**Management's Prepared Remarks**

**Q2 2024 Earnings Call**

**August 7, 2024**

**JP O'Meara**

**Senior Vice President, Head of Investor Relations**

Thank you operator, and good morning everyone.
I am delighted to welcome you to our Q2 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 strong second quarter, placing us well on track to achieve our strategic objectives and financial goals for the year.

2024 is a very important year for us, as we position ourselves for long term profitable and sustained growth.

To that end, we launched our refreshed company strategy, 'Growing Together,' internally and externally in May, which many of you attended.

At the same time, our business is performing well. We saw solid and improving momentum at our brands in both regions.

Our omnichannel capabilities, the strength of our own brand assortment as well as our hard work on the cost side to fund investment in our customer value propositions are paying off.

Stripping out the noise in our revenue numbers from:

- calendar,
- exiting tobacco in the Netherlands,
- the Delhaize Future Plan,
- and the Fresh Direct divestment – I am very encouraged by the steady and sequential improvements in comparable sales growth

numbers in both regions (the details of which Jolanda will outline later).

We have further strengthened our relative position in key markets, we have created some headroom in our profitability base in the U.S. to support growth investments, and our European margin recovery is well underway as we look ahead.

I would like to thank our more than 400 thousand associates for these strong results, supporting and serving our customers at every step, taking the initiative to simplify our business, and for embracing our new strategy with enthusiasm and energy.

As a reminder, the key elements of our Growing Together strategy are captured in our Growth Model. These are:

- Invest in our winning CVP;
- Densify and grow markets;
- Innovate for growth and efficiency;
- and leverage and lower our cost base

This quarter, I would like to spend some time on Densify and Grow our markets. Important elements of this pillar over the coming years include:

- A more pronounced organic store growth and remodeling program in the U.S.

- Further leveraging our Benelux stronghold through Albert Heijn and Delhaize and capturing new growth opportunities in the CSE region, with new store openings, and with accretive bolt-ons such as Profi, bringing scale and synergies.
- On the flipside, making the necessary interventions when brands are challenged, to elevating the quality of our sales and operations such as the Stop & Shop measures I will talk about later.

In terms of strong organic growth, with 47 consecutive quarters of comp store sales growth, Food Lion exemplifies how a clearly defined long-term plan, persistence and consistent execution can lead to great results.

The recently remodelled Wilmington and Greenville markets are delivering in line with expectations. And, with 7 stores under construction and 158 stores completed, we plan to complete our initiatives in the Raleigh market later this summer.

In Europe, Albert Heijn's market share gains continue, with the brand also seeing impressive double-digit growth in Online sales. We are capturing new growth opportunities in the CSE region, with 18 net store openings during the quarter, and continued growing our own brand assortments. We are also nearing the closure of the Profi acquisition, which we expect to happen during the fourth quarter.

In Belgium, Delhaize is approaching the final phase of store transitions as part of its Future Plan. We anticipate the team will have converted all stores in Q4. To date, 108 stores have transitioned to their new owners. We are very pleased with the results thus far, with store sales, customer frequency and basket size all trending upwards. This is also confirmed by a strong market share recovery, with market shares now exceeding pre-announcement levels.

Finally, let me give you a brief update on Stop & Shop. We recently announced a first major step for the next phase of our Stop & Shop revitalisation work, with the planned closing of 32 underperforming stores to be completed in Q4.

The estimated net impact of these closures on our top line is expected to be between 100 and 125 million dollars in the second half of 2024 and between 550 and 575 million dollars in 2025. We also expect to recognize a non-recurring pre-tax charge between 160 and 210 million dollars in the third quarter of 2024.

Closing stores in our industry is never an easy event, and we have done our utmost to minimize disruption for our associates, for our customers and for the local communities of these impacted stores. However, it is an important step that is needed to create a healthy store base for the long term and to focus our investments to strengthen and grow the brand again. As we said in May, we are committed to further investments in price and in the customer experience. And a great example of this is the opening of the newest flagship Stop & Shop store in Boston in June, featuring an extended produce department with more local fresh fruits & vegetables, a carefully curated assortment of products for the wide range of cultures and communities in the area and the newest price and promotion programs.

Investments like these tie to one of the other key elements of our Growth Model: Investing in our winning Customer Value Proposition.

We know strengthening our competitiveness in the existing network always brings the fastest and highest return on investment. In May, we announced we would step up our price investments across all brands in the U.S. by $1 billion dollars over the period 2025 through 2028.

These will build on price investments and interventions in the current year, which are predominantly focused on Stop & Shop and Giant Food in 2024.

A great example of this is the ‘Compare & Save’ campaign, where we are emphasising the value of Own Brand products compared to National Brands. Although we are in the first phase of the campaign, initial feedback is positive with higher sales, in both dollars and units.

In Europe, we are also investing in our CVP by further increasing our range of Pricefavorites. We now have roughly 7,400 EDLP SKUs, up almost 15 percent compared to last year. This is an important value driver as our data shows that the sales out of these SKUs are a substantial contributor to our sales growth.

Finally, let me spend a moment on Innovate for Growth and Efficiency which includes ramping up our capabilities to drive complementary income streams.

- This quarter, Ahold Delhaize USA announced its retail media network is partnering with Placementis.io (Placements dot io), a platform that will further streamline its sales, advertising, and finance operations for its consumer-packaged goods partners.

- In Europe, the Gambit technology, which is our retail media platform through our investment in Adhese, is now live at both Alfa Beta and Delhaize Belgium.
- In addition, Albert Heijn has added new functionality making it easier for advertisers to activate sales and strengthen their brands thanks to Albert Heijn's wide reach. For example, video advertisements are now possible on ah.nl and in the AH app.

With that, let me summarize by repeating that 2024 is an important year in setting the scene as we pivot to our ambitious Growing Together strategy. Everything I see at the moment gives me confidence that our brands are taking the right steps, moving at the right pace, and leveraging the strong foundation of our business to accelerate growth.

Now over to you Jolanda to talk more about the financials and outlook for the remainder of the year.

**Jolanda Poots-Bijl**

**Chief Financial Officer**

Thank you Frans and good morning to everyone.

Our second quarter performance highlights the strength of our portfolio of great local brands, which together with our strong market share positions is a winning combination.

As inflation rates stabilize in both the U.S. and in Europe, we continue to see volume trends improving and in many cases moving to positive territory.

At the same time our teams keep a relentless focus on leveraging and lowering our cost base, to further drive operational efficiency and cost discipline.

Several mitigating actions have been launched to compensate for the ongoing cost inflation in the center of the P&L. We do this in negotiations with our suppliers on cost of goods sold, by bringing AI and mechanization in our operations, and also by simplifying our processes wherever we can.

Several organizational simplification initiatives in the U.S. and CSE, which we already announced in previous quarters, are now paying off. Other initiatives within our group organization, which we started earlier this summer, will provide fuel for future growth.

While simplification is a strong anchor for our Save For Our Customer program, which is tracking very well year-to-date, it also contributes to increasing collaboration, speed and decision-making, which will add to our competitiveness going forward.

Getting to the key underlying results for the quarter, as shown on slide 16.

- Net sales grew 0.7 percent to 22.3 billion euro benefitting from positive comparable sales ex gas growth and net store openings. The negative impact of the divestment of FreshDirect, the end of Tobacco sales in the Netherlands and the Belgium Future Plan impacted net sales by 1.3 percent.

- Group online sales increased by 3.4 percent. Double digit growth numbers at most of our brands, were negatively impacted by 8 percent from the divestment of FreshDirect.

- Group underlying operating margin was 4.2 percent, a 10 basis points improvement compared to last year. Continued improvement in our European businesses and strong execution in the U.S. were only partially impacted by lower insurance results within the Global Support Office.

- Diluted underlying earnings per share was 65 euro cents, up 4.5 percent. In the first half year, we bought back 18.3 million shares for a consideration of 501 million euro, also in line with our one billion euro annual plan.

- And finally, our 2024 interim dividend will be 50 cents, up 2 percent from 49 cents in 2023, in line with the Group's interim dividend pay-out policy.

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

IFRS results were 143 million euro lower than underlying results, largely due to costs associated with the transition of stores as part of the Belgium Future Plan.

On slide 18, you see comparable sales growth by region including and excluding weather, calendar and other effects. This shows a negative impact from calendar shifts of 120 basis points in the U.S., related to the timing of Easter and the 4th of July. In Europe there was around a 210 basis point negative impact from tobacco, 70 basis point negative impact from Easter and a 50 basis point positive impact from cycling strikes.

Before I jump into the regional performance, I would like to spend an extra moment on our online sales growth which is showing very solid momentum.

We see that customers value our omnichannel ecosystems, which offer them the flexibility and convenience of shopping whenever and wherever they want. In Q2, our online sales increased 11.4%, excluding the divestment of FreshDirect driven by both new customer growth and strong customer retention. At the same time, we are also making positive strides in e-commerce profitability. A few examples.

- In the U.S., the shift in demand to more profitable channels and our initiatives to optimize the store-first fulfilment model are paying off. Our customers respond positively to our new partnership with DoorDash, with orders through DoorDash Marketplace more than doubling compared to the first quarter.
- In the Netherlands, Albert Heijn is on its fourth quarter of accelerating online sales growth. To support this strong growth, Albert Heijn has opened its second fully automated Home Shop Center in Zwolle. Here, we are also building on our experience with the Barendrecht facility which, while still in the ramp up phase, is already performing above a manual facility in terms of operational efficiency. This gives us confidence we have the right model and technological set up to deliver great customer service whilst continuing our journey to online profitability.
- In Greece, our Alfa Beta brand partnered with online delivery company efood, the largest food delivery service in Greece, enabling efood users access to their favorite products within 60 minutes

Looking at the regional performance. In the U.S. net sales were 13.6 billion euro, down 1.5 percent. In addition to the calendar impact, net sales were negatively impacted by around 110 basis points (154 million euro) from the divestment of FreshDirect.

Our online sales in the segment declined 2.9 percent. Adjusted for the impact of FreshDirect, which was 16.9%. we realized strong growth of 14% supported by Food Lion, Hannaford and The GIANT Company.

Underlying operating margin in the U.S. was 4.7%, up 10 basis points due to increased vendor allowances, cost control actions and the margin mix benefit from the divestment of FreshDirect. This was partially offset by higher store labor and hired service costs and lower sales leverage. We also see the stabilization of shrink levels following the implementation of several shrink mitigation methods, like the deployment of Everseen and Purcheck technology.

Turning to Europe, sales were 8.8 billion euro, up 4.3 percent. This was due to the positive impact from comparable sales growth of 2.4 percent and net new stores. Net store openings include the converted Jan Linders stores in the Netherlands as well as new stores in Belgium and CSE. Albert Heijn Belgium recently opened its 80th store in Lebbeke, underlining its growth ambition in this region as well.

Europe's comparable sales growth figure includes:

- a negative impact of 2.1 percent from the end of tobacco sales at our own-operated supermarkets in the Netherlands as of January 1st
- a negative impact of 0.7 percent from calendar shifts
- a positive impact of 0.5 percent from the cycling of strikes in Belgium

In Q2, online sales increased by 9.3%, supported by strong execution at the majority of the brands with particularly strong double-digit growth at Albert Heijn as I already mentioned.

At bol, which has recently been voted the most favorite retail brand in the Netherlands for the 10th consecutive year, Online sales were 0.7 billion euro, up 5.5% percent, due to solid first-party sales in a market that grew only low-single-digit this quarter. We continue to see strong growth in value added services such as Advertising and Logistics, which grew over 25 and almost 10 percent for the quarter, respectively.

Underlying operating margin in Europe was 3.7 percent, up 50 basis points. We benefitted from the performance recovery in Belgium, in part due to cycling prior year strikes and the switch to just one operating model, as well as lower energy costs in the region as a whole. This was partially offset by higher labor costs, primarily at Albert Heijn, and an increase in the non-cash service charge for the Netherlands' employee pension plan.

Before moving on, let me provide some additional color on the second half of 2024 in Europe for your modeling purposes:

- the negative impact from the end of tobacco sales is expect to increase to approximately 3 percent as Albert Heijn franchise stores stopped selling tobacco as of July 1st
- our net sales will be negatively impacted as 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. I

expect this impact to be around 100 basis points for Europe, in the second half of the year.

On to slide 22 – Q2 free cash flow was 378 million euro, which represents an decrease of 486 million compared to Q2 2023. This was mainly driven by:

- Cycling of the incidental tax refund of 377 million euro; and
- Negative changes in working capital due to timing differences.

When looking at the half year number we are nicely trending towards our Full Year guidance with a Free cash flow of 754 million euro.

Finally, let me spend a few moments on our non-financial KPIs particularly those of relevance from a Healthy Communities and Planet perspective.

- As you know, one of our key priorities is to increase the share of Healthy sales. This is an area where we can make a difference for our customers. A great example here are our convenient meal solutions with Fresh produce for consumers, so called "verspakketten" across Albert Heijn and Delhaize.
- Last month we also published our 2024 Human Rights Report. This is a foundational commitment towards our associates, our customers, our communities and the people in the supply chains of our company's. The report includes several major updates to our Standards of Engagement for suppliers and highlights of our brands' initiatives to improve workers conditions across the value chain.

- Outside of our value chain, we are very active in providing for, and serving community needs. Food Lion, which has just celebrated 10 years of Food Lion Feeds, has donated 1.2 billion meals since 2014 via their hunger relief platform and is well on track to its pledge to donate 1.5 billion by the end of 2025

Let me wrap it up. Given the positive momentum of the second quarter, I am confident that although the environment remains dynamic, we are well on track to deliver on our commitments for 2024 and we reiterate our outlook for the remainder of the year.

The stronger-than-planned performance in H1 2024 provides opportunities to already take some further actions to support our Growing Together strategy and financial long-term ambitions.

With that, I would like to thank you for your continued interest in our company and Operator, please open the lines for questions.

[END]

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*This communication includes forward-looking statements. All statements other than statements of historical facts may be forward-looking statements. Forward-looking statements can be identified by certain words, such as "anticipate," "intend," "plan," "goal," "seek," "believe," "project," "estimate," "expect," "strategy," "future," "likely," "may," "should," "will" and similar references to future periods.*

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