

FLASH REPORT



**Ahold
Delhaize**

(ENXTAM: AD) 1Q17 Results: Merger Synergies On-Target, Reaffirms Outlook for FY17

Figure 1. Ahold Delhaize 1Q17 Key Metrics

	1Q17	1Q16*	YoY Change
Revenues (€ Mil.)	€ 15,870.0	€ 9,610.0	65.1%
Gross Margin	26.8%	27.8%	(92) bps
SG&A/Sales	23.3%	24.3%	(101) bps
Operating Margin	3.6%	3.5%	9 bps
Diluted EPS (€)	€ 0.28	€ 0.25	12.0%

* Represents the pre-merger results of Ahold. Results from former Delhaize segments are included as of July 24, 2016. All data above are prepared on an IFRS basis.

Source: Company reports/Fung Global Retail & Technology

- The merger of Ahold Delhaize in mid-2016 prompted the company's reported leap in revenues: Ahold Delhaize reported 1Q17 revenues of €15,870 million, up by 61.4% from 1Q16 at constant exchange rates (+65.1% in reported currency).
- Pro forma 1Q17 revenues, which reflect the entirety of the merged group, were €15,766 million, up by 0.6% at constant currency (+2.9% in reported currency) and slightly below the consensus estimate of €15,853 million.
- The gross margin slid by 92 basis points and SG&A as a percentage of sales dropped by 101 bps, while the operating margin climbed by 9 bps. Diluted EPS jumped by 12.0% to €0.28 during the quarter, slightly above the consensus estimate of €0.27.
- Ahold Delhaize upheld its target of realizing €220 million in net synergies in FY17, of which €56 million has already been realized year-to-date.

Note: The merger between Dutch grocer Ahold and Belgian supermarket group Delhaize came into effect on July 24, 2016, to form Ahold Delhaize. The group began reporting consolidated results from 3Q16.

As the number of weeks included in reporting the previous performance of the former Ahold and Delhaize segments varied, the company has aligned their calendars and uses four 13-week quarters to report results for the consolidated firm, starting from this fiscal year. The 2016 quarterly information included in the latest statement has been compiled using the new 13-week quarters. The figures in the above table are as reported in the audited consolidated income statement. The company did not provide profit data for 1Q16 on a pro forma basis.

1Q17 Results

Ahold Delhaize reported 1Q17 revenues €15,870 million, up by 61.4% from 1Q16 at constant currency (+65.1% as reported), prompted by the merger in mid-2016.

Pro forma 1Q17 revenues, which represent the merged group as if the consolidation had occurred on the first day of Ahold's 2015 fiscal year, were €15,766 million, up by 0.6% at constant exchange rates (+2.9% as reported) and slightly below the consensus estimate of €15,853 million.



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The gross margin slid by 92 bps and SG&A as a percentage of sales dropped by 101 bps, while operating margin climbed by 9 bps, all as reported. In the US, deflationary pressures eased toward the end of the quarter and the impact on margins was offset by “strong synergy savings.”

Diluted EPS jumped by 12.0% to €0.28 during the quarter, slightly above the consensus estimate of €0.27.

Performance by Segment

Ahold Delhaize reports on four geographic segments: the US (which it further splits into Ahold USA and Delhaize America), the Netherlands, Belgium, and Central and Southeastern Europe (CSE).

All figures below are on a pro forma basis and are at constant currency, except where stated.

The US: Ahold USA

- Net sales fell by 1.4% (+2.3% in reported currency) to €5,969 million, and comps, excluding fuel, declined by 1.8%.
- A deflationary environment and last year’s closures in its New York Metro market continued to impact performance this quarter as well. Fewer winter storms and the timing of holidays also affected sales growth adversely, the company said.

The US: Delhaize America

- Net sales edged up by 0.1% (+3.7% as reported) to €3,943 million and comps were flat.
- The Food Lion and Hannaford banners saw positive volume growth for the second consecutive quarter.

The Netherlands

- Net sales improved by 3.9% to €3,298 million and comps grew by 3.3%.
- Ongoing improvements in product quality, price positioning and store experience helped sales growth at supermarkets. Continued strong growth through online sales channels bol.com and ah.nl also drove performance this quarter.

Belgium

- Net sales dropped by 1.1% to €1,181 million and comps fell by 0.6%.
- The decrease was mainly due to lower average basket sizes at the company-owned supermarkets, while the affiliated stores continued to perform well, Ahold Delhaize said.

CSE

- Net sales increased by 4.4% (+4.2% in reported currency) to €1,375 million, and comps, excluding fuel, rose by 1.5%.
- Ahold Delhaize attributed the increase in sales to the addition of 109 more stores in the region compared to a year ago. Romania and Serbia drove comps growth, while sales performance in Greece reflected a contracting market, the company said.



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Outlook

Ahold Delhaize expects sales performance to improve in the second quarter and to operate in a slightly inflationary environment through 2H17. It reaffirmed its target of achieving €220 million in net synergies in FY17, including €56 million that has already been realized year-to-date. The company said that it expects the underlying operating margin for FY17 to increase year over year.

For FY17, analysts forecast:

- Pro forma revenues to be €64,890.6 million, representing 4.2% growth.
- Pro forma diluted EPS to be €1.31, representing 12.0% growth.



FLASH REPORT

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