

NEWS

Ahold Delhaize Delivers on Better Together Strategy

By Jeffrey Woldt

ZAANDAM, Netherlands — A year after the merger that brought Ahold Delhaize into being, the company shows every sign of delivering on the promise that led to the deal. Strong second quarter results, released last month, reflect an organization that is effectively leveraging its newfound scale to operate more efficiently, develop synergies and capitalize on best practices among its 21 retail banners in 11 countries around the world.

Net sales for the combined company soared 67.3% in the quarter to 16.1 billion euros, while the bottom line rose 68.2% to 355 million euros. Pro forma results were solid — sales by that measure increased 3.4%, and underlying operating income advanced 11.4%. Underlying operating margin increased 3.9% on a pro forma basis, compared to 3.6% in the same period a year ago.

That performance gives management confidence that, guided by its Better Together strategy, Ahold Delhaize is on track to solidify and enhance its position as one of the world's leading food retailers. That ambition extends to expanding its already formidable presence in the hypercompetitive U.S. market.

"The results of this quarter are mainly thanks to the fact that our

people are very focused on the businesses of the brands and are not distracted by all the integration work," says Frans Muller, Ahold Delhaize's deputy chief executive officer and chief integration officer. "That is one of the reasons why our brands are doing well."

"Another thing that has helped sales performance is that if we look at the U.S. market we see some inflation coming back to the table, which of course has a positive effect for the top line. We also have the first good results on our synergy delivery, which gave us results in the second quarter of 30 basis points more in the underlying margin."

As with most major mergers, synergy savings are an important part of the equation. Muller and Ahold Delhaize chief executive officer Dick Boer expect the company to produce 750 million euros in synergies by 2019, 250 million euros of which will be reinvested in the retailer's brands, which in the U.S. include Stop & Shop, Giant, Martin's Food Markets, Food Lion, Hannaford and Peapod.

Muller reports that much of the work of integrating Ahold and Delhaize has been completed. Headquarters operations in Belgium and the Netherlands have been combined, as has the support organization in Europe. The

company is currently focused on completing the transition process of its U.S. operations.

"We're setting up the Ahold USA brands in a different form and fashion than we had before. We are building a new, brand-centric model, a project that will be finalized by the beginning of 2018. We also have created Retail Business Services (RBS). RBS provides support services to Ahold USA and Delhaize America local brands," he says. "The changes are going to do a lot for the U.S. brands. The main drivers are how do we make sure that we have a service organization that is combining scale and expertise for the great local brands along the East Coast. One example is sourcing. In many instances, it makes sense for the U.S. brands to choose to combine volumes to get better prices or better quality or better specs for the same amount of money."

Similar benefits for the brands is expected from the reorganization of RBS shared service functions in such areas as information technology, the development and deployment of digital capabilities, private label programs, and a broad range of not-for-resale products and services. The synergy savings generated by those initiatives will, in turn, pave the way for accelerated investment in the brands.

"The money will be used in both Europe and the U.S.," says Muller. "There are several things we are going to do. For example, stepping up our marketing efforts for omnichannel; price investments where needed; data analytics, artificial intelligence and robotics; and supporting our brands in delivering a better store experience."

If the company's recent track record is any indication, those investments should go a long way toward moving the businesses forward. New evidence of Ahold Delhaize's skill in deploying assets emerged earlier this summer when Food Lion, which operates about 1,000 supermarkets in 10 southeastern and Mid-Atlantic states, completed the renovation of 93 locations in the Greensboro, N.C., market. The store remodels,

which included lowering prices, hiring new associates and giving back to the community, as well as the store upgrades, is part of a multiyear project designed to make Food Lion "easy, fresh and affordable."

"Food Lion is investing \$1.5 million per store and has a highly disciplined approach to implementation," says Muller. The initiative was started prior to the merger, when he was CEO of Delhaize. "Food Lion still has the original plan of achieving its targeted sales growth in three years' time.

"In the fourth quarter, Food Lion will relaunch 71 remodeled stores in Richmond [Va.] and will have invested \$800 million by then. Food Lion is completely in line with its projections. Inflation is a little bit different now than it was three years ago, but if we look at real-volume growth, then Food Lion is completely on target."

The program has touched more than 50% of Food Lion stores in need of renovation. The remainder will be addressed within the next two to three years, a commitment that will account for a significant portion of the \$1 billion a year that Ahold Delhaize invests in the U.S. market. Improvements are also under way at Ahold USA brands' stores.

"The Ahold USA brands worked very hard in the last years on the fresh offerings, the meat, the produce and the bakery, and a lot has been done. But in this dynamic market there is still a lot of ambition to improve the shopping experience," Muller says. "Now they see some opportunities in developing private label, reconfiguring the center store and revamping our loyalty systems."

"With Stop & Shop and the Giant brands, they've already made progress on pricing and price perception. They've introduced the Wow program to Stop & Shop, with stronger promotions with more convincing communication on price at the shelf, as well as making more investments in organic ranges, fresh baked goods and meal solutions."

The U.S. businesses of Ahold Delhaize have chosen a propitious moment to elevate their offerings in the United States. Already heated competition among grocers and other food retailers has intensified with the entry of Lidl; the announcement of a major capital investment plan by Aldi; the completion of Amazon's acquisition of Whole Foods Market; and the new partnership between Walmart and Google to facilitate voice-activated shopping.

Despite the challenges, Muller remains confident. "We see the competition coming, of course, especially in the southern part of the U.S. and on the East Coast," he says. "The new developments, together with the presence of Walmart, the biggest discounter in the world, Aldi, the second-biggest discounter in the U.S., and thousands of dollar stores, don't help



Frans Muller

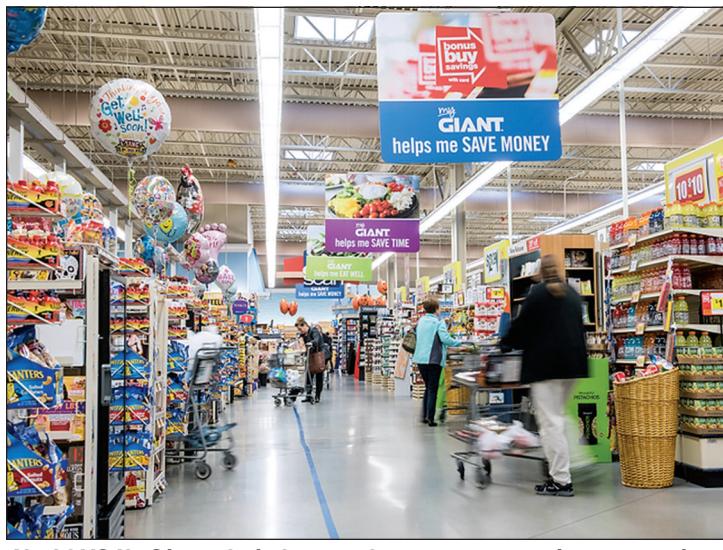
us. But our businesses have competed successfully for a long time — in both Europe and the U.S.

"Lidl has made a lot of noise in the U.S. market. Every new competitive opening gives our customers another choice, but I think our brands have found the right recipe. For example, if you go to a Food Lion you see the new center store, organics, the bakery, the deli. You see the service components. You see our produce and meat areas. It's just a different proposition. At the same time, our brands have to make sure they measure pricing very carefully with our top 280 SKUs. The brands will not give customers a reason to switch, and that's why they are always very alert."

If Ahold Delhaize's businesses' ability to compete with the likes of Lidl, Aldi and Walmart is reassuring to Muller and his colleagues, so, paradoxically, is Amazon's stepped-up activity in the grocery sector.

"What does Amazon's acquisition of Whole Foods tell us?" he says. "It tells us that there are more parties in the market who think that omnichannel — a store network combined with a digital online environment — might be the strongest way forward. It tells us that things go faster and are more disruptive than we might have thought. It tells us also that with Ahold Delhaize's businesses' No. 1 and No. 2 market positions in brick-and-mortar food stores along the East Coast, plus all the store pickup solutions they offer and Peapod still being the leader in online grocery in the U.S., that our businesses already have a lot of ingredients that are needed to be successful with an omnichannel strategy."

"It's creating a momentum in the market, and for our businesses it's creating an acceleration of their plans, within the framework of the Better Together strategy. It makes it easier for investors to see why we would like to speed things up and intensify efforts in areas like digital, loyalty programs and the store experience. We're quite confident that we had the right direction, but nobody can tell me that this is routine and just another boring moment. It gives our businesses extra energy to accelerate what they are doing."



Ahold USA's Giant chain has made progress on price perception



Hannaford, like other Ahold Delhaize banners, puts a premium on fresh categories, including seafood