Valuations Case Study: Ahold

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I. MANAGEMENT SUMMARY

Royal Ahold (Koninklijke Ahold N.V.: www.ahold.com), publicly listed on the NYSE Euronext exchange (NYSE:AH) and US OTC market (OTC:AHONY), is a global retail supermarket group based in Europe and the United States with company headquarters in Amsterdam, The Netherlands. Chief competitors / peer group members include Carrefour, Delhaize, Metro AG, Kroger Co., Safeway Inc., Super de Boer, Wal Mart Stores Inc., Tesco PLC, and Supervalu Inc. The food retail sector is a highly competitive sector, with dependencies on geographic presence and sensitivities to consumer spending cycles, consumer loyalty, and material & supplier pricing pressures. The ability to retain market share via competitive pricing while safeguarding profit margins via passing-on material costs is thus a sensitive balance. This case study takes a broad and deep look at Royal Ahold, offering a valuation perspective on the company during a period of challenge and change to the supermarket retailing sub-sector. The analysis covers the following components: industry dynamics & firm strategy, historical performance analysis, DCF analysis (scenarios: standalone base case, standalone management guidance, and buyouts / LBO), alternative valuation perspective (trading multiples), and results interpretation.

Keywords

Ahold, supermarket, food retail sector, valuation, case study

II. INDUSTRY DYNAMICS

A. Industry Outlook

In order to establish context for the valuation exercise it is important to understand Ahold's core business and industry via an inquiry into:

- Key food retailing industry trends
- View on competition strengths / weaknesses and firm strategy
- Key value drivers
- Forecasting storyline
    - Prospects for revenue growth / long term profitability
    - Business drivers

The food retail sector, variously identified as the grocery stores industry or the supermarket sector, is a highly competitive industry facing distinct challenges amidst the current economic downturn. A decline in consumer retail expenditures is underway, with a continuing pessimistic outlook for at least the next 12 months. Food retailers are being squeezed between a curtailment in consumer spending (forcing retailers to lower prices to maintain competitiveness) and suppliers threatening to raise prices as they face liquidity pressures (forcing downstream price increases).

While the global credit crisis initially impacted the financial services industry starting in late 2007, the chain reaction after-effects have negatively impacted firm and consumer credit liquidity as well as macroeconomic trends such as unemployment. Combined with the after-effects of a full-blown stock market panic, the upshot has been massive equity losses on company balance sheets and accompanying losses on the part of institutional and individual investors.

In terms of food retail industry equity performance for the US market, Q1 2009 saw a -21.2% decline in the S&P Food Retail Index versus -24.6% in the S&P 1500 (2008 overall: -30.6% S&P Food Retail versus -38.2% S&P 1500). For a broader comparison, the MSCI World Index evidenced a -40.82% decline in 2008. Thus, food retail equities in particular have done slightly 'less badly' than the broader stock market, perhaps bolstered by the reputation of the food retail sector as being 'recession proof'. However, the historic scale of recent equity deleveraging has resulted in a broad macroeconomic challenge to global consumers, via the threat of unemployment, the loss of personal savings, and broad economic malaise. This trend is challenging food retail revenue streams as consumers tighten spending.

Although there is a consumer staples 'necessity factor' built into the grocery industry, profit margins are very much at risk as the credit crisis puts pressure on consumer spending as a follow-on effect. As reported recently in Progressive Grocer, an online industry guide, "traditionally, grocery has been viewed as recession-resistant, but the channel is not recession-proof" (Progressive Grocer Staff, 2009). Already tight food retail sector profit margins thus stand vulnerable concerning all retailing outside consumer staples.

Evolving industry analysis bears out the effects of macroeconomic concerns in this industry. While Q4 2008 saw consumers shift from restaurants and other food service vendors to supermarkets, causing a slight gross sales uptick in many markets (Drake, 2008), a continuing deterioration in consumer spending has seen food retailing belt tightening as well now. It has been remarked by food retail sector analysts that 2009 saw the return of careful consumer behavior, including price watching, coupon cutting, and buying discount brands (Progressive Grocer Staff, 2009).

Continuing consumer curtailment in 2009 will put pricing pressures on food retailers, already operating on thin margins due to competition in saturated markets. In particular, food retailers operating in discretionary, higher priced markets will be forced to rapidly retrench to meet a pronounced phase of consumer thriftiness. With global credit tight, suppliers will be challenged as well; there is the real potential of food retailers facing a pricing squeeze between tight consumer spending and suppliers passing-on downstream pricing increases to the retailers.

The food retail sector in developed markets is highly saturated, with competitive factors driving tight profit margin sensitivities. Dependencies rest on geographic point-of-sale positioning in profitable residential consumer markets. Sensitivities are tied to consumer spending cycles, consumer loyalty, and material & supplier pricing pressures. Additionally, third-party manufactured / processed retail goods embed costs such as transport, storage, raw materials, manufacturing, safety / quality assurance, marketing, branding and advertizing, and wastage / spoilage costs. The ability to retain market share via competitive pricing while safeguarding profit margins via passing-on downstream costs to the consumer is thus a crucial balance in this industry.

Reoccurring costs associated with food retail industry operators includes (not exhaustive):

- Attracting and retaining clientele (advertizing, marketing, branding, consumer incentives, etc.)
- Personnel (management, inventory control, stocking, store maintenance, back-office, etc.)
- Information technology (particularly as associated with efficient real-time inventory management)
- Store / property maintenance overhead
- Transport
- Storage
- Wastage and spoilage
- Self-produced / branded goods production (as applicable)

Of the various cost factors, it is worthy to note that the last, self-branded or 'private label' goods are a promising aspect for the industry. Typically self-produced products are lower-cost and thus compete well with higher-cost brands with price sensitive consumers. As noted in a recent Progressive Grocer analyst article:

> *Private label was also the beneficiary of financial worries, with both unit and dollar sales hitting an all-time high in 2008. Toward year-end, private label dollar sales jumped by about 10 percent over five consecutive four-week periods, averaging out to 4 percent dollar and 5 percent unit sales growth for the year. In the same period, branded offerings underperformed, realizing a 3 percent dollar sales increase and a 3 percent decline in unit sales.* (2009)

Thus, for careful food retailers, there are silver linings in the current economic malaise. Self-branded goods have pricing advantages and food retailers can amplify their sales via product placement (i.e.: shelf positioning, store placement – a core power of food retailers) and promotions (i.e.: coupons, discounts, special deals via consumer loyalty cards, etc.). However, the general retail environment is one of declining consumer expenditures, in particular regarding non-essentials.

The long-term food retail industry outlook is complicated by the dramatic recent macroeconomic developments. One hopeful aspect of the current climate is the rapidity and breadth with which the unfolding credit crisis took hold: a rapid decline presages a potential rapid recovery. Many retail sector analysts have posited that consumer confidence will begin a gradual upswing beginning in the second half of 2009 (Progressive Grocer Staff, 2009).

Longer-term industry outlook is moderately positive. As per Figure 1 below, INFORM First Research forecasts a 1 percent annual growth rate for consumer food spending between 2010 and 2013 in the US domestic market.

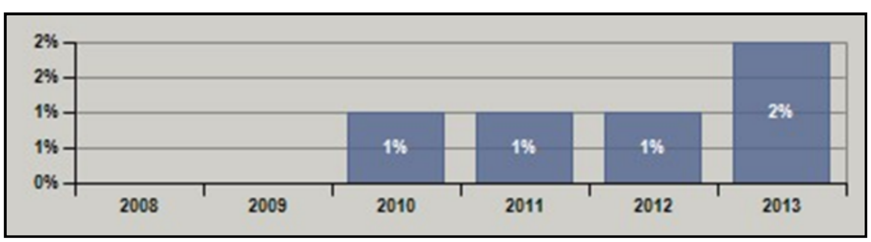

Figure 1: *INFORUM's First Research (Hoover's/D&B subsidiary) Industry Growth Rating – reflects expected industry growth relative to other industries as of 12/08 (www.hoovers.com)*

However, the longer-term outlook will depend on how the current credit-cum-consumer crisis plays out and, particularly, how the big food retail players respond tactically during this sensitive period to maintain all-important market share.

B. Competitive Pressures

Competitive forces in the food retail sector are pronounced, forcing tight margins in a highly-saturated market. Population demographics, consumer tastes and spending capacity drive demand factors. Because margins are low, the profitability of individual stores, and by extension companies and conglomerates, depends on high volume sales and efficient operations.

Efficient food retail operations involve aspects such as:

- Distribution networks (rapid transport, warehousing and proper handling to minimize spoilage)
- Inventory control (particularly modern information technology-driven systems)
- Goods handling facilities and processes (efficient staging and stocking processes in tight conjunction with inventory management)
- Supplier relations (volume pricing, tightly negotiated terms, credit terms, contractual terms, etc.)
- Retail acumen (product placement, shelving practices, promotions, marketing, etc.)

Concerning scale, larger companies and conglomerates can offer a wide selection of products (particularly self-branded) and have advantages in purchasing (supplier relations), distribution, inventory control, marketing, and finance. Particularly with tight information technology oversight, food retailers can realize many efficiencies of scale, similar to those that can be observed in broader goods retailers such as Walmart and Amazon. The case-study here, being centered on Ahold, Figure 2 below shows the top-ten supermarket retail sector retailers by market cap (note Ahold at position seven):

Name	URL	Country	Market Cap (US$)
Publix Super Markets, Inc.	http://www.publix.com	United States	82,790
Tesco plc	http://www.tescoplc.com	United Kingdom	40,573
Carrefour S.A.	http://www.carrefour.com	France	26,801
Woolworths Limited	http://www.woolworths.com.au	Australia	23,242
Seven & I Holdings Co Ltd	http://www.7andi.com	Japan	19,181
The Kroger Company	http://www.kroger.com	United States	13,973
Koninklijke Ahold N.V.	http://www.ahold.nl	Netherlands	13,679
William Morrison Supermarkets plc	http://www.morrisons.co.uk	United Kingdom	9,474
Safeway Inc.	http://shop.safeway.com	United States	8,605
J. Sainsbury plc	http://www.j-sainsbury.co.uk	United Kingdom	8,502

Figure 2: *Top-ten supermarket sector retailers by market cap as positioned by Alacra (www.alacrastore.com)*

However, scale can also result in difficulties in rapid tactical retailing responsiveness. The speed of the current economic crisis took many retailers by surprise, trapping food retailers such as Whole Foods and, to some degree Albert Heijn (at least in the native Dutch market) in higher-end consumer discretionary spending markets that rapidly dried up. Small companies, by comparison, have the flexibility to rapidly respond to changes in consumer demand. Smaller retail operations can also compete via offering niche and specialty products, serving localized markets, and/or providing superior customer service. The benefits of scale, as in other industries, are balanced by restrictions in tactical agility.

Concerning relative rankings, there is a wealth of analyst equity research for the US markets. Ahold, the subject for this case study is not typically covered in the US equity market, being an OTC / Euronext equity. However, in terms of key statistics and ratios, Ahold compares favorably to US industry competitor Krogers (NYSE:KR). Krogers and Ahold have a nearly identical profitability profile. In terms of valuation and economic value added factors, the two firms compare quite favorably. In terms of key differences, Ahold has a stronger financial strength rating due to a proportionately lower debt to equity ratio (relative to a basket of competitors). On the other hand, Ahold equity trades at a relative premium, having a 75% higher P/E ratio than that of comparable food retail competitors 15.42x versus 11.32x). For detailed comparison amongst the two comparable firms, see Figure 3 below.

Ahold

FINANCIAL STRENGTH (MRQ)

Quick Ratio	1.03x
Current Ratio	1.27x
Debt/Equity	0.69x
Debt/Assets	0.19x

AHONY's **debt to equity ratio** indicates that it has been less aggressive with using debt to finance growth than 63% of its peers in the Retail (Grocery) industry. The resultant effect on earnings would be less volatile than related companies.

PROFITABILITY (TTM)

Gross Margin	24.36%
Operating Margin	3.38%
EBITDA Margin	5.92%
Profit Margin	2.35%

AHONY's **Gross Margin** is comparable to other companies in the Retail (Grocery) industry, which means it has relatively the same amount of cash to spend on business operations as its peers. As indicated by the **Operating Margin**, AHONY controls its costs and expenses better than 72% of its peers.

VALUATION (MRQ)

Price/Earnings (TTM)	15.62x
Price/Sales	0.33x
Price/Book	2.51x
Price/Cash Flow	5.83x

AHONY's **P/E Ratio** is greater than 75% of other companies in the Retail (Grocery) industry. This typically means that investors are willing to pay more for its level of earnings relative to future growth.

MANAGEMENT EFFECTIVENESS (TTM)

Return on Assets	4.45%
Return on Equity	16.00%
Return on Inves. Capital	6.56%

The **Return on Equity** for AHONY shows that it is able to reinvest its earnings more efficiently than 76% of its competitors in the Retail (Grocery) industry. Typically, companies that have higher return on equity values are more attractive to investors.

Krogers

FINANCIAL STRENGTH (MRQ)

Quick Ratio	0.31x
Current Ratio	0.94x
Debt/Equity	1.56x
Debt/Assets	0.35x

KR's **debt to equity ratio** indicates that it has been more aggressive with using debt to finance growth than 78% of its peers in the Retail (Grocery) industry. The resultant effect on earnings would be more volatile than related companies.

PROFITABILITY (TTM)

Gross Margin	22.94%
Operating Margin	3.23%
EBITDA Margin	5.12%
Profit Margin	1.64%

KR's **Gross Margin** is comparable to other companies in the Retail (Grocery) industry, which means it has relatively the same amount of cash to spend on business operations as its peers. As indicated by the **Operating Margin**, KR controls its costs and expenses better than 68% of its peers.

VALUATION (MRQ)

Price/Earnings (TTM)	11.44x
Price/Sales	0.19x
Price/Book	2.72x
Price/Cash Flow	4.67x

KR's **P/E Ratio** is comparable to other companies in the Retail (Grocery) industry. This typically means that investors are willing to pay the same amount for its level of earnings relative to future growth.

MANAGEMENT EFFECTIVENESS (TTM)

Return on Assets	5.49%
Return on Equity	24.76%
Return on Inves. Capital	8.59%

The **Return on Equity** for KR shows that it is able to reinvest its earnings more efficiently than 92% of its competitors in the Retail (Grocery) industry. Typically, companies that have higher return on equity values are more attractive to investors.

Figure 3: *Via ETrade (www.etrade.com), key figure / ratio similarities between Ahold and Kroger (low relative debt level and high P/E for Ahold compared to basket of competitors). Note that analysis conducted later in this case had different figures for year ending 2008 (i.e.: gross margin 26.9%, different P/E and P/BV ratios, ROE and ROIC) – please see accompanying spreadsheet 'Valuation Ahold' for details ('Valuation Presentation' and 'Ratios' worksheets).*

The US market generates slightly over half of Ahold's annual sales, and is thus is a key component in analyzing company health and value. Supermarket News ranked Ahold's U.S. division No. 7 in the 2007 "Top 75 North American Food Retailers" rating (Chee, 2009). Taking Krogers as a rough proxy for US market comparison, Ahold compares favorably (in terms of analyst equity investment recommendations) amongst a basket of US competitors as per Figure 4 below (source: Jaywalk Rating). Krogers has a strong buy-to-hold rating. Note that contrary to Figure 3 Valuation commentary, subsequent analysis (see accompanying spreadsheet) suggested that Ahold's P/E ratio is not appreciably higher than that of peers (this is additionally backed by Thompson One). Though the Figure 4 comparison focuses on equity investment analyst recommendations, the positions can be considered indicative of general firm strength.

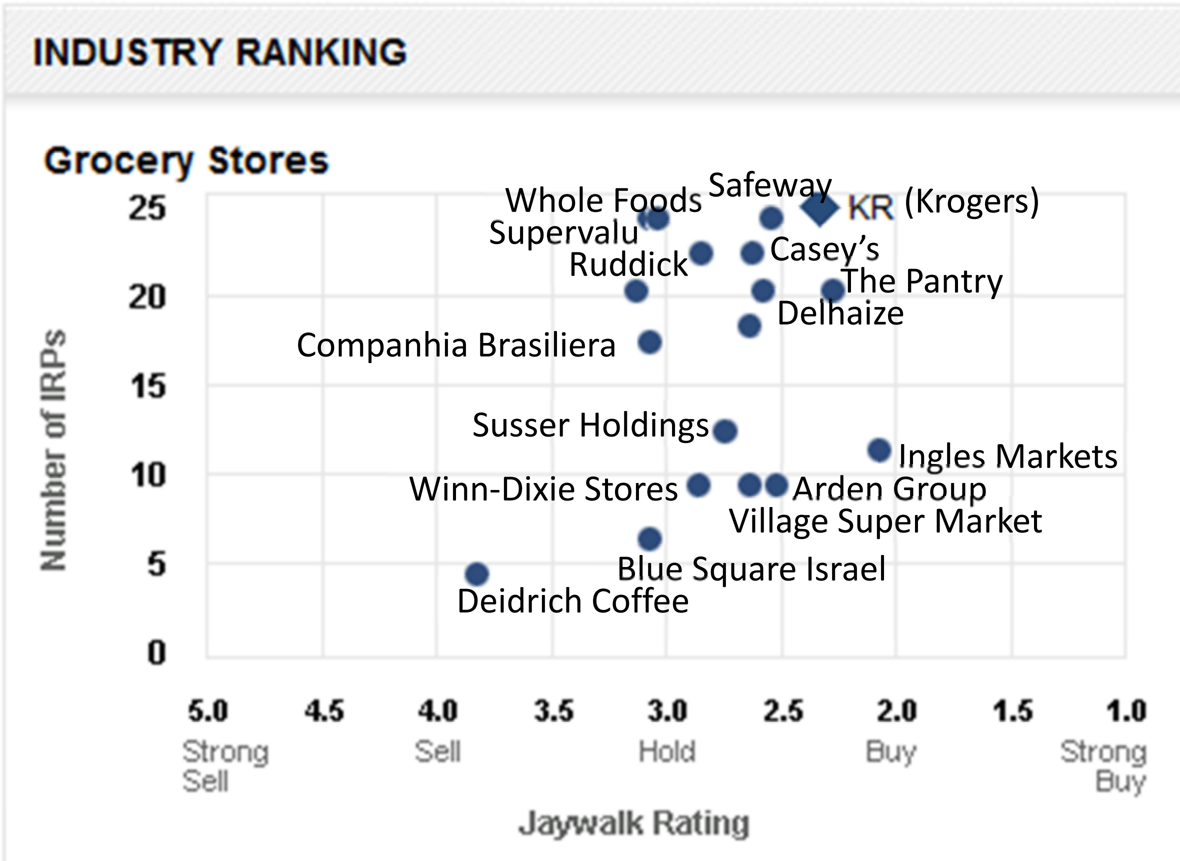

Figure 4: *'Jaywalk Rating' US Grocery Store Sector Equity Recommendation Matrix - equity analyst buy/sell ratings weighted by number of Independent Research Providers (IRPs) reporting. Krogers can be considered a rough proxy for Ahold based on similar multiples as per Figure 3.*

Later in this valuation exercise (see section V C), an in depth trading multiples-based valuation is conducted utilizing a basket of Ahold peer group members including Carrefour, Delhaize, Metro AG, Kroger Co., Safeway Inc., Super de Boer, Wal Mart Stores Inc., Tesco PLC, and Supervalu Inc. In summary, for the purpose of understanding Ahold in the context of the food retail sector, it can be said that Ahold is a major player in both US and European markets and that as a firm it is favorable regarded amongst comparable competitors by industry analysts.

In terms of broad industry trends, as covered in Section II A concerning the rapid deterioration in the global economic outlook, in late 2008 consumers cut discretionary spending, shifting to value-oriented brands and retailers for staples. Discounters saw gains, while premium retailers saw dramatic declines. Mid-range retailers who had been following the trend toward upmarket retailing were forced into a rapid about-face to accommodate the new economic realities. In a dramatic example, upmarket US organic foods retailer Whole Foods Market Inc. (WFMI:NASDAQ) saw more than a 70% decline in equity valuation in 2008 (see also Figure 4 for analyst peer equity rating). As noted in a recent Business Week article:

> *For years, the Austin (Tex.)-based company has fed off the popularization of organic foods, seeking to cater to 'customers aspiring to a healthier lifestyle' with organic vegetables, high-quality meats, and gourmet cheeses. The company, which runs 271 stores in the U.S., Canada, and Britain, booked $6.6 billion in 2007 revenue. But as inflation and growing unemployment have taken a bite out of consumers' purchasing power, some are shunning the store's high-quality image in search of cheaper alternatives.* (McRoskey, 2008)

Thus, surviving the global recession underway will depend in part upon the ability of retailers to rapidly attach themselves to a mass consumer flight to 'cost sensitivity'. As per the Wholefoods case, high-end supermarket retailers, and those retailers serving discretionary consumer segments, are at high risk of double-jeopardy as consumers and investors flee alike. In summary, the currently slowing economy is pushing consumers to low-margin products, forcing retailers to rapidly shift merchandising efforts towards cost savings drivers. Not responding effectively to this sudden shift will see existing players lose market share in the longer-term.

III. DESCRIPTION OF COMPANY

A. Company Overview

Ahold is a food retail and foodservice company with 2,897 stores serving 35 million customers in 27 countries as of Q4 2008. Ahold achieved €25.7 billion in 2008 net sales via its core activity of operating retail food stores via subsidiaries and joint ventures. Retail operations operate via five key subsidiaries: Stop & Shop / Giant-Landover, Giant-Carlisle, Albert Heijn, Albert / Hypernova, Other retail and Corporate Center. Chief competitors / peer group members include Carrefour, Delhaize, Metro AG, Kroger Co., Safeway Inc., Super de Boer, Wal Mart Stores Inc., Tesco PLC, and Supervalu Inc. As per Figure 2 in Section II B, Ahold is ranked seventh amongst global food retailers as measured by market capitalization (US $13.6 billion). Figure 5 below shows a geographic breakdown of the Ahold group of companies.

Albert Heijn began selling groceries in the 1880's.

Figure 5: *Geographic breakdown of Ahold company portfolio (source: www.ahold.com)*

The Ahold portfolio of 2,897 stores breaks down into 711 stores for Ahold USA and 2,186 for Ahold Europe. The US market generates slightly over half of Ahold's annual sales (Chee, 2009). A strategic refurbishment of US stores started in 2006 has eaten into profit margins for the US segment, but it is projected these improvements will contribute to a rise in profits later in 2009. Within the European market, the Albert Heijn chain is the flagship banner of Royal Ahold (1,861 stores). The grocery chain has a 22% share of the European market, but is losing ground to competitors, including hard discounter ALDI of Germany and region rivals Laurus N.V. and Edah. In response, Albert Heijn has undergone an image makeover; from the most expensive supermarket in Holland to a price-competitive supermarket chain.

Store portfolio	
AHOLD Group	**2,897**
AHOLD USA	**711**
Stop & Shop/ Giant-Landover	563
Stop & Shop	381
Giant-Landover	182
Peapod	
Giant-Carlisle	148
Giant	123
Martin's	25
AHOLD Europe	**2,186**
Albert-Heijn	1,861
Albert-Heijn	823
Etos	506
Gall & Gall	532
Albert/ Hypernova	325
Czech Republic	300
Slovakia	25

Figure 6: *Number of stores in each company segment as per Q4 2008. Note that Peapod is a 'virtual' / internet based food retail company (source: Ahold 2008 Annual Report - Financial Statement)*

A historical analysis was carried out: key financial ratios were derived from the 2006 – 8 Balance Sheet (see Figure 7 – note highlighted items having significant weight). As well, a Profit & Loss Statement was prepared for the same time period (see Figure 8). Of note, stable EBITDA and net margin can be observed. An improvement in operating profit can be observed over this time period due to a cost reduction program. Finally, key financial ratios were derived from this data. Later in the analysis, the ratios are used to compare to a basket of competitors. In general, as per the comparison with Krogers, Ahold compares well to competitors. Ahold has a low debt ratio; the stock trades at a relatively high P/E ratio though, so firm strength is firmly priced into the current equity valuation.

BALANCE SHEET: Annual				% of Total Assets			% growth	
(EUR mil)	2006A	2007A	2008A	2006A	2007A	2008A	2007A	2008A
TOTAL ASSETS	**18,442**	**13,944**	**13,592**	**100%**	**100%**	**100%**	**-24%**	**-3%**
Current Assets	**9,548**	**5,827**	**5,296**	**52%**	**42%**	**39%**	**-39%**	**-9%**
Cash and cash equivalents	1,725	3,263	2,863	9%	23%	21%	89%	-12%
Current Investments	0	22	18	0%	0%	0%	n/a	-18%
Accounts Receivable	949	941	744	5%	7%	5%	-1%	-21%
Inventories	1,399	1,263	1,319	8%	9%	10%	-10%	4%
Income taxes receivable	169	7	66	1%	0%	0%	-96%	843%
Assets held for sale	5,167	206	179	28%	1%	1%	-96%	-13%
Other Current Assets	139	125	107	1%	1%	1%	-10%	-14%
Non-Current Assets	**8,894**	**8,117**	**8,296**	**48%**	**58%**	**61%**	**-9%**	**2%**
Tangible fixed assets	6,153	5,390	5,532	33%	39%	41%	-12%	3%
Investment property	431	463	495	2%	3%	4%	7%	7%
Intangible fixed assets	354	351	347	2%	3%	3%	-1%	-1%
Goodwill	238	252	251	1%	2%	2%	6%	0%
Financial fixed assets	799	869	802	4%	6%	6%	9%	-8%
Other Non-Current financial fixed assets	0	397	485	0%	3%	4%	n/a	22%
Deferred tax assets	499	370	358	3%	3%	3%	-26%	-3%
Other Non-Current Assets	420	25	26	2%	0%	0%	-94%	4%
TOTAL LIABILITIES	**13,172**	**10,057**	**8,916**	**71%**	**72%**	**66%**	**-24%**	**-11%**
Current Liabilities	**5,821**	**4,933**	**4,138**	**32%**	**35%**	**30%**	**-15%**	**-16%**
ST Loans	56	66	37	0%	0%	0%	18%	-44%
Accounts Payable	2,955	2,240	2,284	16%	16%	17%	-24%	2%
Current Portion of LT Loans	539	1,126	422	3%	8%	3%	109%	-63%
Provisions	287	196	170	2%	1%	1%	-32%	-13%
Dividend payable	0	0	0	0%	0%	0%	n/a	n/a
Income taxes payable	32	126	101	0%	1%	1%	294%	-20%
Other current fiancial liabilities	194	150	120	1%	1%	1%	-23%	-20%
Liabilities related to assets held for sales	226	0	0	1%	0%	0%	-100%	n/a
Other Current Liabilities	1,532	1,029	1,004	8%	7%	7%	-33%	-2%
Non-Current Liabilities	**7,351**	**5,124**	**4,778**	**40%**	**37%**	**35%**	**-30%**	**-7%**
LT Loans	4,170	2,658	2,260	23%	19%	17%	-36%	-15%
Other Non-Current financial liabilities	1,905	1,688	1,664	10%	12%	12%	-11%	-1%
Pensions and other post-employment ber	482	183	113	3%	1%	1%	-62%	-38%
Deferred tax liabilities	73	34	115	0%	0%	1%	-53%	238%
Provisions	523	408	442	3%	3%	3%	-22%	8%
Other Non-Current Liabilities	198	153	184	1%	1%	1%	-23%	20%
SHAREHOLDERS' EQUITY	**5,270**	**3,887**	**4,676**	**29%**	**28%**	**34%**	**-26%**	**20%**
Common Stock	389	352	353	2%	3%	3%	-10%	0%
Premium (discount) on common stocks	3,011	-905	-907	16%	-6%	-7%	-130%	0%
Retained Earnings	1,630	4,363	5,230	9%	31%	38%	168%	20%
Preferred Stock	169	0	0	1%	0%	0%	-100%	n/a
Minority Interest	71	77	0	0%	1%	0%	8%	-100%

Figure 7: *Ahold Balance Sheet 2006 – 8 with highlighted high-impact items and growth tracking*

PROFIT & LOSS: Annual

(EUR mil)	2006A	2007A	2008A	% of revenue 2006A	% of revenue 2007A	% of revenue 2008A	% growth 2007A	% growth 2008A
Sales	**27,826**	**24,893**	**25,722**	**100%**	**100%**	**100%**	**-11%**	**3%**
COGs	20,392	18,033	18,798	73%	72%	73%	-12%	4%
Gross Profit	**7,434**	**6,860**	**6,924**	**27%**	**28%**	**27%**	**-8%**	**1%**
Operating Expenses	6,371	5,792	5,726	23%	23%	22%	-9%	-1%
Operating Profit	**1,063**	**1,068**	**1,198**	**4%**	**4%**	**5%**	**0%**	**12%**
Net Interest	-479	-300	-214	-2%	-1%	-1%	-37%	-29%
Pretax Income	**584**	**768**	**984**	**2%**	**3%**	**4%**	**32%**	**28%**
Income Taxes	39	153	225	0%	1%	1%	292%	47%
Share in income of joint ventures	152	138	109	1%	1%	0%	-9%	-21%
Net income (before extraordinary items)	**697**	**753**	**868**	**3%**	**3%**	**3%**	**8%**	**15%**
Extraordinary Item	218	2,192	211	1%	9%	1%	906%	-90%
Net Profit	**915**	**2,945**	**1,079**	**3%**	**12%**	**4%**	**222%**	**-63%**
EBITDA	1,984	1,843	1,853	7%	7%	7%	-7%	1%
EPS (EUR)	0.59	2.03	0.92					
Diluted EPS (EUR)	0.59	2.02	0.87					

Figure 8: *Ahold Profit & Loss Statement 2006 – 8 with highlighted high-impact items and growth tracking (note stable EBITDA and net income and improvements in operating profit via cost reduction program)*

	Units	2006A	2007A	2008A
Financial Ratios				
Growth (% YoY)				
Sales	%		-11%	3%
EBITDA	%		-7%	1%
EBIT	%		0%	12%
Net income (before extraordinary items	%		8%	15%
Net Profit	%		222%	-63%
Profitability (%)				
Gross Margin	%	27%	28%	27%
EBITDA Margin	%	7%	7%	7%
EBIT Margin	%	4%	4%	5%
Net income (before extraordinary items	%	3%	3%	3%
Net Profit Margin	%	3%	12%	4%
ROAA	%		4%	5%
ROAE	%		16%	20%
Net Income/Revenue	%		3%	3%
Revenue/Total Assets	x		1.54	1.87
Total Assets/Equity	x		3.54	3.22
Stability				
Financial Risk				
Net Debt/Equity	x	0.90	0.99	0.58
Total Liabilities / Equity	x	2.50	2.59	1.91
Debt/ EBITDA	x	2.40	2.09	1.47
Interest Coverage	x	1.97	2.47	3.48
Current Ratio	x	1.64	1.18	1.28
Quick Ratio	x	0.70	1.11	1.19
Activity				
Operating Performance				
Total Asset Turnover	x		1.54	1.87
Fixed Asset Turnover	x		4.06	4.43
Equity Turnover	x		5.44	6.01
Internal Liquidity				
Receivables Turnover	x		26.34	30.53
Inventory Turnover	x		13.55	14.56
Payables Turnover	x		6.94	8.31
Days Receivables	#		13.86	11.96
Days Inventory	#		26.94	25.07
Days Payable	#		52.58	43.92
Cash Cycle	#		-11.78	-6.90

Figure 9: *Ahold Key Financial Ratios 2006 – 8*

Based on 2006 – 8 Ahold per store segment operating income data, a ten year forecast was projected (see Figure 10 below). A scenario analysis including geographic GDP growth and inflation was also conducted (see Figure 11). Economic Value Added (EVA) was tracked and forecasted (see Figure 12). As well, Return on Invested Capital (ROIC) was calculated (see Figure 13). Complete revenue tracking and projections are available in the accompanying spreadsheet.

In terms of tracking performance, it is worthy to note that Ahold went through a period of selling non-US / European stores in order to consolidate operations into these two markets. As well, a ambitious US store refurbishment campaign was commenced in 2006 and concluded in 2008, dragging down revenues but establishing a foundation for future profitability. In the current economic downturn, 2009 will be a sensitive year as margins will be slim given the general curtailment of consumer expenditures. As discussed previously, compared to high-end retailers such as Wholefoods, Ahold should perform favorably. However, particularly in the native Dutch market Albert Hein still services a discretionary, expensive market that will be challenged in 2009. Otherwise, the benefits of efficiency and scale can be seen in Ahold's financial performance.

Revenue by Store (broken by Ahold Group Company)

	2006A	2007A	2008A	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Operating income (loss) by segment														
Store portfolio														
AHOLD Group	**2,750**	**2,782**	**2,897**	**2,952**	**3,007**	**3,062**	**3,117**	**3,172**	**3,227**	**3,282**	**3,337**	**3,392**	**3,447**	**3,502**
AHOLD USA	**718**	**705**	**711**	**717**	**723**	**729**	**735**	**741**	**747**	**753**	**759**	**765**	**771**	**777**
Stop & Shop/ Giant-Landover	575	560	563	566	569	572	575	578	581	584	587	590	593	596
Stop & Shop		376	381											
Giant-Landover		184	182											
Peapod														
Giant-Carlisle	143	145	148	151	154	157	160	163	166	169	172	175	178	181
Giant		120	123											
Martin's		25	25											
AHOLD Europe	**2,032**	**2,077**	**2,186**	**2,235**	**2,284**	**2,333**	**2,382**	**2,431**	**2,480**	**2,529**	**2,578**	**2,627**	**2,676**	**2,725**
Albert-Heijn	1,711	1,756	1,861	1,906	1,951	1,996	2,041	2,086	2,131	2,176	2,221	2,266	2,311	2,356
Albert-Heijn		752	823											
Etos		485	506											
Gall & Gall		519	532											
Albert/ Hypernova	321	321	325	329	333	337	341	345	349	353	357	361	365	369
Czech Republic		296	300											
Slovakia		25	25											
New stores/ year														
AHOLD Group		32	115	55	55	55	55	55	55	55	55	55	55	55
AHOLD USA		-13	6	6	6	6	6	6	6	6	6	6	6	6
Stop & Shop/ Giant-Landover		-15	3	3	3	3	3	3	3	3	3	3	3	3
Giant-Carlisle		2	3	3	3	3	3	3	3	3	3	3	3	3
AHOLD Europe		45	109	49	49	49	49	49	49	49	49	49	49	49
Albert-Heijn		45	105	45	45	45	45	45	45	45	45	45	45	45
Albert/ Hypernova		0	4	4	4	4	4	4	4	4	4	4	4	4

Figure 10: *Revenue by store (broken by Ahold group company segment) and sales growth*

A. Scenario Analysis - Ahold Store Growth Base Case

Scenarios	2006A	2007A	2008A	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Scenario 1: Base case														
Economic Conditions														
The U.S.														
Inflation	3.20%	2.80%	4.00%	-0.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%
GDP Growth			1.10%	-2.70%	1.40%	1.40%	1.40%	1.40%	1.40%	1.40%	1.40%	1.40%	1.40%	1.40%
The Netherlands														
Inflation		1.58%	2.35%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%
GDP Growth		3.46%	2.15%	-1.90%	0.80%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%
Czech Republic														
Inflation			7.10%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%
GDP Growth			-3.00%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
New stores/ year														
AHOLD Group		32	115											
AHOLD USA		-13	6											
Stop & Shop/ Giant-Landover		-15	3	3	3	3	3	3	3	3	3	3	3	3
Giant-Carlisle		2	3	3	3	3	3	3	3	3	3	3	3	3
AHOLD Europe		45	109											
Albert-Heijn		45	105	45	45	45	45	45	45	45	45	45	45	45
Albert/ Hypernova		0	4	4	4	4	4	4	4	4	4	4	4	4
Revenue/ sq.m.														
AHOLD Group														
AHOLD USA														
Stop & Shop/ Giant-Landover		0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Giant-Carlisle		0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
AHOLD Europe														
Albert-Heijn		0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Albert/ Hypernova		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SG&A														
% growth		-9%	-1%	-5%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
% of total revenue	23%	23%	22%	21%	21%	21%	21%	21%	21%	21%	21%	21%	22%	22%
CAPEX														
Net PPE as % sales	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%

Figure 11A: *Scenario analysis for store growth*

B. Scenario Analysis – Ahold Management Guidance

Scenario 2: Management guidance														
Sales growth		-11%	3%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
SG&A														
% growth		-9%	-1%	-9%	4%	3%	4%	5%	5%	5%	5%	5%	5%	5%
% of total revenue	23%	23%	22%	21%	21%	21%	21%	21%	21%	21%	21%	21%	22%	22%
CAPEX														
Net PPE as % sales	22%	22%	22%	23%	24%	25%	26%	27%	28%	29%	30%	30%	30%	30%

Figure 11B: *Scenario analysis – management guidance*

C. Scenario Analysis - Ahold LBO / Buyout Scenario Analysis

Calculation of LBO Goodwill (EUR millions)		
Total number of common shares outstanding		1,177
Stok price (EUR)		8.24
Purchasing price of equity		9,696
Book Value of Equity Pre Completion		353
LBO Goodwill		**9,343**
Uses		
Purchasing price equity		9,696
Cash		2,863
Redemption LT debt		2,260
Redemption ST debt		459
Purchasing price		9,552
Transaction costs	*5%*	478
Total		**10,029**
Sources		
Equity	*30%*	3,029
Mezzanine		1,500
Senior A		3,500
Senior B		2,000
Total		**10,029**

Financial Statement	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
IRR											
EBITDA	2,070	2,207	2,153	2,368	2,268	2,324	2,299	2,312	2,303	2,302	2,294
Exit EBITDA Multiple	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x
Enterprise Value:	16,488	17,584	17,151	18,868	18,066	18,519	18,314	18,421	18,347	18,342	18,279
- Debt:	-6,545	-6,094	-5,586	-5,083	-4,544	-4,010	-4,111	-2,216	-2,327	0	0
+ Cash:	-61	200	443	784	1,153	1,547	2,619	1,697	2,891	1,649	2,990
+ Financial fixed assets	802	802	802	802	802	802	802	802	802	802	802
- Dividend payable	0	0	0	0	0	0	0	0	0	0	0
- Pension liability	-113	-113	-113	-113	-113	-113	-113	-113	-113	-113	-113
Equity Value:	10,572	12,380	12,697	15,258	15,364	16,745	17,512	18,591	19,600	20,680	21,957
Investment equity holders	9,552	9,552	9,552	9,552	9,552	9,552	9,552	9,552	9,552	9,552	9,552
Internat Rate of Return Equity	11%	14%	10%	12%	10%	10%	9%	9%	8%	8%	8%

Figure 11C: *LBO / Buyout scenario analysis (with optimized exit value in 2010)*

Economic Value Added

Financial Statement	2006A	2007A	2008A	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Economic value added (in EUR millions)														
EBITA	1,191	1,161	1,252	1,455	1,578	1,515	1,721	1,612	1,660	1,626	1,631	1,613	1,603	1,587
- Tax on EBITA	65	206	271	352	382	367	417	391	402	394	395	391	389	384
Tax rate	5%	18%	22%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
NOPLAT	**1,126**	**955**	**981**	**1,102**	**1,195**	**1,148**	**1,304**	**1,222**	**1,258**	**1,232**	**1,236**	**1,222**	**1,215**	**1,202**
Average operating capital	6,745	6,369	6,062	6,196	6,297	6,368	6,438	6,508	6,579	6,649	6,720	6,790	6,861	6,931
Return on operating capital	**17%**	**15%**	**16%**	**18%**	**19%**	**18%**	**20%**	**19%**	**19%**	**19%**	**18%**	**18%**	**18%**	**17%**
WACC	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Spread	10%	8%	9%	11%	12%	11%	13%	12%	12%	12%	11%	11%	11%	10%
ECONOMIC VALUE ADDED	**657**	**512**	**559**	**671**	**758**	**705**	**857**	**769**	**801**	**770**	**768**	**750**	**738**	**720**

Figure 12: *Economic value added – tracking and forecast*

ROIC

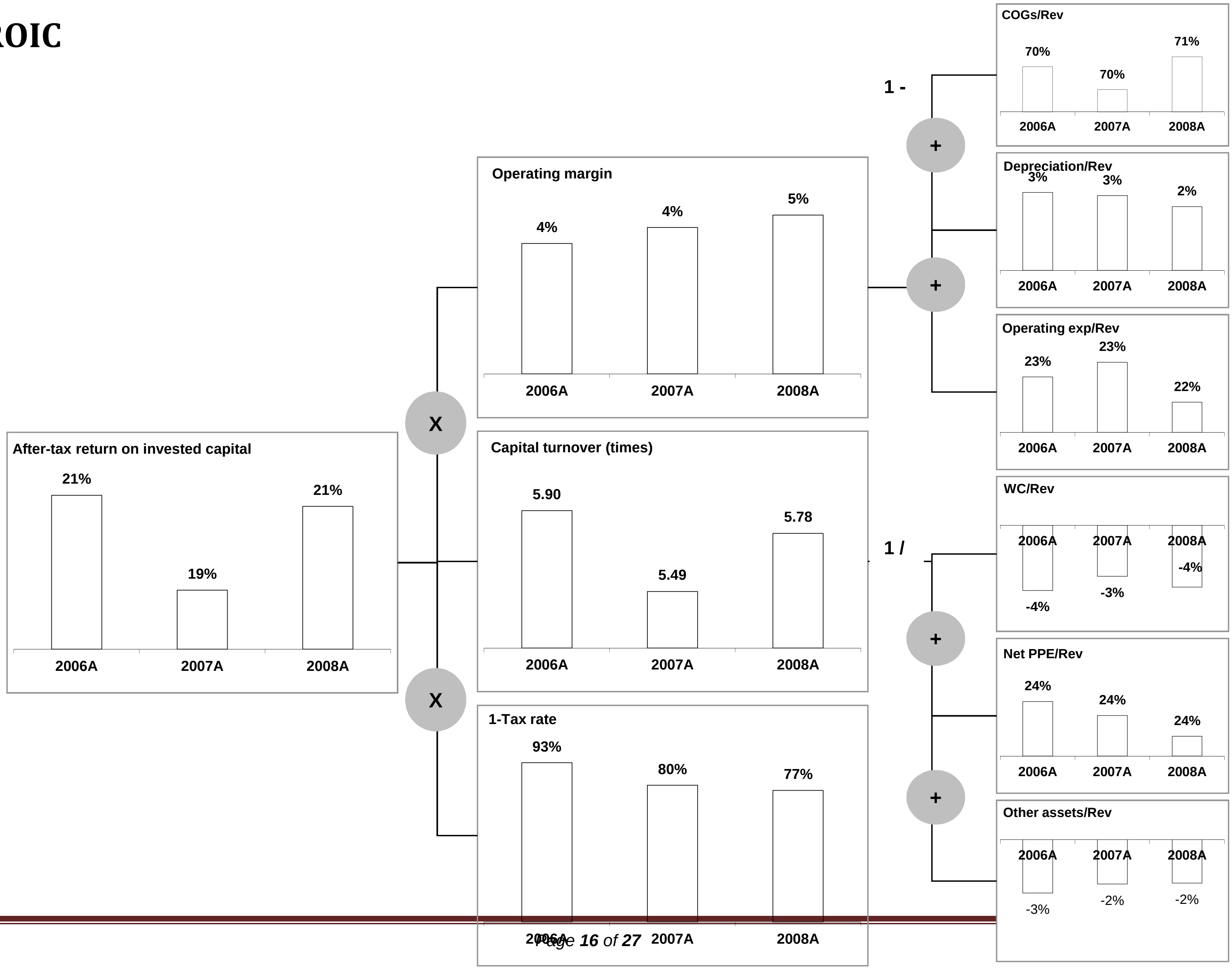
After-tax return on invested capital
21%
19%
21%
2006A
2007A
2008A
X
Operating margin
4%
4%
5%
2006A
2007A
2008A
X
Capital turnover (times)
5.90
5.49
5.78
2006A
2007A
2008A
1-Tax rate
93%
80%
77%
2006A
2007A
2008A
1 -
+
+
COGs/Rev
70%
70%
71%
2006A
2007A
2008A
Depreciation/Rev
3%
3%
2%
2006A
2007A
2008A
Operating exp/Rev
23%
23%
22%
2006A
2007A
2008A
1 /
+
+
WC/Rev
2006A
2007A
2008A
-4%
-3%
-4%
Net PPE/Rev
24%
24%
24%
2006A
2007A
2008A
Other assets/Rev
2006A
2007A
2008A
-3%
-2%
-2%

Figure 13: *Return on Invested Capital (ROIC)*

Finally, a historical stock performance analysis was performed using daily prices dating back to August of 2007. From this, an annual volatility rating of 35% was derived.

Estimating AHOLD's stock Volatility Using Daily Data (source Yahoo.com/finance)

Number of days data	427
number of daily returns	426
Mean daily returns	0.0003
Daily Variance	0.000491
Daily standard deviation	0.022156
Volatility (annualized)	35%

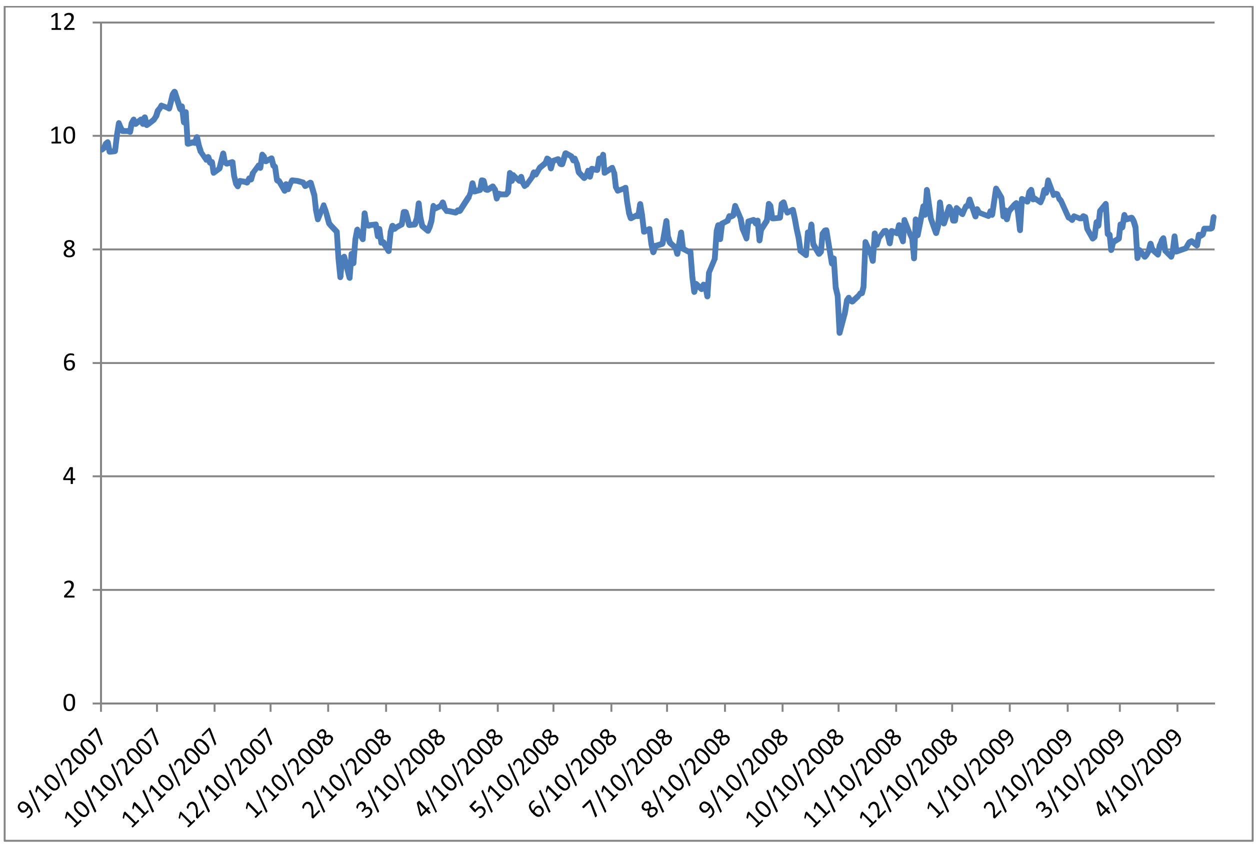

Figure 14: *Historical Ahold stock price volatility analysis*

B. Company Strategy

As per the Ahold 2008 annual report, the company has a dual strategy of steadily improving the efficiency of existing stores while continually testing new formats and concepts for possible new market opportunities. Cost savings is sought via efficiency in store operations, logistics, energy usage, and overhead. There is also a rigorous approach to underperforming stores and low-cost sourcing. Branding is a key element – strengthening market position via careful pricing and product offerings. The goal in establishing strong brands is to increase market hold and to attract new customers.

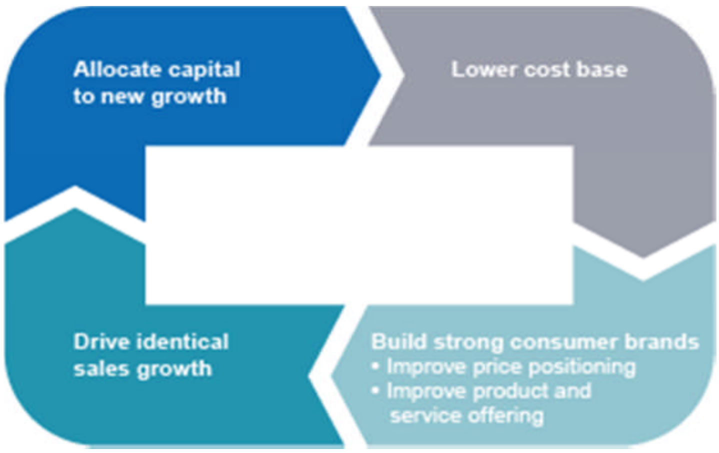

Figure 15: *Ahold growth strategy*

Two key manifestations of this strategy of focusing on efficiency and improvement saw a divestment of under-performing ex-US/Europe stores in 2006 and an accompanying effort to refurbish and modernize US stores. Although the refurbishment investment caused a decline in revenues, the results should drive market growth starting in 2010.

As per previous discussion, the economic downturn underway has challenged food retailers to retrench in cost cutting to identify with a thrifty trend in consumer sentiment. However, there is a sentiment that consumer sentiment will improve in 2009. A recent Reuters report cited Ahold's Chief Executive John Rishton belief that US store margins will improve later in 2009, although there is wariness concerning "the impact of an economic slowdown and rising food prices" (Chee, 2009). Notably, a two-year overhaul of Ahold's US supermarkets which commenced in 2006 has hurt margins. Regardless, Ahold's management reported at the April 2009 annual shareholder meeting that the company was on track to achieve its 2008 financial targets for a retail operating margin of 4.5 to 5 percent this year, compared to 4.6 percent in 2007.

A recent McKinsey & Company report entitled 'How Retailers Can Make the Best of a Slowdown' recommended that retailer not chase after radical change and instead use the current opportunity to retrench and prepare for economic improvement: "for retailers operating with decent financial strength in reasonably attractive markets, investing for future growth, rather than hunkering down to minimize losses, often yields the best long-term results." (Kotecha , 2008)

As per both the food retail industry and Ahold company analysis, defending and expanding share in developed markets is a key aspect of maintaining growth. Efficient operations and optimized margins are key to maintaining and expanding revenue streams. Thus focused efficiency with careful efforts towards expansion is a continual balance for Ahold.

IV. VALUATION ANALYSIS: STANDALONE, STRATEGIC BUYER, P/E VALUATION

A. Key Assumptions

Based on the groundwork set in the historical and company analysis as covered in section III, a valuation of the company was carried out. Following from Figures 11A – C, three valuation scenarios were conducted: 1) standalone base case (DCF), 2) management guidance, and 3) LBO / buyout. As well, an alternative valuation was conducted using peer trading multiples.

B. DCF Valuation

The aspects applied in the Discounted Cash Flow (DCF) valuation were as follows:

- Forecast key value drivers
- Derive forecasted balance sheet, P&L & cash flows
- Determine cost of capital
- Calculate continuing value
- Estimate enterprise and equity value
- Derive WACC
- FCF forecasts
- Derive NPV
- Adjust for non-operating assets and liabilities
- Subtract debt to get to equity value

As input, for the base case scenario, an economic forecast (inflation and GDP) for each of the geographic areas with active Ahold stores was carried-out (source: Economic Intelligence Unit forecast). This included a forecast of new stores as well as revenue per store square meter per region and company group. SG&A and CAPEX were also broken-out and forecasted. The resulting data profile was used to project revenues, operating income, and expenses. Key figure working capital balance sheet projections were derived from financials from 2006 – 2008, including AR, inventories, provisions, etc. Both tangible and intangible fixed assets were projected from financials, as were shareholders equity, debt schedule, and other items. WACC was derived (see Figure 17 below). A detailed debt profile projection was carried out for short and long-term debt. Financial statements (Income Statement, Balance Sheet, and Cash Flow Statement) were tracked (2006 – 2008) and projected (2010 – 2019), resulting in an Economic Value Added (EVA) picture as per Figure 12. Finally a DCF valuation picture resulted (see Figure 21) proposing a EUR 13 per share valuation. Finally, a peer multiples (trading multiples) valuation was undertaken, as was an LBO valuation analysis. Full details for each of these steps is available in the accompanying valuation spreadsheet.

WACC Analysis Details

As Ahold is financed both with debt and equity, the Weighted Average Cost of Capital (WACC) was computed to establish the firm discount rate (the minimum, value creating return on capital expected by the combination of creditors and equity holders). Ahold WACC was calculated by weighting the cost of debt and equity capital according to their respective market values as per the WACC formula.

$$\text{WACC} = K_e \times \frac{E}{V} + K_d \times (1 - T) \times \frac{D}{V}$$

Where:

- K_e = Cost of equity
- K_d = Cost of debt
- E = Market value of equity
- D = Market value of debt
- T = Corporate tax rate
- V = Market value of equity plus market value of debt

Figure 16: *WACC calculation using CAPM model*

The following assumptions were applied to the Ahold CAPM WACC calculation, resulting in a WACC of 7%:

- Risk free rate of 4.0% (the average of 3-month yield of a 10-year government bond using the ECB rates) *
- Market premium risk of 6 percent, an average for developed countries during the current economic downtown (5 - 6 % on average for developed countries, 6 - 6.5% for the period of economic downturn) **
- Beta of .54, calculated using Ahold's 5-year historical prices (monthly) and the MCCI – the World Index to establish comparison to true market risk ~
- Small firm premium of 0.3% is utilized as Ahold market capitalization is between US$5.3 and 12.4 million ***
- Liquidity premium is 0% based on the similar trade volume to common shares outstanding of the large market capitalization companies e.g. Royal Dutch Shell and Unilever
- Marginal tax rate of 25.5% is the statutory tax rate in the Netherlands
- Cost of debt is the average interest rate of Ahold in 2008

Risk free rate *	4%
Market risk premium **	6%
Beta ~	0.54
Small firm premium ***	0.30%
Liquidity premium ****	0%
Cost of equity	7.4%
Cost of debt	8%
Cost of preferred equity	0
Marginal tax rate	25.50%
D/V	0.28
E/V	0.72
Preferred equity/ V	0
WACC	**7.00%**

Figure 17: *WACC calculation*

~ Beta Calculation Detail

5 years monthly prices compared to MSCI World Index

covariance	0.0008
variance	0.0015
Beta	**0.54**

Figure 18: *Beta calculation*

		Terminal growth						
		0.0%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
WACC	6%	15.3	19.4	21.2	23.6	26.9	31.8	40.1
	7%	13.2	15.8	16.8	18.0	19.6	21.8	24.8
	8%	11.6	13.3	13.9	14.7	15.6	16.7	18.2
	9%	10.4	11.6	12.0	12.4	13.0	13.7	14.5
	10%	9.4	10.2	10.5	10.8	11.2	11.7	12.2
	11%	8.6	9.2	9.4	9.6	9.9	10.2	10.5
	12%	7.9	8.4	8.5	8.7	8.9	9.1	9.3

Figure 19: *WACC Terminal Growth Calculation*

DCF valuation (in EUR millions)														
EBITA			1,455	1,578	1,515	1,721	1,612	1,660	1,626	1,631	1,613	1,603	1,587
- Tax on EBITA			352	382	367	417	391	402	394	395	391	389	384
NOPLAT			**1,102**	**1,195**	**1,148**	**1,304**	**1,222**	**1,258**	**1,232**	**1,236**	**1,222**	**1,215**	**1,202**
+ Depreciation tangible assets			615	629	638	647	655	664	673	681	690	699	707
- Investment intangibles			-88	-81	-82	-83	-84	-85	-86	-87	-88	-89	-91
- Investment tangibles			-745	-707	-716	-725	-733	-742	-751	-759	-768	-777	-785
- Investment operating working capital			-240	-29	28	-67	40	-14	14	0	8	4	8
+ Change in provisions			20	3	3	3	3	3	3	3	3	3	3
FREE CASH FLOW			**664**	**1,010**	**1,018**	**1,079**	**1,102**	**1,083**	**1,084**	**1,073**	**1,066**	**1,054**	**1,044**
Discount rate	WACC	7.0%	0.9350	0.8742	0.8174	0.7642	0.7146	0.6681	0.6247	0.5841	0.5461	0.5106	0.4774
Present value			621	883	832	824	788	724	677	627	582	538	498
Value during planning period			7,594										
Terminal growth rate			0%		Constraint: GDP growth and industry growth. Taking also effect of inflation in according to nominal WACC.								
Terminal value			7,169	49%	(NOPLAT*(1-G/ROIC))/(WACC-G) or NOPLAT/WACC (for normal company)								
Enterprise value			**14,763**		Implied EV/EBITDA = 8.0x								
+ Excess cash			2,881		Cash and cash equivalents + current investment - cash used for working capital								
- Interest bearing debt			-2,719										
+ Financial fixed assets			802										
- Dividend payable			0										
- Pension liability			-113										
Equity value			15,614										
- Value preferred equity			0										
Value ordinaries			15,614										
Number of shares			1,177										
Value per share			**13**										

Figure 20: *DCF Valuation (NOPLAT / FCF method)*

P/E Valuations

Year	2006A	2007A	2008A	2009F	2010F	2011F	2012F
Stock Price	10.07	9.47	8.83	8.24	8.24	8.24	8.24
EPS	0.45	0.52	0.70	0.88	0.96	0.94	1.10
DPS	0.00	0.16	0.18				
PE	22.53	18.32	12.59	9.35	8.54	8.75	7.52
Div Yield	0.00%	1.69%	2.04%	0.00%	0.00%	0.00%	0.00%

PE	Target Price						
10	4.3	5.0	6.7	8.5	9.3	9.0	10.5
11	4.7	5.5	7.4	9.3	10.2	10.0	11.6
12	5.2	6.0	8.1	10.2	11.2	10.9	12.7
13	5.6	6.5	8.8	11.1	12.1	11.9	13.8
14	6.1	7.0	9.5	12.0	13.1	12.8	14.9
15	6.5	7.5	10.2	12.9	14.1	13.7	16.0
16	7.0	8.1	10.9	13.7	15.0	14.7	17.1

Upside based on PE Valuations

PE	Upside Potential						
10				3%	12%	10%	28%
11				13%	24%	21%	41%
12				24%	36%	33%	54%
13				35%	47%	44%	67%
14				45%	59%	55%	81%
15				56%	71%	67%	94%
16				67%	83%	78%	107%

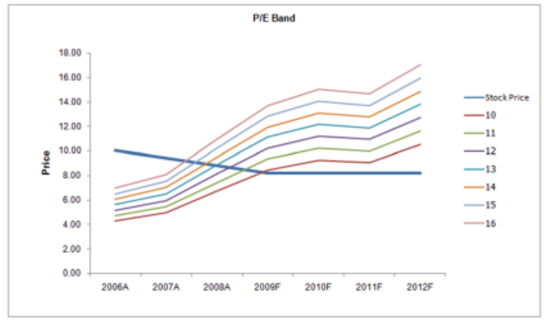

Figure 21: *P/E Valuations and Band*

P/BV Valuations

Year	2006A	2007A	2008A	2009F	2010F	2011F	2012F
Stock Price	10.07	9.47	8.83	8.24	8.24	8.24	8.24
BVPS	3.28	3.32	3.97	4.68	5.45	6.20	7.08
P/BVPS	3.07	2.86	2.22	1.76	1.51	1.33	1.16

P/BV	Target Price						
1.2	4.01	4.05	4.86	5.72	6.66	7.58	8.65
1.7	5.65	5.71	6.84	8.06	9.39	10.68	12.19
2.2	7.29	7.37	8.83	10.40	12.11	13.79	15.73
2.7	8.93	9.03	10.82	12.74	14.84	16.89	19.27
3.2	10.56	10.69	12.80	15.08	17.56	19.99	22.82
3.7	12.20	12.34	14.79	17.42	20.29	23.09	26.36

Upside based on P/BV Valuations

P/BV	Upside Potential						
1.2				-31%	-19%	-8%	5%
1.7				-2%	14%	30%	48%
2.2				26%	47%	67%	91%
2.7				55%	80%	105%	134%
3.2				83%	113%	143%	177%
3.7				111%	146%	180%	220%

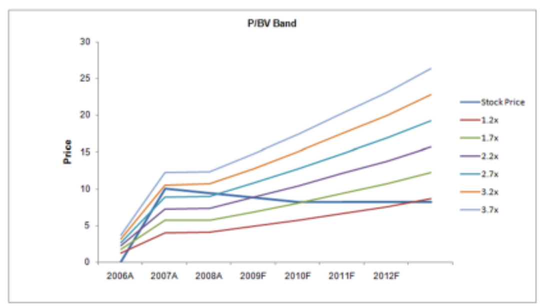

Figure 22: *P/BV Valuations and Band*

C. Alternative Valuations and Analysis

A trading multiples valuation (based on current market capitalization) was conducted utilizing a basket of food retail sector competitors / peer group members: Carrefour, Delhaize, Metro AG, Kroger Co., Safeway Inc., Super de Boer, Wal Mart Stores Inc., Tesco PLC, and Supervalu Inc. Key figures for a basket of nine peers resulted in a synthesized average enterprise value as a multiple of sales, EBITDA, and EBIT. The peer group averages were then used to derive an equity valuation for Ahold. Of note, the transaction multiples method gives a lower valuation that that of a trading multiple calculation, which is from the perspective of an M&A pricing and thus includes a goodwill premium.

Super De Boer

	ENTERPRISE VALUE				EQUITY	
	SALES	EBITDA	EBITA	EBIT	PER	PER adj.
2008	0.2x	7.9x		16.1x	11.7x	
2009E	0.2x	8.2x		17.5x	18.2x	
2010E	0.2x	6.9x		12.2x	13.1x	
2011E	0.2x				9.9x	

Carrefour

	ENTERPRISE VALUE				EQUITY	
	SALES	EBITDA	EBITA	EBIT	PER	PER adj.
2008	0.3x	6.0x		10.1x	11.4x	
2009E	0.3x	5.5x		8.8x	12.5x	
2010E	0.3x	5.3x		8.5x	11.8x	
2011E	0.3x				10.7x	

Delhaize Group

	ENTERPRISE VALUE				EQUITY	
	SALES	EBITDA	EBITA	EBIT	PER	PER adj.
2008	0.4x	5.7x		8.7x	11.1x	
2009E	0.4x	5.2x		7.9x	10.8x	
2010E	0.4x	5.0x		7.8x	10.2x	
2011E	0.3x				9.4x	

Supervalu Inc

	ENTERPRISE VALUE				EQUITY	
	SALES	EBITDA	EBITA	EBIT	PER	PER adj.
2008	0.3x	4.3x		6.9x	5.3x	
2009E	0.3x	4.7x		8.0x	6.1x	
2010E	0.3x	4.6x		8.0x	5.6x	
2011E	0.3x				5.2x	

Wal Mart Stores Inc

	ENTERPRISE VALUE				EQUITY	
	SALES	EBITDA	EBITA	EBIT	PER	PER adj.
2008	0.6x	7.5x		9.7x	14.2x	
2009E	0.5x	7.3x		9.4x	13.6x	
2010E	0.5x	6.9x		8.8x	12.4x	
2011E	0.5x				11.5x	

Safeway Incorporated

	ENTERPRISE VALUE				EQUITY	
	SALES	EBITDA	EBITA	EBIT	PER	PER adj.
2008	0.3x	4.6x		7.5x	9.3x	
2009E	0.3x	4.6x		7.6x	9.3x	
2010E	0.3x	4.5x		7.3x	8.7x	
2011E	0.3x				7.9x	

Metro AG

	ENTERPRISE VALUE				EQUITY	
	SALES	EBITDA	EBITA	EBIT	PER	PER adj.
2008	0.2x	5.2x		9.5x	12.7x	
2009E	0.2x	4.6x		7.4x	12.7x	
2010E	0.2x	4.4x		7.0x	11.8x	
2011E	0.2x				9.9x	

The Kroger Company

	ENTERPRISE VALUE				EQUITY	
	SALES	EBITDA	EBITA	EBIT	PER	PER adj.
2008	0.3x	5.6x		9.0x	11.4x	
2009E	0.3x	5.4x		8.6x	10.6x	
2010E	0.3x	5.0x		8.0x	9.7x	
2011E	0.3x				8.7x	

Tesco PLC

	ENTERPRISE VALUE				EQUITY	
	SALES	EBITDA	EBITA	EBIT	PER	PER adj.
2008	0.7x	8.8x		11.7x	12.7x	
2009E	0.6x	7.3x		10.0x	11.7x	
2010E	0.6x	6.7x		9.2x	10.6x	
2011E	0.5x				9.6x	

source: Thomson ONE

*** Note:** *Super De Boer calculated from annual report 2008; Wal Mart from fiscal year 2009*

Figure 23: *Ahold peer group trading figures*

Ahold Peer Group Trading Averages

PEER GROUP AVERAGE						
	ENTERPRISE VALUE				EQUITY	
	SALES	EBITDA	EBITA	EBIT	PER	PER adj.
2008	0.4x	6.2x		9.9x	11.1x	
2009E	0.4x	5.9x		9.5x	11.7x	
2010E	0.3x	5.5x		8.5x	10.4x	
2011E	0.3x				9.2x	

Ahold Trading Multiples Valuation

	2008A	2009F	2010F
EBITDA	1,853	2,070	2,207
EBITA	1,252	1,455	1,578
EBIT	1,198	1,382	1,502
Peers	**2008A**	**2009F**	**2010F**
EBITDA	6.2	5.9	5.5
EBIT	9.9	9.5	8.5
EV	**2008A**	**2009F**	**2010F**
EV/EBITDA	11,483	12,130	12,080
EV/EBIT	11,868	13,066	12,819
Equity value	**2008A**	**2009F**	**2010F**
EV/EBITDA	12,334	12,981	12,931
EV/EBIT	12,719	13,917	13,670
Value per share	**2008A**	**2009F**	**2010F**
EV/EBITDA	10.5	11.0	11.0
EV/EBIT	10.8	11.8	11.6

Figure 24: *Ahold Peer Group Trading Averages and Multiples Valuation*

D. LBO / Buyout Analysis

Finally, an LBO (Leveraged Buyout) valuation was conducted. Ahold might be a hypothetical target for large competitors such as Wal Mart: it has cash in hand, experienced management, and a strong, geographically diversified market share within the food retail sector. As per Figure 25, a DCF valuation was conducted, arriving at an equity value of EUR 11 per share (from the perspective of a leveraged buyer). Also, the debt-financed buyout projections resulted in IRR forecasts showing a peak IRR of 14% in 2010 (thus recommended exit timeframe).

Financial Statement	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
DCF valuation (in EUR millions)											
EBITA	1,455	1,578	1,515	1,721	1,612	1,660	1,626	1,631	1,613	1,603	1,587
- Tax on EBITA	343	372	357	406	380	392	383	385	380	378	374
NOPLAT	**1,111**	**1,206**	**1,157**	**1,315**	**1,232**	**1,269**	**1,242**	**1,246**	**1,232**	**1,225**	**1,213**
+ Depreciation tangible assets	615	629	638	647	655	664	673	681	690	699	707
- Investment intangibles	-88	-81	-82	-83	-84	-85	-86	-87	-88	-89	-91
- Investment tangibles	-745	-707	-716	-725	-733	-742	-751	-759	-768	-777	-785
- Investment operating working ca	-240	-29	28	-67	40	-14	14	0	8	4	8
+ Change in provisions	20	3	3	3	3	3	3	3	3	3	3
FREE CASH FLOW	**674**	**1,020**	**1,028**	**1,090**	**1,113**	**1,094**	**1,094**	**1,083**	**1,076**	**1,065**	**1,054**
Discount rate	0.9350	0.8742	0.8174	0.7642	0.7146	0.6681	0.6247	0.5841	0.5461	0.5106	0.4774
Present value	630	892	840	833	795	731	684	633	588	544	503
Value during planning period	7,671										
Terminal growth rate	0%										
Terminal value	7,239										
Enterprise value	**14,911**		Implied EV/EBITDA =		8.0x						
+ Excess cash	0										
- Interest bearing debt	-2,719										
+ Financial fixed assets	802										
- Dividend payable	0										
- Pension liability	-113										
Equity value	12,881										
- Value preferred equity	0										
Value ordinaries	12,881										
Number of shares	1,177										
Value per share	**11**										

Figure 25: *LBO DCF Valuation – note value per share of 11*

Financial Statement	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
IRR											
EBITDA	2,070	2,207	2,153	2,368	2,268	2,324	2,299	2,312	2,303	2,302	2,294
Exit EBITDA Multiple	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x
Enterprise Value:	16,488	17,584	17,151	18,868	18,066	18,519	18,314	18,421	18,347	18,342	18,279
- Debt:	-6,545	-6,094	-5,586	-5,083	-4,544	-4,010	-4,111	-2,216	-2,327	0	0
+ Cash:	-61	200	443	784	1,153	1,547	2,619	1,697	2,891	1,649	2,990
+ Financial fixed assets	802	802	802	802	802	802	802	802	802	802	802
- Dividend payable	0	0	0	0	0	0	0	0	0	0	0
- Pension liability	-113	-113	-113	-113	-113	-113	-113	-113	-113	-113	-113
Equity Value:	10,572	12,380	12,697	15,258	15,364	16,745	17,512	18,591	19,600	20,680	21,957
Investment equity holders	9,552	9,552	9,552	9,552	9,552	9,552	9,552	9,552	9,552	9,552	9,552
Internat Rate of Return Equity	11%	14%	10%	12%	10%	10%	9%	9%	8%	8%	8%

Figure 26: *IRR reaches height in 2010*

E. Valuation Results Analysis

From DCF Valuation perspective (see Figure 20), at 0% terminal growth based on our base case scenario*, AHOLD target price ranges from EUR 9.4 to 13.2 per share (up to 60% upside potential at the company WACC at 7%**). The LBO analysis supported this, targeted EUR 11 per share (though this is from the perspective of a debt financed buyer, not an equity investor).

The resulting Ahold equity investor recommendation is ‘buy’ based on the weighted average fair value between DCF and EV/EBITDA valuations (50%:50%). A 2009 target price of EUR 12.1 was arrived at, which provides 47% upside potential at the current price of EUR 8.24. Currently, Ahold is trading at the lowest P/E ratio of the past 3 years (forwarded PER 9.35x) and P/BV ratio at 1.76x (see Figures 21 and 22).

** 0% terminal growth rate was chosen as a conservative assumption. The DCF valuation shown in Figure 20 has a EUR 13 target price at 7% WACC and 0% terminal growth.*

*** If an individual indestor considers a 7% WACC too low, a higher scenario can be inputted in the accompanying spreadsheet to achieve a higher recommended equity share target price.*

V. OVERALL CONCLUSION AND RECOMMENDATIONS

A. Concluding Remarks

The results of the Ahold valuation analysis is a positive 'buy/hold' rating on the stock and an overall positive assessment of firm strength and value. The analysis carried-out I backed by conclusions reached by independent industry analysts. It is felt that the valuation carried-out is in line with industry dynamics and the competitive position of Ahold compared to a basket of peers. In particular, although the current economic decline is challenging retailing broadly, Ahold is weathering the downturn reasonably well and is well positioned to maneuver when the economy begins to recover later in 2009 (as projected by analysts and economists).

The business implications of the valuation analysis is that Ahold will need to position itself to take advantage of a rapid shift to consumer cost-consciousness. However, the Ahold group stores should not radically overhaul operations or over-invest in change in a panic. This would challenge the cash flows and likely would be an over-reaction as many industry analysts anticipate a recovery later in 2009.

Late 2008 and the first half of 2009 are thus proposed as an unusual perturbation in equity valuation and consumer activity. Ahold will need to react, but should not over-react by over investment nor radically changing course given its stated business strategy (as per Figure 15). Indeed, Ahold's existing strategy focuses on efficiency and adapting to changing circumstances, so the company would be well-served to follow its existing strategic protocols.

In summary, the valuation analysis conducted revealed the following elements of strength to recommend Ahold:

- Strong brand in local: Albert Heijn including Etos, Gall & Gall
- Repositioning / refurbishment investment program for Stop & Shop and Giant-Landover (started Sept 2006 – mid 2008): sales and margins have improved as a result and are projected to continue to improve through 2010
- Cost saving and improving margin trend
- Good position and financial performance among peers in the grocery sector
- Valuation upside

As per the DCF / valuation conclusion, the current signal is 'buy' (based on the weighted average fair value between DCF and EV/EBITDA valuations). A 2009 target price of EUR 12.1 was arrived at, which provides 47% upside potential at the current price of EUR 8.24.

As per the industry analysis in Section 2, the main caveat is that the current economic downturn might prove to be more severe. It is possible that a vicious cycle of consumer curtailment, deflation, and supplier price pressures will come to bear to challenge revenue streams for an extended period of time. Even if, as projected, retailing picks up later in 2009, it is possible that a new, longer term consumer trend is shaping: discount 'price sensitive' consumerism. This will propose a challenge to retailers as they are squeezed between deep discounting competitors and losses on premium products. As observed in a recent Economist article: "it appears that some shoppers are embracing austerity not just out of necessity but also as somewhat of a fashion. Ostentatious parsimony is the new conspicuous consumption." (Economist Staff, 2009)

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