



Management's Prepared Remarks
Q4 2022 Earnings Call
February 15, 2023

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 Q4 2022 results conference call.

On today's call are Frans Muller, our President & 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 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'm now happy to 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 end to an exceptionally challenging year.

In the food retail industry, our company, Ahold Delhaize, is truly unique, with significant and compelling competitive advantages. These stem from:

- The relative market share strength of our great local brands,
- Our international and regional scale, operational excellence and a well-invested asset base,
- And our strong cash flow generation and financial position.

Together, this enabled us to absorb the impacts of dynamic economic cycles without sacrificing long-term investment and value creation.

2022 was another exceptional year with very challenging and definitely dynamic market conditions. We have seen double-digit inflation levels on both continents for the first time in 40 years, an energy crisis created by the war, and the ongoing effects of the global pandemic on people's lives.



Our role during this time has been clear: providing a strong and competitive value proposition and keeping shelf prices as low as possible to support our customers.

In this respect, there are three areas in particular we have excelled at in 2022:

- First, deepening our relationship with our customers. By optimizing our digital engagement and loyalty programs, our brands are interacting with 30 million active users in new and innovative ways.
- Second, expanding our own-brand and healthy assortments. These options resonate strongly with our customers.
- And, thirdly, we are diligently applying our knowledge and experience in supplier negotiations while at the same time also delivering improvements in our own operations and end-to-end processes.

As you can see on slide 7, this is evident in our Save for Our Customers results in 2022, where we generated 979 million euro in cost savings, which is 130 million more than we originally planned to. We did this by tightening our own belt, by lowering structural costs and streamlining processes, creating more agile organizations, capturing scale and empowering our people to take action to drive efficiency (our new operating model in the Central and Southeastern European markets and bol.com plan adjustments being good examples).



I am proud of our associates. I'm super proud of our associates who consistently leave no stone unturned in service of our customers. And I am also proud of how our brands participate as important members of their communities.

During 2022, our family of great local brands contributed 218 million euro in cash, products and food donations to local and regional food banks, hospitals and non-profit organizations. A few highlights here include:

- The Food Lion Feeds program, which donated its one billionth meal since inception in 2014 and is well on the way to reaching its goal of 1.5 billion meals donated by 2025.
- Delhaize Belgium donated emergency generators to the Ukrainian Red Cross, ensuring 95,000 Ukrainians continue to have access to clean water and heating.
- And Hannaford launched its "Eat Well, Be Well – A Path to Better Health" initiative that will provide 1.5 million dollars in funding to local non-profit organizations to increase access to healthy, fresh food as well as provide nutrition education tailored to the specific needs of an individual's health conditions.

I would also like to offer our sympathy and condolences in light of the earthquakes that struck both Turkey and Syria last week. Ahold Delhaize does not operate in the region, but of course the ties to Turkey are manifold, be it through our associates and customers of Turkish descent,



our suppliers and, as fellow citizens. Ahold Delhaize centrally, and many of our brands in Europe are supporting charitable organizations and facilitating customer donations through their store and marketing communications channels.

This 360 degree relationship, where I talked before, between our brands, our customers and our communities is underpinned by Our Purpose - Eat well, Save time, and Live better, and is a cornerstone of who we are.

Our financial performance in 2022 builds on the strength of these relationships, as customers vote with their feet and their clicks. Taking a quick look at our overall scorecard for the full year, as presented on Slide 9, we achieved or exceeded all of our key goals.

As I mentioned in my opening, we had a strong end to the year, with sales in Q4 increasing over 8 percent.

Comparable store sales excluding gas grew 7.9 percent. Net consumer online sales increased 5.0 percent, and our online grocery sales were up 14.4 percent. Leveraging these strong sales, we delivered an underlying operating margin of 4.4 percent and diluted underlying EPS growth of 22.6 percent at actual rates.

As in prior quarters, this year strong operating performance in the U.S, as well as foreign exchange and interest rate changes drove earnings growth, despite continued margin pressures in Europe.



The underlying strength of our brands is something we are proud of when navigating this environment. So let's look at a few examples.

A great example of brand strength, is the Group's biggest brand: Food Lion, who enjoyed its 41st consecutive quarter of comparable store sales growth in Q4.

The brand continues to elevate its Omnichannel capabilities with Food Lion To Go now available in 655 stores with 50 additional planned for 2023.

Food Lion, also on top of this, has been recognized by Newsweek as one of 'America's Greatest Workplaces for Diversity'.

With its Easy, Fresh and Affordable positioning, over the past 10 years, Food Lion's success really epitomizes the potential for growth and market share with a relentless focus on the customer experience: keeping stores vibrant and modern, adding new digital features and functions, and investing in our associates and culture. In that period, the brand has increased sales per square foot by over 80 percent.

Moving on to Albert Heijn. With a particular strength in innovation, technology and analytics, the brand continues to win market share. For the full year 2022 market share was 37 percent, up 130 basis points versus 2021.



In Q4, Albert Heijn introduced dynamic discounting in its stores, enabling customers to purchase certain products nearing the end of their shelf life with discounts ranging from 25 to 70 percent.

The discount, which is displayed in the digital price tag, is determined by an algorithm developed by Albert Heijn which calculates the best discount so that unsaleable products can be reduced dramatically, which leads to lower waste, and great deals for price conscious customers.

Q4 also marks the one year anniversary of AH Premium, which now has nearly 700,000 members. AH Premium builds on the AH Bonus Card which last week celebrated its 25th anniversary. The Bonus Card has undergone huge developments in terms of convenience, value and engagement since 1998, with many of the features and benefits also being exported now into our other European brands.

Finally, Albert Heijn entered into a partnership with Jan Linders Supermarkets, with the majority of stores to be converted into Albert Heijn franchisees on receiving the requisite approvals. And this will make it our largest franchisee and the agreement allows us to expand our regional coverage in the southern part of the Netherlands.

Moving on, let me spend a few moments on two other brands we are investing in which have significant potential and play an important role in our long-term fundamentals, Stop & Shop and bol.com.



At Stop & Shop, we are increasingly encouraged by progress, with double-digit growth in our remodeled New York City stores. We plan to remodel a further eight stores in NYC in Q1 2023 as well as rolling out key learnings to 40 other urban stores with a strong multi-culture penetration (e.g. Boston, Hartford). And this we're going to do throughout the year.

Another area where we are seeing progress is within e-commerce where penetration rates increased 70 basis points to 8.4 percent at Stop & Shop. This growth is partially driven by the expansion of same-day delivery and the introduction of 2-hour click and collect across all stores during the year. Stop & Shop is also piloting additional pickup options, providing customers the ability to shop in a manner that is convenient for them.

We also continue to refine Deal Lock in an effort to communicate consistent value messaging and promotional pricing to our customers.

At bol.com on page 14, for the full year, GMV excluding VAT was 5.5 billion euro, down 1.9 percent. Net consumer online sales were down 1.8 percent in 2022, against a market which declined around 6 percent. As we left lockdowns in Q4 in the Netherlands (which will also negatively affect the first weeks of 2023) net consumer online sales were down 2.9 percent in Q4.

As you will remember, during the year, we made some significant adjustments to bol.com's medium term plans to adapt to the current



environment. As a result, despite higher investments in the business, cost increases and sales deleverage, bol.com remained EBIT profitable and delivered 125 million in underlying EBITDA.

Looking to the future, I am particularly excited as we see the first green shoots from our investments in new revenue streams. For example, bol.com advertising revenues are up over 40 percent versus prior year. This includes over 70 percent growth in both sponsored products and growth in advertising revenue from other external sellers. Logistic services revenue was up almost 20 percent versus the prior year.

In 2022, bol.com has continued to expand its market position by growing share, therefore continuing its strong track record of winning in the market.

Bol.com delivered strong and double-digit sales growth in emerging categories such as Daily Needs, Outdoor and Fashion, whilst maintaining strong growth in existing markets such as Domestic Appliances which was supported by initiatives such as the Smart Shopping page to help customers save money by highlighting energy saving products.

As these areas compound, I expect a meaningful improvement in bol.com's performance over the coming 12 months, with continued growth across most of our core categories and strong revenue progression in both advertising and logistic services revenues.



So that concludes my comments on 2022. With that, let me hand you over to Natalie, to talk more about the financials in the quarter, and I will be back to discuss our Outlook and priorities for 2023 later.



Natalie Knight
Chief Financial Officer

Thank you Frans and good morning everyone.

Our fourth quarter performance again highlights the unique and resilient position our company enjoys. This allows us to manage opportunities and risks in a much more balanced and effective way than many of our competitors and peers.

As Frans indicated, today's consumers are price conscious, they are smart and well informed. Succeeding as a retailer in this dynamic economic and geopolitical environment is a delicate balance. It's all about optimizing the price / volume equation. The fast action of our brands to match and exceed customer's current needs is clearly reflected in our strong Q4 results.

- Net sales grew 8.1 percent, or plus 15.9 percent at actual rates to 23.4 billion euro. This is supported by Group comparable sales growth in Q4 of 7.9 percent.
- Group underlying operating margin was 4.4 percent for Q4, an increase of 0.2 percentage points versus Q4 2021. Both regions were able to mitigate the majority of margin pressures thanks to our Save for Our Customers cost savings program which helped offset higher energy costs particularly in Europe.

- Diluted underlying earnings per share in the quarter was 72 euro cents, up 22.6 percent, driven by higher-than-expected underlying operating performance in both regions as well as positive U.S. dollar exchange rate effects.

Turning to Slide 18 for completeness,

- Full year net sales grew 6.9 percent to 87 billion euro.
- Our underlying operating margin for 2022 was 4.3 percent, a decrease of 10 basis points versus 2021, but still nicely above historical levels.
- Diluted underlying earnings per share for the year was 2 euro 55 cents, up 16.5 percent and well above our latest guidance of low double-digit growth.

Slide 19 and 20 show our results on an IFRS-reported basis for Q4 and Full Year 2022.

On an IFRS-reported basis, our operating margin in Q4 was 5.0 percent. The difference here versus our underlying figures is primarily due to gains of 158 million euro on the sale of four distribution centers in the U.S. which had already been leased to a third party for a period of time.



For full year, our operating margin was 4.3 percent on an IFRS-reported basis.

Now let's turn to our regional performance.

In Q4, as throughout the year, we rallied our organization around our core strengths – operational excellence, tight cost control and disciplined capital allocation. This is what fuels our ability to reinvest in our customer value proposition and offset the impact of inflation where possible.

On to slide 21, you see comparable sales growth by region including and excluding weather and calendar effects.

In the U.S., comparable sales accelerated at all brands, with the strongest sales growth coming towards the end of the year. In Europe, comp sales grew 5.7 percent but were heavily impacted by a challenging e-commerce environment in the Benelux. Excluding bol.com, comparable sales growth for our grocery brands increased 6.9 percent.

In the U.S., sales grew by 9.2 percent, and comparable sales growth was 9.3 percent. Food Lion and Hannaford delivered double-digit comparable store sales growth for the second consecutive quarter.

The U.S. brands' sales from loyalty programs and online orders reached all-time highs. This has been a trend we saw building throughout the year, as our consistent investment in growing these capabilities again delivered



incremental sales gains. Our brands' direct customer engagement activities are a good example, now reaching around 30 million households and delivering over 10 billion personalized offers annually.

Net consumer online sales grew 17.3 percent in Q4, with e-commerce penetration rates increasing another 50 basis points to 7.7 percent. At year end, we had 1,547 click & collect points in the U.S. – an increase of 162 compared to 2021; with 97.5 percent of our customers now having access to our Online Grocery offerings.

Our underlying operating margin in the U.S. was 4.7 percent, up 40 basis points compared to the prior year, reflecting the strong sales growth and S4OC initiatives. Within this number, there was a positive benefit of around 20 basis points related to one-time favorable reserve adjustment. For comparison, remember we had a 30 basis point benefit from a favorable reserve release in the prior year.

Turning now to Europe, sales increased 6.2 percent in the quarter. This was supported by mid-teens growth in our Eastern European countries. For the full year, 8 out of our 10 markets showed positive market share gains.

As inflation rates on our input costs increased again in the region, our teams did an excellent job of further adapting their customer value propositions. For example, in the Central and Southeastern Europe (CSE)



region, we harmonized over 700 own brand products, and continue to benefit from increasing collaboration and best-practice sharing.

In Q4, net consumer online sales in the segment decreased by 0.6 percent. Excluding bol.com, however, net consumer online sales increased 8 percent.

In Europe, our Q4 underlying operating margin was 4.0 percent, down 20 basis points from the prior year due to elevated energy costs in the quarter, which negatively impacted margins by around 50 basis points. This is sequentially better than the 70 basis points of Q3 as energy prices fell during the quarter, positively benefiting our unhedged brands.

While we are very pleased with the performance in Europe in Q4, we still have a lot of work to do to return the region to its historical level of profitability. Food inflation is still high in Europe, which we expect to negatively impact consumer purchasing power and therefore volumes again in 2023. While energy will still pose an incremental headwind, mostly in the first half, we expect other inflationary pressures to be partly offset by pension benefits from rising interest rates in Europe in 2023.

Moving on to slide 24, as I talked about in Q3, in this environment, cash is king, and at Ahold Delhaize, we remain laser focused on cash flow generation. In Q4, free cash flow was almost 1.5 billion euro, an increase of 1.1 billion euro compared to Q4 2021. Higher operating cash flows were the biggest driver of this improvement. We also paid normalized income



taxes in 2022 versus the one-time tax assessment in 2021 of approximately 380 million euro related to Delhaize Belgium. And we remain confident in our position that the assessment is without merit.

For the full year, we generated free cash of 2.2 billion euro with net capital expenditures also of 2.2 billion euro. This demonstrates the strength of our business model and our continued confidence in balancing investment growth and shareholder returns.

To complete the picture, on Slide 25 you will see our net debt bridge year over year. The increase was mainly related to foreign exchange as free cash flows more than offset nearly 2 billion euro shareholder returns during the year.

With that in mind, I am also pleased to announce our proposal to increase the dividend per share by 10.5 percent for 2022 to €1.05 per share. This is subject to approval at the AGM. We have also initiated a 1 billion euro share buyback in January, as planned.

At Ahold Delhaize, we believe that it is important that we continue to make progress and investment in our Healthy and Sustainable strategy and that this is helping us deliver continued progress on these KPI's which align very closely with our Group values. In 2022 we achieved reductions in CO2 emissions in our own operations that are now 32 percent lower than the 2018 baseline. Our tons of food waste per food sales has now declined 33 percent versus the 2016 baseline. Our brands also continued to



increase the percentage of own brand healthy food sales to 54.4 percent in 2022 up one percentage point compared to 2021.

In November, you know we announced updated interim CO2 emissions-reduction targets for the entire value chain or the so-called scope 3 to at least 37 percent by 2030. The updated targets were the result of extensive review and are in line with the UN's goal of keeping global warming below 1.5°C. We also reconfirmed our commitment to become net zero in our own operations by 2040 and across the entire value chain by 2050.

This wraps up my review of Q4 2022. We are now fully focused on 2023 and further progressing our Leading Together Strategy. With that, I will hand it back to Frans to talk about our 2023 Outlook.



Frans Muller

President, Chief Executive Officer

Thank you Natalie.

While we expect 2023 to be at least as challenging from external factors as the year gone by, at the same time, we are also excited by the opportunities for our brands and our company to continue to raise the bar competitively and drive competitive market share gains.

In 2023, on page 30, we will speed up some of our game changing plans around our omnichannel ecosystem, monetization and mechanization, which I am convinced will drive long-term competitive advantage and benefits for our customers.

For me maintaining vibrant customer-centric stores is vitally important. Also customers should see and feel a real difference when we commence any new remodeling program. I am particularly excited by our plans at Food Lion where we will begin remodeling 70+ stores in Wilmington and Greenville. This is our first group of Omnichannel Remodels under the brand's new store model program. The modern look and feel will include things like

- e-commerce options for all customers
- A redesigned front-end configuration, including self-checkouts



- Updated resets & fixtures (Fresh and Center Store)
- And sustainability improvements (LED lights, doors on cases, refrigeration upgrades)

Another area where we are gathering steam is with customer mobile apps. To lead in this space, speed is critical to win the features and functions war. Therefore, we will roll out a new native PRISM app that has been designed and built from the ground up leveraging the power of our PRISM technology platform. The app will be fast, simple and easy to use, integrating our advanced analytics to create hyper-personalized experiences.

In Belgium and CSE, we have also launched an app convergence project which will remodel the mobile application landscape. The aim of the project is to create one mobile application value proposition making it possible for IT to scale, re-use and customize applications easily. We will start with this project in Delhaize Belgium and then Albert in the Czech republic.

Next, if we look at monetization, we continue to make great progress. In 2022, revenues from complementary revenue streams were up 25%, and we expect another 20%+ growth rate this year. In the U.S., Peapod Digital Labs finished setting up their in-house media structure we announced in Q3. Initial feedback from our top U.S. vendors has already been positive, with double-digit increase in commitments.



Finally, for mechanization, which is critical in how we plan growth capacity in our operations, Albert Heijn will open its first automated home shopping center (HSC) in Barendrecht – that's close to Rotterdam. The warehouse is being built using an integrated solution from Swisslog that allows the automation of filling shopping crates similar to the EFC in Philadelphia. The home shopping center can support a capacity of 45,000 orders per week once complete and we expect the facility to be online in the fourth quarter of this year.

While all this is exciting, it goes without saying, that it remains essential that we keep doing the right thing for customers, communities and associates in the face of persistent inflation.

Our outlook for the year, as you will see on Slide 32, represents our expectations of consistent strong results in 2023, with our usual focus on delivering excellent cash flows.

Free cash flow is expected to be approximately 2 billion euro and net capital expenditures are expected to be approximately 2.5 billion euro as we continue to make digital and omnichannel investments.

Our guidance also implies further growth and a strong underlying operating performance which will offset the non-recurrence of one-off gains in 2022 related to interest and exchange rates.



We are encouraged by the good start to the year, with much of the trends remaining the same in our key markets, but know we are also staying vigilant and proactive, anticipating headwinds to come.

To that end, in 2023 we are introducing a new initiative called “Accelerate”. This initiative builds on our existing efforts from our Leading Together strategy to create more agile organizations, to capture more scale and empower our people to take action to drive efficiency.

This means evaluating additional savings and efficiency levers to streamline organizational structures and processes, but also optimize go-to-market propositions, increase joint sourcing and consolidate IT - with a clear priority to unlock resources to accelerate our Save for Our Customers program and focus investments on high return high impact projects to enhance our customer experience.

We will provide a more comprehensive update on Accelerate in May with our Q1 results.

I am confident all these actions will make our organization stronger and ensure that we continue to deliver on our track record of driving continuous long-term value creation for all of our stakeholders.

In the short term, it is also relevant, as we expect to set a new high in our Save For our Customer program in 2023 of at least one billion euro.



Finally for today, in January you have seen the announcement that Natalie will leave the company to pursue a new opportunity and return to the U.S. after more than 25 years in Europe. Natalie has been a great contributor to our company, but we respect and understand her decision. I am happy that Natalie will stay around for the coming months to ensure a smooth transition to her successor.

With that, let me finish right where I started. I truly believe that in the food retail industry, our company is unique, with significant and compelling competitive advantages as we continue our mission to be the industry-leading local omnichannel food retailer. We are also unique that we have great people and great teams to support us to make our targets here.

We have a healthy outlook for 2023, with good momentum, and I am confident we will master whatever challenges and opportunities come our way.

Thank you very much for your continued interest in our company and Operator, please open the lines for questions.