Press release

Ahold Delhaize to invest $480 million in U.S. supply chain to create a fully integrated, self-distribution model

Expect to see over $100 million in annual savings following the transition period; audio cast to be held on December 11 at 16:00 Central European Time, details below.

Zaandam, the Netherlands, December 10, 2019 – Ahold Delhaize USA today announced that it is investing $480 million to transform and expand its supply chain operations on the U.S. East Coast. This investment supports the new three-year strategy to move the U.S. supply chain into a fully integrated, self-distribution model. The Ahold Delhaize USA announcement is attached to this release.

The $480 million capital outlay will cover a three-year transition period, which will support the acquisition of three distribution facilities by Ahold Delhaize USA from C&S Wholesale Grocers and leases on two additional facilities. In addition, it includes investment in two new fully automated Ahold Delhaize USA frozen facilities to be constructed in the Northeast and Mid-Atlantic of the U.S.

The new self-distribution U.S. supply chain will enable the U.S. businesses to reduce costs, improve speed to shelf, enhance relationships with vendors, and improve product availability and freshness for customers.

“Today’s announcement is another example of how Ahold Delhaize USA is transforming our infrastructure to support the next generation of grocery retail,” said Kevin Holt, Chief Executive Officer, Ahold Delhaize USA and Ahold Delhaize Management Board Member. “Through this initiative, we will modernize our supply chain distribution, transportation and procurement through a fully-integrated, self-distribution model, that will be managed by our companies directly and locally. This will result in efficiencies and most importantly product availability and freshness for customers of our local brands, now and in the future, whenever, wherever however they choose to shop.”

Excluding the transition expenses, the impact on Ahold Delhaize USA underlying operating income will be neutral in 2020 and 2021 and favorable in 2022 by $60 million. The ongoing annual benefit on underlying operating income will be more than $100 million. During the first three years, there will be transition expenses of $160 million, impacting underlying operating income ($50 million in 2020; $50 million in 2021; $60 million in 2022).

Our previous group level annual free cash flow target of €1.8 billion through 2021 expressly excluded M&A and other such transactions. Therefore, free cash flow will be impacted by an incremental $410 million (€369 million) in capital expenditures from 2020-2022. The total investment also includes an additional $70 million (€63 million) in lease commitments.

This investment will not materially impact 2019 results and there is no change to the outlook that was provided on November 6, 2019. We reiterate plans to spend approximately 3% of sales on capital expenditures on top of the amount to be spent on this transaction over the next few years. Below are our expectations on the financial impact to results at the US segment and group level through 2023.

US Segment Financial implications				
$ in million	**2020**	**2021**	**2022**	**2023**
Impact to underlying operating profit, excluding transition expenses	0	0	$60	$100+
Impact to underlying operating margin, excluding transition expenses*	0	0	+13 bps	+ 22 bps
Transition expenses**	$50	$50	$60	0
Net impact underlying operating income, including transition expenses	($50)	($50)	0	$100+
Net impact underlying operating margin, including transition expenses*	~(11) bps	~(11) bps	0	+22 bps
Capital expenditure	$300	$50	$60	-

**Assumes consistent revenue through 2023*
***Includes legal/consulting, IT transition, procurement and replenishment transition costs as well as facility start-up costs. We also estimate a $4 million impact from transition costs in 2019, which does not materially affect our previously issued outlook for the year*

Group Level Financial implications				
€ in million***	**2020**	**2021**	**2022**	**2023**
Impact to underlying operating profit, excluding transition expenses	0	0	€54	€90+
Impact to underlying operating margin, excluding transition expenses*	0	0	+8 bps	+14 bps
Transition expenses**	€45	€45	€54	0
Net impact underlying operating income, including transition expenses	(€45)	(€45)	0	€90+
Net impact underlying operating margin, including transition expenses*	~(7) bps	~(7) bps	0	+14 bps
Capital expenditure	€270	€45	€54	-

**Assumes consistent revenue through 2023*
***Includes legal/consulting, IT transition, procurement and replenishment transition costs as well as facility start-up costs. We also estimate a €3.6 million impact from transition costs in 2019, which does not materially affect our previously issued outlook for the year*
****Assumes EUR/USD rate of 1.11*

We note that beginning in the Q4 2019 earnings release, reported results will include the full impacts from the supply chain transformation. Our underlying operating profit, which is an alternative performance measure, will include the ongoing effects of the supply chain transformation. We will also provide a supplementary disclosure of transition expenses related to the supply chain transformation for informational purposes. Transition expenses include legal/consulting, IT transition, procurement and replenishment transition costs as well as facility start-up costs.

Please join us for an audiocast at 16:00 CET on Wednesday, December 11, 2019, where Frans Muller, Jeff Carr, and Kevin Holt will review the transaction. The audiocast will be available live on our website: www.aholddelhaize.com.

For more information:

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