



Rabobank Equity Research

Ahold-Delhaize in Belgium
Substantial savings - Rational re-investments

Patrick Roquas

patrick.roquas@rabobank.com

+31 30 712 4470

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Rabobank

Substantial savings, rational investments

- Strategy & track record
- Merger rational
- Road ahead in Belgium
 - EUR 200m potential in gross savings & synergies
 - Determined to regain leadership....
 -but not at any cost!
 - More intense promotions
 -and to upgrade stores
 - Competition to intensify

Introduction

Equity Research

Corporate Advisory / wholesale

Equity Capital Markets

ECM Activities

- IPOs
- Block trades, private placements
- Secondary share offerings
- Convertible bond offerings
- Share buy back programs
- Paying, exchange and listing agent
- Preference shares

M&A Wholesale banking

Chinese walls



Benelux Equities

Equity Research

- Team of 8 equity analysts
- Benelux & F&A focus
- Bottom up, thematic & local
- Idea driven research
- Servicing institutional investors worldwide



1 Research penetration Dutch Equities at European Institutions



1 Broker Benelux Country Analysis 2012-2015

Equity Sales & Trading

Team

- 10 specialist sales
- 8 sales traders

Expertise

- Global placing power of Ben. stocks
- Trading with all top 50 global AM Liquidity provider mid- & small-cap
- primary offerings & block trades



2 Broker Benelux Country Analysis (Thomson Extel Survey 2014)

What do we do?

Trader of ideas

- What should investors buy, hold or sell and **why**
- Provide corporates & clients the view of “the market”
- Newsflow & access to management

Key clients

- Institutional investors
- Listed & non listed companies
- Internal departments (ECM, M&A, Lending, TCF)

Marketing

- Company roadshows
- Sector roadshows
- Seminars & conferences



Ahold / Delhaize

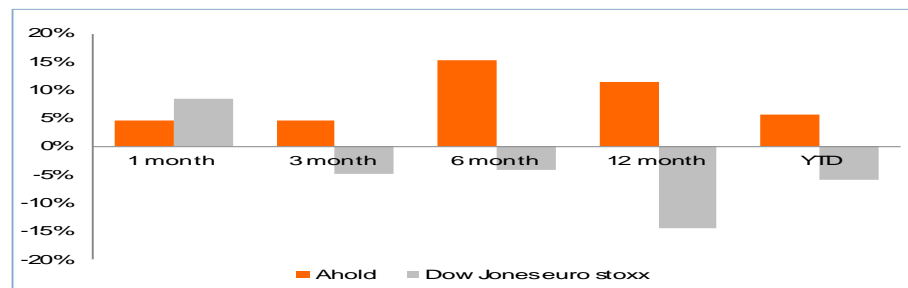
A Royal Cash Machine



Buy € 24.5

Rabobank

Price	€ 20.6	Market cap (m)	€ 22,285	Date	17-Mar				
Potential	19.0%	Free float	65%	Reuters	AHLNAS				
12m performance	11.4%	Daily volume	2,914,196	Bloomberg	AHNA				
Estimates	2014	2015E	2016E	2017E	Ratios	2014	2015E	2016E	2017E
Sales	32,773	38,203	63,881	65,683	EV/Sales	0.38	0.41	0.43	0.40
EBITDA	2,178	2,504	4,148	4,393	EV/EBITDA	5.7	6.3	6.6	6.0
EPS	0.86	0.97	1.18	1.26	P/E	15.9	18.4	17.4	16.3
CFPS	1.30	1.48	1.74	1.63	FCF yield	8.8	7.6	8.4	7.9
NAV	5.51	6.84	13.29	11.74	P/NAV	4.6	4.0	1.6	1.5
DPS	0.48	0.51	0.53	0.59	Yield	3.2	2.6	2.6	2.9



Positives

- Merger upside
- Substantial cash returns
- Positive sales momentum
- Winning in the Netherlands

Market concerns

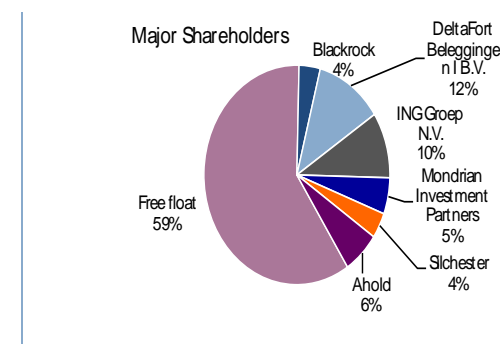
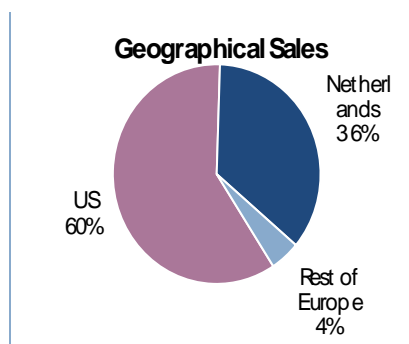
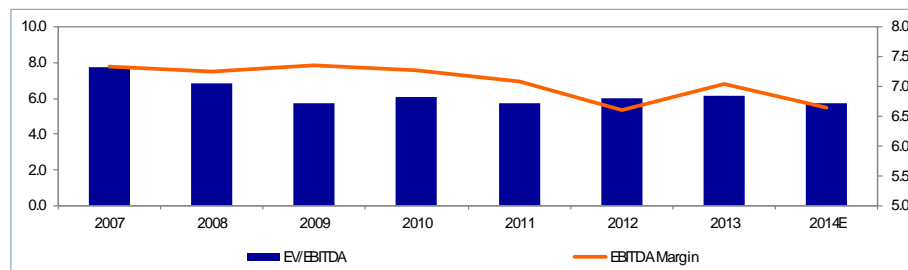
- Competition in US food retail
- Culture differences

Triggers

- Accelerating sales & EBIT growth
- Closing of the deal & update
- Allocating cash to SHs

Risk Factors

- Dollar exposure
- Value destroying M&A / Online



Strategy & deal rationale

▪ Aware of “industry issues”

- Focus on cash optimization
 - Balancing volume growth & margins
 - Cost savings & WC discipline
- Efficient cash allocation
 - Value accretive M&A
 - Investment grade
 - Return cash to shareholders

Track record: rational (price) investments, selective M&A, cash returns

▪ Deal rationale

- Comparable strategies
- Complementary portfolios
- Cost synergies: focus for 2016-2018
- Potential escape from “cost savings to invest in price” cycle

▪ Performance Albert Heijn

- Successful price repositioning 2003-2009...
-but too much efficiency-minded
- Renewed focus on differentiation
- Believer of daily consumables Online

Road ahead in Belgium: sources

- **Delhaize Belgium**
 - 6% of group EBIT, but substantial recovery potential
 - Competitive, but favorable market structure
 - Restore market leadership / organic volume growth

- **EUR 200m in gross savings**
 - Transformation plan EUR 80-100m by 2020E
 - Purchasing benefits of EUR 100m
 - Close gap with AH by 200-300 bps
 - EUR 100m gain on EUR 4bn in COGS
 - AH expensive in Holland, but cheap in Belgium

Figure x: Less staff employed at less favourable terms

	Savings (xEURm)	Assumption
Structural gain		
Departure of 2,100 FTEs	+ EUR88m	Average wage of EUR42k
Reset of existing contracts	+ EUR28m	5% cost reduction on 14k FTEs
Hiring of 1,000 new FTEs	-/-EUR28m	Average wage of EUR28k
Total by 2018	+ EUR88m	
One offs		
Hiring of temp staff / training	EUR30m	
In store disruptions	EUR20m	
2016 Savings (pre price investments)	EUR38m	
Normalized savings	EUR88m	
Additional savings p.a.	EUR7m	5% turnover in staff (700 FTE, save 10k per FTE)

Source: Rabobank

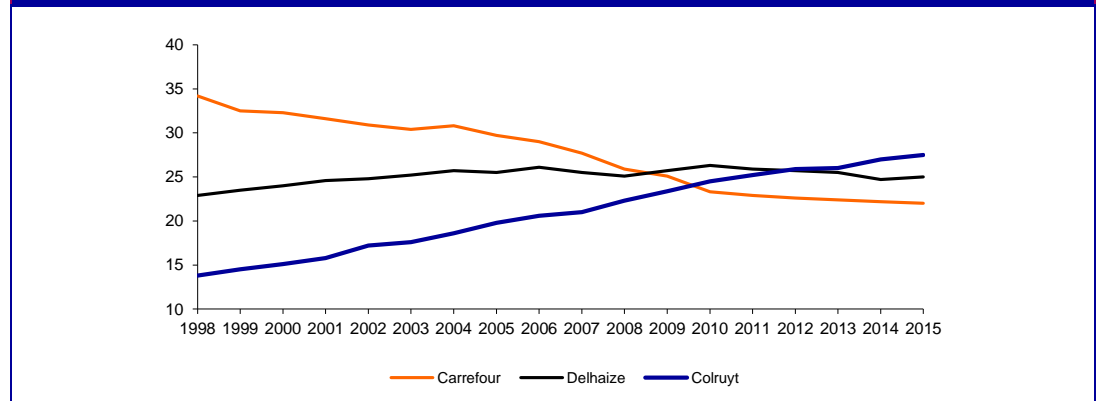
Road ahead in Belgium: investments

- **Improve customer experience**
 - Store upgrades & conversions
 - Increase level & effectiveness of promotions
 - Invest in price → KVI
 - Implement some features of AH?
 - Accelerate online (food & non food)

- **Invest with caution**
 - Colruyt's lowest price strategy
 - Importance of public opinion
 - Cultural differences / make merger work

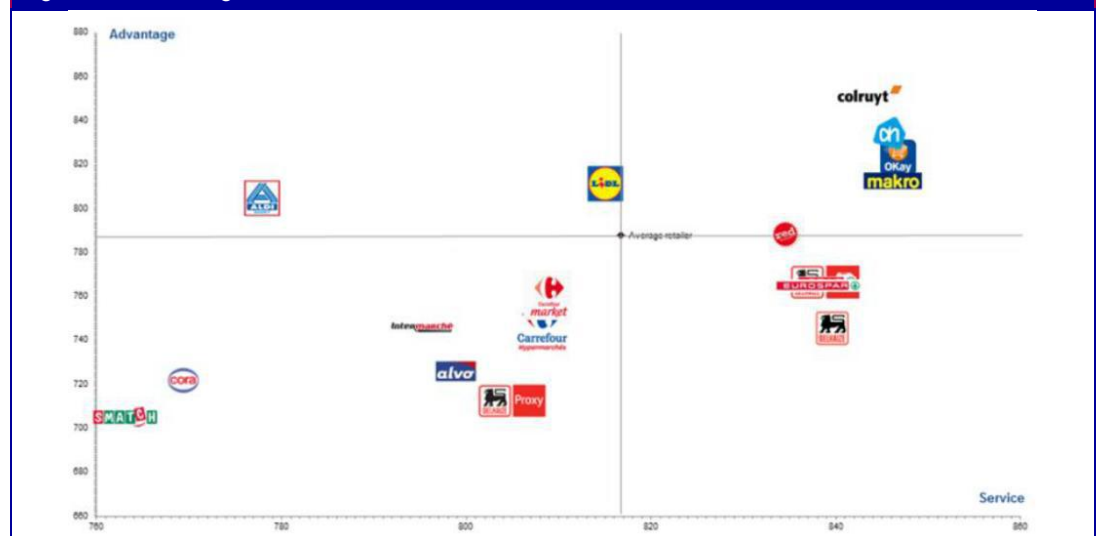
- **Opportunities LT**
 - Harmonise (PL) assortments
 - Cooperate in IT, distribution
 - Format development. To-Go

Figure 1: LT development in market shares



Source: Company data, Rabobank, Colruyt excluding Spar and Alvo

Figure x: Positioning of formats



Source: GfK

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