahold Delhaize's European brands.

You will hear more on these at our strategy day on May 23 and I look forward to welcoming many of you in person to Zaandam.

Now over to you Jolanda to talk more about the financials.

Jolanda Poots-Bijl

Chief Financial Officer

Thank you Frans and good morning to everyone.

Our performance in the first quarter once again highlights that we are a resilient company, with a portfolio of strong local brands in both the U.S. and Europe, allowing us to deliver a consistent set of results.

Overall, inflation rates are moderating in the US and have come down rapidly in Europe, impacting our top line. At the same time, we are still battling the cost inflation impacts in the center of the P&L. Looking at our financials for Q1, we have managed this inflation imbalance well, as we tightly manage our costs and actively look to drive leverage as volumes begin to improve.

Getting to the key underlying numbers for the quarter, as shown on slide 13.

- Net sales grew 0.4 percent at constant exchange rates, or plus 1.3 percent to 21.7 billion euro. This was negatively impacted by the divestment of FreshDirect and the cessation of Tobacco sales in our own operated supermarkets in the Netherlands.

- Group comparable sales growth was 1.6 percent.

- Group net consumer online sales decreased by 1.0 percent, negatively impacted by 5.7 percentage points from the divestment of FreshDirect. This was offset by double-digit growth at Food Lion, Hannaford and Albert Heijn.

- Group underlying operating margin was 4 percent, in line with the prior year. Improvements in our European performance were offset by modest declines in the U.S. GSO insurance results were comparable to the prior year.

- Diluted underlying earnings per share was 59 euro cents, down 2.9 percent, primarily driven by foreign exchange rates and higher financial expenses and income taxes.

Slide 14 shows our results on an IFRS-reported basis for Q1.

The difference versus our underlying figures are mainly due to costs from our Future Plan in Belgium, as we transition stores to their new owners.

On slide 15, you see comparable sales growth by region including and excluding weather, calendar and other effects. This shows we experienced a positive impact from calendar shifts of one percentage point in the US, related to the timing of Easter and New Year's Eve. In Europe there was around a 50 basis point negative net impact due to various factors that I will explain shortly.

In the U.S. net sales were 13.3 billion euro, down 0.6 percent. Net sales were negatively impacted by 158 million euro from the divestment of FreshDirect. Strong growth in pharmacy was offset by the non-recurrence of emergency SNAP benefits, the moderation of inflation rates, and lower gasoline sales.

Our online sales in the segment declined 10.1 percent, negatively impacted by 14.8 percentage points from the divestment of FreshDirect. This was partially offset by double-digit growth at Food Lion and Hannaford and the positive contribution from our new partnership with DoorDash.

Underlying operating margin in the U.S. was 4.6 percent, down 20 basis points from the prior year due to higher shrink, store labor and hired service costs, which was partially offset by the margin mix benefit from the divestment of FreshDirect.

In terms of brand momentum, Food Lion's impressive performance continues with now 46 consecutive quarters of comp store sales growth. Our omnichannel remodels are really paying off for the brand. The Wilmington and Greenville markets are delivering fully against expectations and we are excited that the Raleigh market remodels are well on track to complete 167 store upgrades later this summer.

Turning now to Europe, sales were 8.5 billion euro, an increase of 4.6 percent. This was due to the positive impact from comparable sales growth of 2.8 percent and the net opening of new stores, including the conversion of Jan Linders stores.

Europe's comparable sales growth figure includes:

- a negative impact of 1.9 percentage points from the end of tobacco sales at our own-operated supermarkets in the Netherlands as of January 1st
- a positive impact of 0.8 percentage points from the timing of Easter
- a positive impact of 0.7 percentage points from the cycling of strikes in Belgium

Going forward it is important to realize that our net sales will be negatively impacted when our own Delhaize stores are converted to affiliates. In that case we will no longer account for the sales to the end customers but only the sales to affiliates.

At bol, which celebrated this quarter its 25th birthday, Gross Merchandise Value (GMV) excluding VAT was 1.4 billion euro, up a modest 1 percent, growing over-proportionally with our first-party sellers. Bol started the year strong in a market that continues to show limited overall growth. We continue to see strong growth in value added services such as Advertising and Logistics which grew over 30 and almost 10 percent for the quarter, respectively.

Underlying operating margin in Europe was 3.2 percent, up 0.3 percentage points. We benefitted from a performance recovery in Belgium, in part due to cycling prior year strikes, and lower energy costs which were partially offset by higher wages and an increase in the non-cash service charge for the Netherlands' employee pension plan.

Moving on to slide 19, Q1 free cash flow was 377 million euro, which represents an increase of 356 million compared to Q1 2023. This was mainly driven by:

- a positive contribution from working capital largely due to timing of holidays, and
- Lower net investments as divestments were 129 million euro higher than prior year. The latter is primarily related to the sale of two U.S. meat processing facilities.

In March, we successfully priced a 1.6 billion euro multi-tranche transaction, including a 500 million euro seven-year green bond and a 700 million euro 12-year sustainability-linked bond, with each tranche very well received and multiple times oversubscribed.

And at the end of April we issued our green bond impact and allocation report, providing insights in how we used the proceeds from the 500 million euro green bond issued in 2023. The largest portion we allocated in Green Buildings and Energy Efficiency categories. For example, Albert Heijn’s newest, state-of-the-art Home Shop Center for our online business has a fully gas-free infrastructure, more than 5,400 solar panels and energy efficient solutions.

That wraps up my financial review of Q1, and brings me to our Outlook.

Given the solid start to the year, we reconfirm our guidance for 2024. I am confident we have a strong foundation to deliver on our commitments for this year and we are ready and energized as we gear up for our next phase of growth.

I look forward to welcoming many of you to our 2024 Strategy Day on May 23. For those wishing to attend in person, today is the last day for registration, and there are only a few spots left. For those wishing to follow the live webcast, you can sign up via our website or by scanning the QR code on the slide. It will be an eventful few days during which you will see some of our impressive facilities and you will hear from our leaders and associate on our plans for the future in both our US and European businesses as well as a few special deep dives on Group wide initiatives.

With that, I thank you for tuning in and Operator, please open the lines for questions.

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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 stable, on track, reach, goals, aspirations, important, pivot, strategy, looking forward, next phase, journey, working hard, ensure, focus, simplification, sustain, continu(ing)/(e)/(es), benefits, can, see, consistent, progress, key, milestones, complete, support, orient, steps, further, improve, strong, driving, growth, leverage, priority, developing, innovative, ambition(s), offer, long-term, leaders, enable, accelerate, talents, next few years, inclusive, aim, resilient, mainly, due to, transition, momentum, performance, expectations, going forward, reconfirm, guidance, deliver, commitments, will 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, including high levels of inflation, on consumer spending; changes in consumer expectations and preferences; turbulence in the global capital markets; political developments, natural *disasters and pandemics; wars and geopolitical conflicts; climate change; energy supply issues; 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; ransomware and other cybersecurity issues relating to 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; inability to obtain effective levels of insurance coverage; 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.