

Delhaize Group SA DELB (XBRU) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
52.68 EUR	48.00 EUR	28.80 EUR	74.40 EUR	High	None	Negative	Standard	—	Retail - Defensive

Increased competition and a difficult economic backdrop could continue challenging Delhaize.

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The primary analyst covering this company does not own its stock.

Research as of 20 Aug 2014
Estimates as of 19 Aug 2014
Pricing data through 05 Sep 2014
Rating updated as of 05 Sep 2014

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

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Investment Thesis 20 Aug 2014

Delhaize Group is a food retailing company with about 3,400 stores in the U.S., Belgium, southeastern Europe, and Asia. The company has an established presence in its markets, and we believe it will remain a viable competitor in the grocery channel. However, customer switching costs are virtually nonexistent in the grocery industry, making it difficult for most operators to avoid competing heavily on price, and we think Delhaize lacks the scale commanded by larger firms. As a result, we do not believe Delhaize's competitive position is strong enough to warrant an economic moat.

Delhaize operates more than 1,300 stores under various banners located along the East Coast of the United States, including Food Lion, Bottom Dollar Food, and Hannaford stores. The company has an established store network in these markets, but increasing competition remains a threat. Rivals such as Wal-Mart and Costco often accept low or negative margins on food items to drive purchases of higher-margin nonfood items, making it difficult for traditional grocers to compete on price while maintaining historic margins. To confront these challenges, Delhaize has invested heavily in price and product assortment at its Food Lion chain, helping support the top line at the expense of margins (segment gross margin decreased from 27.9% in 2009 to 25.9% in 2013).

Delhaize operates more than 800 stores in Belgium and Luxembourg, where the firm holds an estimated 25% market share, while the remainder of Delhaize's stores (around 15% of sales) are located in several Eastern European countries (predominantly Greece, Bulgaria, Bosnia, Serbia, and Romania) and Indonesia. A majority of the firm's Belgian stores operate under the Delhaize umbrella, although the company's store network has a broad reach. Just under 20% of the company's traditional grocery stores are company owned and operated, while another 25% of stores are franchised. The company also operates a handful of city stores, and has increasingly grown out its convenience store banners. In addition, the company is in the early stages of rolling out discount banner stores, and it operates more than 100 Tom & Go specialty retail pet stores.

Vital Statistics

Market Cap (EUR Mil)	5,320
52-Week High (EUR)	54.92
52-Week Low (EUR)	39.81
52-Week Total Return %	17.1
YTD Total Return %	24.7
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	0.9
5-Yr Forward EPS CAGR %	12.6
Price/Fair Value	1.10

Valuation Summary and Forecasts

	Fiscal Year:	2012	2013	2014(E)	2015(E)
Price/Earnings		19.6	19.7	13.9	13.3
EV/EBITDA		3.9	4.5	5.2	5.1
EV/EBIT		12.6	12.2	9.5	9.4
Free Cash Flow Yield %		26.3	15.9	8.3	9.1
Dividend Yield %		5.8	3.2	2.5	2.6

Financial Summary and Forecasts (EUR Mil)

	Fiscal Year:	2012	2013	2014(E)	2015(E)
Revenue		20,991	21,108	20,856	21,165
Revenue YoY %		-0.6	0.6	-1.2	1.5
EBIT		415	487	699	709
EBIT YoY %		-49.0	17.4	43.6	1.3
Net Income, Adjusted		156	222	385	400
Net Income YoY %		-67.3	42.3	73.4	4.1
Diluted EPS		1.54	2.19	3.78	3.96
Diluted EPS YoY %		-67.2	41.7	73.1	4.6
Free Cash Flow		986	851	490	542
Free Cash Flow YoY %		-931.4	-13.8	-42.4	10.6

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Delhaize Group SA is a food retailing company with about 3,400 stores in the U.S., Belgium, southeastern Europe, and Asia. Delhaize operates more than 1,800 banners in Belgium, southeastern Europe, and Asia, while its 1,400 U.S. stores include Food Lion, Bottom Dollar Food, and Hannaford stores.

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Morningstar Analysis

Delhaize's U.S. Banners Perform Well in 2Q, but Belgian Banner Under Pressure; No-moat Rating Intact 20 Aug 2014

Delhaize's U.S. banners performed well in the second quarter, as comparable store sales increased 3.3% (up 4.1% including 80 basis points of calendar impact) and profits (operating margin stood at 3.6%) showed signs of stabilizing. Comparable store sales growth was driven largely by price inflation (2.2%) in the meat, dairy, and produce categories, although management noted that inflationary pressures are slowing down. After investing heavily in prices and repositioning its banners, Delhaize still has room for improvement given that its productivity levels (as measured by sales per square foot) are still 20% below those of competitors. The firm's prices stand about 10% below Harris Teeter, which was recently acquired by Kroger, but about 5% above Wal-Mart, but an increasing emphasis on fresh food should help the firm remain a viable competitor.

Results in Belgium were more challenged, as comparable store sales declined 1.9% and market share slipped slightly (although Delhaize's market share, which hasn't budged much over the past few years, still stands at about 25%). Although Delhaize is one of the largest operators in the region, its labor costs are uncompetitive, as its closest competitors have average labor costs (per productive hour) that are about 20%-25% lower than Delhaize's. The firm is looking to restructure this business to remain more competitive, which we think is necessary if the firm is to maintain market share over the long term.

We believe Delhaize's recent results and current competitive position support our view that the firm lacks a cost advantage and an economic moat. We intend to update our near-term forecasts to incorporate the firm's recent performance, but we don't expect a material change to our EUR 45 fair value estimate. Given minimal customer switching costs and the fact that Delhaize lacks a material

cost advantage or pricing power, we think investors should wait to purchase this name with a greater margin of safety.

Valuation, Growth and Profitability 20 Aug 2014

We are raising our fair value estimate for Delhaize Group to EUR 48 per share, up from EUR 45 per share, due to the time value of money. Our updated fair value estimate implies a forward price/earnings of 13 times, enterprise value/EBITDA of 5 times, and a free cash flow yield of 9%. We expect Delhaize to increase its total square footage by approximately 1% annually over the next 10 years, with a majority of the growth driven by expansion in in Southeastern Europe and Asia. In addition, we expect low-single-digit comparable-store sales growth over the next decade, but we anticipate slowing growth over the back half of our explicit forecast horizon. We also expect that Delhaize will need to invest more aggressively into pricing to drive traffic, and we forecast gross and operating margins to average around 24% and 3% over the next decade, respectively, which compare to three-year historical averages of around 26% and 4% (excluding nonrecurring items).

Scenario Analysis

Our assumptions for same-store sales growth and profitability have the largest impact on our fair value estimate. If industry players undertake more aggressive pricing strategies than we anticipate in our base case, it could be difficult for Delhaize to increase prices in line with inflation (as we assume in our base case). The impact of these competitive threats could also materialize sooner than we assume in our base case, especially if economic conditions in the U.S. and Europe worsen over the near term. In this scenario, we forecast same-store sales to be essentially flat on average over the next 10 years (versus our base-case forecast for a little under 1% growth), and we model in square footage growth under 1%. These assumptions drive our expectation for sales growth under

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1% on average over the next 10 years. Deep discounting could weigh on the firm's gross margins (we forecast gross margins to average about 23.5% over the next decade in this scenario), while weak volume growth could bring about operating margin contraction (we forecast operating margins to average around 2% over the next 10 years in this case). Under these circumstances, our fair value estimate would fall to EUR 27.

Alternatively, if Delhaize is able to leverage its established store network to drive meaningful same-store sales growth while adding slightly more square footage than we assume in our base case, and we forecast 2.0% average annual organic revenue growth in this scenario (versus our base-case forecast for around 1.5% growth). Delhaize's profitability could also improve if the firm is able to leverage its higher-margin private label brands. If these favorable mix shifts occur while commodity cost inflation moderates, we believe the firm's gross margins could average about 24.5% over the next five years. Delhaize should be able to further leverage this volume growth and generate average operating margins of roughly 4% over the next five years under these conditions, which would cause our fair value

estimate to increase to about EUR 71.

Economic Moat

Despite its established presence in several regional markets, Delhaize lacks an economic moat, in our view. Consumer switching costs are virtually nonexistent in the grocery category, making it difficult for most operators to avoid competing heavily on price. Not only do several large supercenters and wholesale clubs sell groceries at very low margins (and sometimes at a loss) to drive traffic toward higher-margin products, but many also have scale advantages that Delhaize does not possess. These factors have made it difficult for traditional grocery operators to drive same-store-sales growth while maintaining historic levels of profitability, and we are hesitant to assign a material probability that Delhaize will generate excess returns over the long term.

Moat Trend

We assign Delhaize a negative moat trend, as nontraditional food retailers' expansion into the category has pressured Delhaize's operating margins in the U.S., where more than 50% of the firm's operating profit is derived. These competitors often accept low or negative margins on food items to drive purchases of higher-margin nonfood items, putting additional pressure on food-focused retail firms' margins. In addition, the dollar stores are aggressively building out their store bases, and Delhaize may need to invest heavily in price to maintain share amid added square footage. As a result, we expect U.S. segment operating margins to continue declining over the next decade as the firm attempts to thwart competition.

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Bulls Say/Bears Say

Bulls Say

- ▶ Delhaize's major price investments at the Food Lion banner should allow the firm to continue driving traffic and defending market share.
- ▶ While the economic environment in Greece remains challenging, Delhaize's established scale could help the firm outlast smaller rivals that lack comparable scale. Share gains could improve the firm's long-term competitive position in the region.
- ▶ Delhaize has launched new assortment optimization platforms to push sales into higher-margin products, which should help offset price investments the company is making.

Bears Say

- ▶ Competitive pressures are intensifying rapidly in the United States, where Delhaize derives more than 60% of its overall sales.
- ▶ Operations in Belgium account for more than 20% of sales and operating profits. Economic conditions remain challenging in this region, and future austerity measures could lead to a prolonged recession.
- ▶ Greece, where around 8% of Delhaize's stores are located, continues to face difficult economic conditions, which could weigh on growth and profitability over the near to medium term even if Delhaize gains share.

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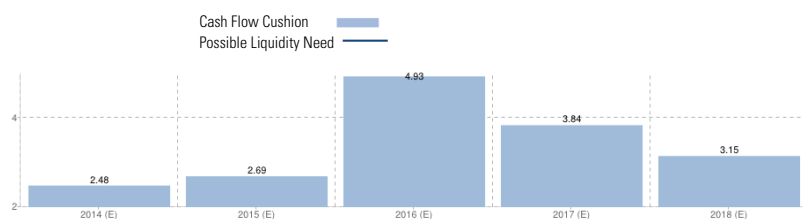
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Credit Analysis

Five Year Adjusted Cash Flow Forecast (EUR Mil)

	2014(E)	2015(E)	2016(E)	2017(E)	2018(E)
Cash and Equivalents (beginning of period)	1,149	1,157	1,396	1,659	1,705
Adjusted Available Cash Flow	593	603	581	551	520
Total Cash Available before Debt Service	1,742	1,760	1,977	2,210	2,225
Principal Payments	-219	-232	-7	-228	-400
Interest Payments	-191	-180	-178	-167	-155
Other Cash Obligations and Commitments	-291	-242	-216	-181	-152
Total Cash Obligations and Commitments	-701	-654	-401	-576	-707

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	EUR Millions	% of Commitments
Beginning Cash Balance	1,149	37.8
Sum of 5-Year Adjusted Free Cash Flow	2,849	93.8
Sum of Cash and 5-Year Cash Generation	3,998	131.6
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	3,998	131.6
Sum of 5-Year Cash Commitments	-3,038	—

Credit Rating Pillars—Peer Group Comparison

	DELB	Sector	Universe
Business Risk	10	—	—
Cash Flow Cushion	10	—	—
Solvency Score	1	—	—
Distance to Default	10	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health & Capital Structure

We believe Delhaize's financial health is sound. The company's current and quick ratios stood at 1.2 and 0.8 at the end of fiscal 2013, respectively, while debt/adjusted EBITDA stood at 1.7 times. The company has around EUR 1 billion maturing in the next five years; we forecast a cash flow cushion between 1 and 2 times, and we think Delhaize should continue meeting its financial obligations.

Delhaize's debt/capital ratio has averaged around 30% over the past three years, which we think is sustainable. We believe Delhaize will make investments in its store network and pricing a priority, but we also expect the company to use its free cash flow generation to increase its dividend over time and to repurchase shares. We also wouldn't be surprised to see the company make strategic acquisitions that complement its core operations.

Enterprise Risk

We assign Delhaize a high uncertainty rating, as we think the potentially large impact that increasing competition could have on the firm's margins and returns on capital over the next several years offsets the defensive nature of grocery purchases. Aggressive price competition could exacerbate the challenges posed by volatile commodity prices, which can weigh on profitability in any given period. In addition, cash-strapped consumers are increasingly focused on value, particularly in European countries such as Greece, and the firm may be unable to pass through higher input costs (and preserve margins) without losing share in these markets. While Delhaize operates in a defensive industry, profitability could deteriorate quickly if traffic slows, primarily owing to the heavy fixed costs inherent in operating a large grocery chain.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
T. Rowe Price International Grth & Inc	1.39	0.93	283	30 Jun 2014
GMO International Equity Fund	0.68	0.35	325	31 May 2014
Vanguard Total Intl Stock Idx Fund	0.60	0.03	11	31 Jul 2014
Sparinvest Value Aktier	0.50	2.32	-42	31 Aug 2014
L&G Pension PMC Europe(Ex UK) Inx Acc	0.55	0.10	19	30 Nov 2013
Concentrated Holders				
KBC Instl Fd Belgian Eq	0.01	6.67	0	30 Jun 2014
KBC Eq Fd Belgium	0.06	6.61	—	30 Jun 2014
KBC Eq Fd Flanders	0.04	6.45	—	30 Jun 2014
ING (B) Invest Belgium Hi Div	0.10	6.02	10	30 Jun 2014
ING (B) Invest Belgium	0.12	5.89	12	30 Jun 2014

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
BlackRock Advisors LLC	4.43	—	4,542	31 Jan 2014
Government Pension Fund of Norway - Global	2.26	0.02	445	31 Dec 2011
Grantham, Mayo, Van Otterloo & Co., LLC	1.07	0.25	435	31 May 2014
T. Rowe Price Associates, Inc.	1.40	0.87	283	30 Jun 2014
Eurizon Capital SGR S.p.A.	0.15	0.46	147	31 May 2014
Top 5 Sellers				
Degroef Gestion Institutionnelle-Lux	0.15	0.44	-105	31 Mar 2014
Invesco Asset Management Deutschland GmbH	0.41	0.89	-101	31 Aug 2014
Edmond de Rothschild Asset Management	0.41	1.20	-85	31 Mar 2014
DNCA Finance	0.46	2.38	-59	30 Jun 2014
Ireland National Pensions Reserve Fund	0.12	0.07	-56	31 Dec 2009

Management 20 Aug 2014

We award Delhaize a Standard stewardship rating, as we believe management's decisions to invest in the firm's store network, price points, and product assortment have been appropriate moves in an extremely challenging industry. We believe these initiatives, which have helped support (albeit modest) comparable-store sales growth in the U.S., are important to driving traffic. The company has also allocated capital to expanding its store base in Indonesia and other regions in Eastern Europe. These segments' profit margins are below those of the U.S. and Belgium segments, but we believe some of the margin pressure reflects difficult operating conditions in Greece. Over the long term, these investments should help the firm strengthen its presence in these regions.

We also believe Delhaize's corporate governance policies are adequate. The company has decided to limit board terms to three years, much shorter than the six-year maximum allowed by the Belgian government, although we'd still prefer to see annual elections. Nevertheless, 10 of the firm's 11 board members are nonexecutive members, and the chairman and CEO roles are split, both net positives in our view. Overall, we believe the company's executive team has ample experience in the industry. Former CEO and Chairman Pierre-Olivier Beckers, who started as a store manager and eventually climbed to the CEO role in 1999, retired in 2013, but remains on the board as a nonexecutive director in retirement. The firm appointed Frans Muller to succeed Beckers; Muller has held several leadership positions at Metro AG, which should give him solid experience to draw from while managing Delhaize. At this point, we don't expect the transition to result in a change to our stewardship rating, but we intend to closely watch out for material changes in capital allocation.

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We believe Delhaize's recent results and current competitive position support our view that the firm lacks a cost advantage and an economic moat. We intend to update our near-term forecasts to incorporate the firm's recent performance, but we don't expect a material change to our EUR 45 fair value estimate. Given minimal customer

switching costs and the fact that Delhaize lacks a material cost advantage or pricing power, we think investors should wait to purchase this name with a greater margin of safety.

Delhaize Reports Decent Top-Line Growth in 1Q, but Profitability Falls; Shares a Bit Rich 09 May 2014

Delhaize reported decent top-line growth in the first quarter, despite fierce competition in all its markets. In the U.S., where Delhaize generates 60% of its revenues, comparable store sales increased 4.6%, a very respectable growth rate when considering that muted food inflation has weighed on most grocers' sales growth opportunity. Most of the growth was driven by higher volumes, as the company has invested in prices (cost inflation has outpaced Delhaize's retail price inflation by about 1 percentage point). These price investments came at a cost, however, as the U.S. segment's underlying operating margin contracted 40 basis points to 3.6%. We remain cautious about stiff competition from the likes of Kroger and Wal-Mart, as these firms have considerable scale and customer switching costs are virtually non-existent. As such, we are maintaining our no-moat rating for Delhaize. Moreover, given the potential for competition to force Delhaize to invest in price at the expense of margin, we think investors should wait to purchase shares at a discount to our EUR 45 fair value estimate, which remains in place.

Results in Belgium and Southeastern Europe were similar to those generated in the U.S.; top-line growth was solid, but profit margins declined. Performance was weakest in Belgium (comparable-store sales were down 0.8%), where Delhaize lost a bit of market share at the margin. Like in other areas of Europe, the hard discounters (for example, Aldi) are performing well in Belgium, as these firms benefit from positive price perception and low cost operations. We think these trends could continue, but also believe that Delhaize's scale will allow the firm to compete with these

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Analyst Notes

rivals over the long term. In Southeastern Europe, comparable-store sales declined 0.4%, largely a reflection of difficult industry conditions. Delhaize is still a dominant player in these markets, but it could be difficult for the firm to expand margins while same-store sales are declining.

Delhaize Provides Update on Strategic Initiatives and Fourth-Quarter Earnings; Maintaining Our FVE 14 Mar 2014

Delhaize reported decent fourth-quarter results, and the firm's new CEO, Frans Muller, provided an update on the firm's strategic objectives, which include putting customers first and reducing costs. These priorities aren't materially different from those pursued in the past, and we are maintaining our no-moat rating. Intense industry dynamics continue to result in aggressive price competition, which limits our confidence in Delhaize's ability to sustain excess returns on invested capital over the long term. We intend to update our forecasts, but we do not expect to make a material change to our EUR 45 fair value estimate. We think shares are modestly overvalued, and we recommend investors wait to purchase them at a greater margin of safety.

Constant currency sales increased 3%, and we believe recent price investments have helped drive results. For example, U.S. segment food volumes have increased for the fifth consecutive quarter after aggressive price cuts were made. Weekly sales per square foot have increased to \$7.9 from \$7.5 over the past three years, but there's still opportunity to drive productivity to levels more in line with peers'. In Belgium and Greece, the firm continues to maintain market share despite difficult macro environments and increasing competition, and we expect Delhaize to remain a leader in these markets.

Profitability continued to decline, as gross and operating

margin contracted 20 and 30 basis points to 23.9% and 3.4%, respectively. We believe that price investments have weighed on gross margins, while higher labor expenses in Belgium have also been a headwind. Delhaize wants to bring selling, general, and administrative expenses down (as a percentage of sales) to 2006 levels (or about 20.7% versus 21.2% in 2013), which should be achievable if the firm can sustain top-line growth to leverage its fixed cost structure. However, competitive forces may force the firm to reinvest savings into lower prices.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

	3-Year Hist. CAGR	Forecast					5-Year Proj. CAGR
		2011	2012	2013	2014	2015	
Growth (% YoY)							
Revenue	0.4	1.3	-0.6	0.6	-1.2	1.5	0.9
EBIT	-21.9	-20.6	-49.0	17.4	43.6	1.3	7.0
EBITDA	-6.5	-5.0	-11.8	-2.5	-2.6	1.4	-0.3
Net Income	-27.2	-17.2	-67.3	42.3	73.4	4.1	12.4
Diluted EPS	-27.3	-17.4	-67.2	41.7	73.1	4.6	12.6
Earnings Before Interest, after Tax	-13.2	-10.1	-28.7	2.2	-9.4	1.4	-2.2
Free Cash Flow	3.0	-115.2	-931.4	-13.8	-42.4	10.6	-9.2

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		2011	2012	2013	2014	2015	
Profitability							
Operating Margin %	2.7	3.9	2.0	2.3	3.4	3.4	3.3
EBITDA Margin %	6.6	7.3	6.4	6.2	6.2	6.2	6.1
Net Margin %	1.4	2.3	0.7	1.1	1.9	1.9	1.9
Free Cash Flow Margin %	2.7	-0.6	4.7	4.0	2.4	2.6	2.5
ROIC %	9.8	11.6	8.6	9.1	8.2	8.1	7.8
Adjusted ROIC %	14.5	16.5	13.2	14.0	12.8	13.5	13.8
Return on Assets %	2.4	4.1	1.3	1.9	3.4	3.5	3.4
Return on Equity %	5.5	9.1	2.9	4.3	7.4	7.4	7.0

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		2011	2012	2013	2014	2015	
Leverage							
Debt/Capital	0.31	0.31	0.32	0.31	0.27	0.26	0.24
Total Debt/EBITDA	1.71	1.61	1.83	1.70	1.57	1.52	1.45
EBITDA/Interest Expense	6.57	7.55	5.49	6.69	6.71	7.25	7.50

Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	1.08	0.96	—	—
Price/Earnings	19.6	19.7	13.9	13.3
EV/EBITDA	3.9	4.5	5.2	5.1
EV/EBIT	12.6	12.2	9.5	9.4
Free Cash Flow Yield %	26.3	15.9	8.3	9.1
Dividend Yield %	5.8	3.2	2.5	2.6

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	9.0
Weighted Average Cost of Capital %	9.0
Long-Run Tax Rate %	25.0
Stage II EBI Growth Rate %	4.4
Stage II Investment Rate %	12.4
Perpetuity Year	11

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

Discounted Cash Flow Valuation

	EUR Mil	Firm Value (%)	Per Share Value
Present Value Stage I	3,257	55.1	32.07
Present Value Stage II	186	3.1	1.83
Present Value Stage III	2,469	41.8	24.31
Total Firm Value	5,912	100.0	58.21
Cash and Equivalents	1,149	—	11.31
Debt	-2,239	—	-22.04
Preferred Stock	—	—	—
Other Adjustments	-130	—	-1.28
Equity Value	4,692	—	46.19
Projected Diluted Shares	102		
Fair Value per Share (EUR)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Delhaize Group SA DELB (XBRU) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
52.68 EUR	48.00 EUR	28.80 EUR	74.40 EUR	High	None	Negative	Standard	—	Retail - Defensive

Morningstar Analyst Forecasts

Income Statement (EUR Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Revenue	21,110	20,991	21,108	20,856	21,165
Cost of Goods Sold	15,749	15,891	16,004	15,811	16,046
Gross Profit	5,361	5,100	5,104	5,045	5,119
Selling, General & Administrative Expenses	4,497	4,425	4,476	4,413	4,479
Other Operating Expense (Income)	-118	-116	-129	-116	-118
Other Operating Expense (Income)	169	376	270	49	49
Depreciation & Amortization (if reported separately)	—	—	—	—	—
Operating Income (ex charges)	813	415	487	699	709
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	813	415	487	699	709
Interest Expense	203	246	197	191	180
Interest Income	23	16	9	5	5
Pre-Tax Income	633	185	299	513	534
Income Tax Expense	156	29	77	128	133
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	477	156	222	385	400
Weighted Average Diluted Shares Outstanding	101	101	102	102	101
Diluted Earnings Per Share	4.70	1.54	2.19	3.78	3.96
Adjusted Net Income	477	156	222	385	400
Diluted Earnings Per Share (Adjusted)	4.70	1.54	2.19	3.78	3.96
Dividends Per Common Share	1.76	1.40	1.40	1.32	1.39
EBITDA	1,397	1,063	1,086	1,283	1,301
Adjusted EBITDA	1,532	1,351	1,317	1,283	1,301

Delhaize Group SA DELB (XBRU) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
52.68 EUR	48.00 EUR	28.80 EUR	74.40 EUR	High	None	Negative	Standard	—	Retail - Defensive

Morningstar Analyst Forecasts

Balance Sheet (EUR Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Cash and Equivalents	432	932	1,149	1,157	1,396
Investments	—	—	—	—	—
Accounts Receivable	697	634	723	600	609
Inventory	1,717	1,401	1,353	1,300	1,319
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	288	252	441	209	212
Current Assets	3,134	3,219	3,666	3,265	3,535
Net Property Plant, and Equipment	4,550	4,331	3,973	3,983	3,994
Goodwill	3,414	3,189	2,959	2,959	2,959
Other Intangibles	878	848	732	753	774
Deferred Tax Assets (Long-Term)	97	89	71	73	75
Other Long-Term Operating Assets	105	114	42	43	45
Long-Term Non-Operating Assets	114	146	129	129	129
Total Assets	12,292	11,936	11,572	11,206	11,511
Accounts Payable	1,845	1,884	1,993	1,733	1,758
Short-Term Debt	148	156	228	232	7
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	835	755	859	688	698
Current Liabilities	2,828	2,795	3,080	2,653	2,464
Long-Term Debt	2,325	2,313	2,011	1,779	1,972
Deferred Tax Liabilities (Long-Term)	624	570	444	457	471
Other Long-Term Operating Liabilities	1,076	1,051	915	924	952
Long-Term Non-Operating Liabilities	20	14	66	66	66
Total Liabilities	6,873	6,743	6,516	5,879	5,925
Preferred Stock	—	—	—	—	—
Common Stock	51	51	51	51	51
Additional Paid-in Capital	2,785	2,791	2,814	2,814	2,814
Retained Earnings (Deficit)	3,728	3,646	3,677	3,927	4,187
(Treasury Stock)	-65	-59	-66	-66	-66
Other Equity	-1,085	-1,238	-1,406	-1,406	-1,406
Shareholder's Equity	5,414	5,191	5,070	5,320	5,580
Minority Interest	5	2	6	6	6
Total Equity	5,419	5,193	5,076	5,326	5,586

Delhaize Group SA DELB (XBRU) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
52.68 EUR	48.00 EUR	28.80 EUR	74.40 EUR	High	None	Negative	Standard	—	Retail - Defensive

Morningstar Analyst Forecasts

Cash Flow (EUR Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Net Income	475	102	183	385	400
Depreciation	513	568	508	521	529
Amortization	71	80	91	63	63
Stock-Based Compensation	13	13	16	16	16
Impairment of Goodwill	135	288	231	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	79	-86	-48	11	12
Other Non-Cash Adjustments	14	11	22	—	—
(Increase) Decrease in Accounts Receivable	-10	74	-1	123	-9
(Increase) Decrease in Inventory	-147	293	-75	53	-19
Change in Other Short-Term Assets	-15	-31	-12	232	-3
Increase (Decrease) in Accounts Payable	-24	54	163	-260	26
Change in Other Short-Term Liabilities	—	40	111	-171	10
Cash From Operations	1,104	1,406	1,189	974	1,025
(Capital Expenditures)	-675	-596	-486	-532	-540
Net (Acquisitions), Asset Sales, and Disposals	-667	-62	-18	-83	-85
Net Sales (Purchases) of Investments	77	21	-68	—	—
Other Investing Cash Flows	—	—	—	8	26
Cash From Investing	-1,265	-637	-572	-607	-598
Common Stock Issuance (or Repurchase)	-20	—	-15	—	—
Common Stock (Dividends)	-173	-180	-142	-135	-140
Short-Term Debt Issuance (or Retirement)	-83	-61	-1	4	-225
Long-Term Debt Issuance (or Retirement)	131	3	-213	-232	193
Other Financing Cash Flows	-1	-24	12	-16	-16
Cash From Financing	-146	-262	-359	-378	-188
Exchange Rates, Discontinued Ops, etc. (net)	-21	-8	-28	—	—
Net Change in Cash	-328	499	230	-12	239

Delhaize Group SA DELB (XBRU) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
52.68 EUR	48.00 EUR	28.80 EUR	74.40 EUR	High	None	Negative	Standard	—	Retail - Defensive

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Kroger Co KR USA	1.40	10.8	12.4	15.9	5.0	6.5	7.2	18.6	17.8	30.9	3.4	3.5	4.3	0.1	0.2	0.2
Koninklijke Ahold NV AH NLD	0.91	17.4	14.3	13.2	7.4	5.8	5.6	8.1	16.4	12.2	2.0	1.9	2.0	0.4	0.3	0.3
Safeway Inc SWY USA	—	15.6	14.5	13.3	4.6	4.6	4.5	12.9	11.4	11.3	2.4	2.2	2.0	0.2	0.2	0.2
Average		14.6	13.7	14.1	5.7	5.6	5.8	13.2	15.2	18.1	2.6	2.5	2.8	0.2	0.2	0.2
Delhaize Group SA DELB BE	1.10	19.7	13.9	13.3	4.5	5.2	5.1	6.3	12.0	11.0	0.9	1.0	1.0	0.2	0.3	0.3

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Kroger Co KR USA	— USD	16.3	13.6	12.6	14.5	13.3	12.6	36.8	31.9	28.1	6.3	5.8	5.4	1.9	1.7	1.3
Koninklijke Ahold NV AH NLD	15,142 EUR	11.7	12.2	13.2	12.8	12.3	12.7	13.7	13.8	15.6	5.4	5.8	6.2	3.6	4.2	4.0
Safeway Inc SWY USA	— USD	8.2	8.4	9.4	8.2	8.3	9.1	17.1	16.4	16.1	3.7	4.0	4.4	2.3	2.5	2.7
Average		12.1	11.4	11.7	11.8	11.3	11.5	22.5	20.7	19.9	5.1	5.2	5.3	2.6	2.8	2.7
Delhaize Group SA DELB BE	11,572 EUR	9.1	8.2	8.1	14.0	12.8	13.5	4.3	7.4	7.4	1.9	3.4	3.5	3.2	2.5	2.6

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Kroger Co KR USA	96,751 USD	7.1	1.7	10.7	116.3	-1.4	8.5	17.8	13.2	12.5	-8.8	-207.9	-225.3	20.5	18.9	5.0
Koninklijke Ahold NV AH NLD	32,615 EUR	-0.7	-0.6	2.4	4.4	6.9	3.4	-20.7	17.8	9.5	42.2	-17.6	24.9	6.8	—	—
Safeway Inc SWY USA	42,726 USD	-3.4	2.7	2.7	-2.9	2.7	2.7	1.4	7.5	9.1	-39.8	22.5	-2.6	26.6	9.2	8.4
Average		1.0	1.3	5.3	39.3	2.7	4.9	-0.5	12.8	10.4	-2.1	-67.7	-67.7	18.0	14.1	6.7
Delhaize Group SA DELB BE	21,108 EUR	0.6	-1.2	1.5	17.4	43.6	1.3	41.7	73.1	4.6	-13.8	-42.4	10.6	—	-5.4	4.6

Delhaize Group SA DELB (XBRU) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
52.68 EUR	48.00 EUR	28.80 EUR	74.40 EUR	High	None	Negative	Standard	—	Retail - Defensive

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Kroger Co KR USA	1,376 USD	20.6	20.6	20.7	4.6	4.5	4.5	2.9	2.8	2.7	1.4	1.5	1.5	0.8	1.1	0.8
Koninklijke Ahold NV AH NLD	807 EUR	26.6	26.8	26.8	6.3	6.6	6.6	3.8	4.1	4.1	2.5	2.6	2.7	4.9	2.1	2.7
Safeway Inc SWY USA	532 USD	26.5	26.5	26.5	4.9	4.8	4.7	2.4	2.4	2.4	1.2	1.3	1.4	1.5	1.6	1.6
Average		24.6	24.6	24.7	5.3	5.3	5.3	3.0	3.1	3.1	1.7	1.8	1.9	2.4	1.6	1.7
Delhaize Group SA DELB BE	222 EUR	24.2	24.2	24.2	6.2	6.2	6.2	2.3	3.4	3.4	1.1	1.9	1.9	3.3	2.1	2.3

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Kroger Co KR USA	8,879 USD	211.1	210.1	192.1	67.9	67.8	65.8	9.6	10.0	9.6	2.0	2.6	2.3	5.8	5.3	5.1
Koninklijke Ahold NV AH NLD	3,189 EUR	48.6	55.2	58.9	32.7	35.6	37.1	9.2	9.4	9.6	1.5	1.5	1.5	2.3	2.5	2.6
Safeway Inc SWY USA	5,244 USD	159.7	135.4	93.1	61.5	57.5	48.2	8.4	9.6	12.3	2.5	2.4	1.8	4.3	3.9	3.4
Average		139.8	133.6	114.7	54.0	53.6	50.4	9.1	9.7	10.5	2.0	2.2	1.9	4.1	3.9	3.7
Delhaize Group SA DELB BE	2,239 EUR	44.2	37.8	35.5	30.6	27.4	26.2	6.7	6.7	7.2	1.7	1.6	1.5	2.3	2.1	2.1

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Kroger Co KR USA	25,351 USD	0.44	0.77	2.25	0.72	0.82	0.86	0.25	0.30	0.34	0.09	0.24	0.56	18.9	21.4	21.0
Koninklijke Ahold NV AH NLD	10,902 EUR	2.33	1.67	1.44	1.53	1.36	1.28	1.18	1.01	0.93	—	—	—	62.6	53.0	48.4
Safeway Inc SWY USA	7,995 USD	1.61	2.60	-0.14	0.93	0.82	0.78	0.32	0.31	0.21	1.31	0.53	-0.05	34.3	34.8	34.6
Average		1.46	1.68	1.18	1.06	1.00	0.97	0.58	0.54	0.49	0.70	0.39	0.26	38.6	36.4	34.7
Delhaize Group SA DELB BE	5,320 EUR	11.31	11.37	13.80	1.19	1.23	1.43	0.75	0.74	0.90	5.04	4.99	199.44	64.1	35.0	35.0

Research Methodology for Valuing Companies

Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

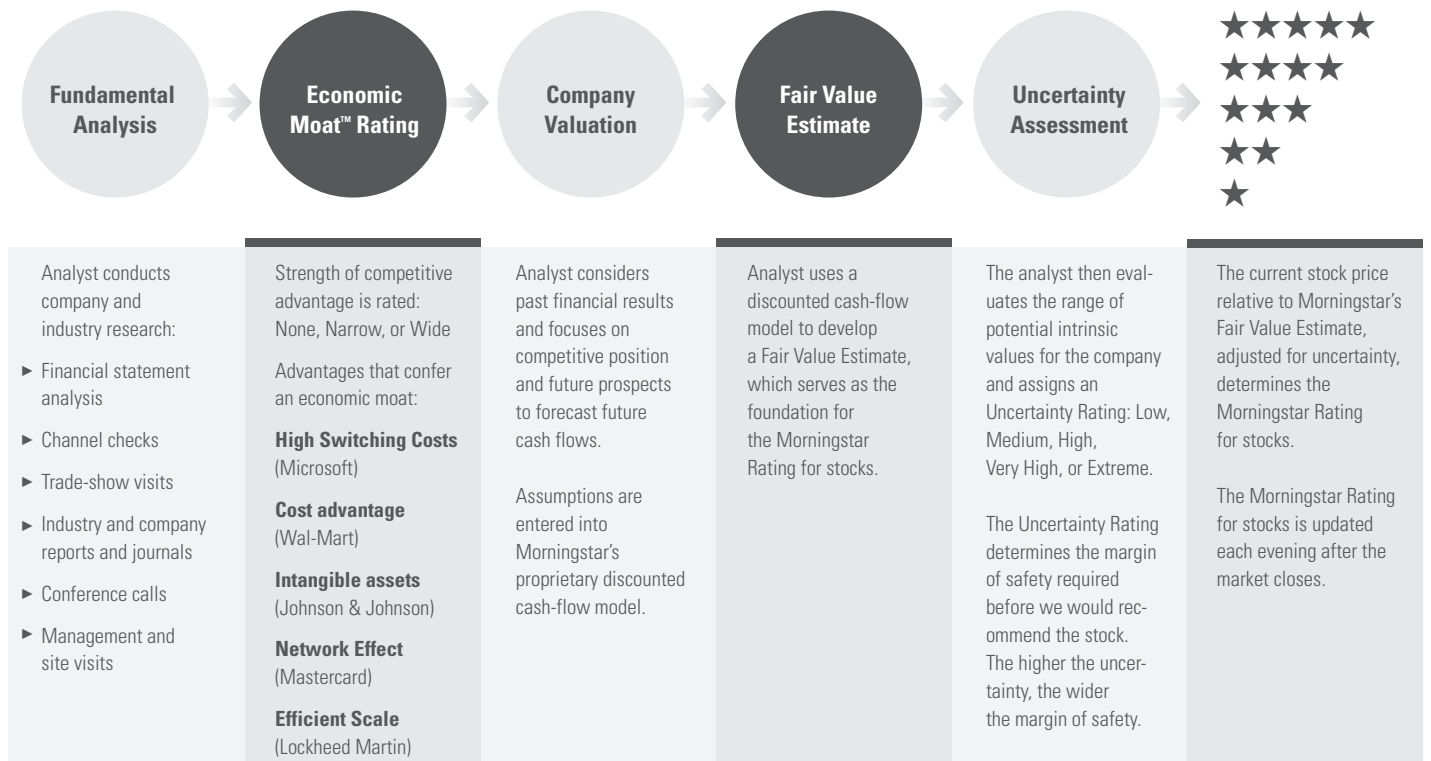
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts’ assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm’s economic moat, (2) our estimate of the stock’s intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm’s investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm’s moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm’s moat, which represents the difference between a firm’s enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm’s competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company’s future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm’s return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm’s RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- ▶ Comprehensive Equity Research Methodology
- ▶ Uncertainty Methodology
- ▶ Cost of Equity Methodology
- ▶ Morningstar DCF Valuation Model
- ▶ Stewardship Rating Methodology

* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

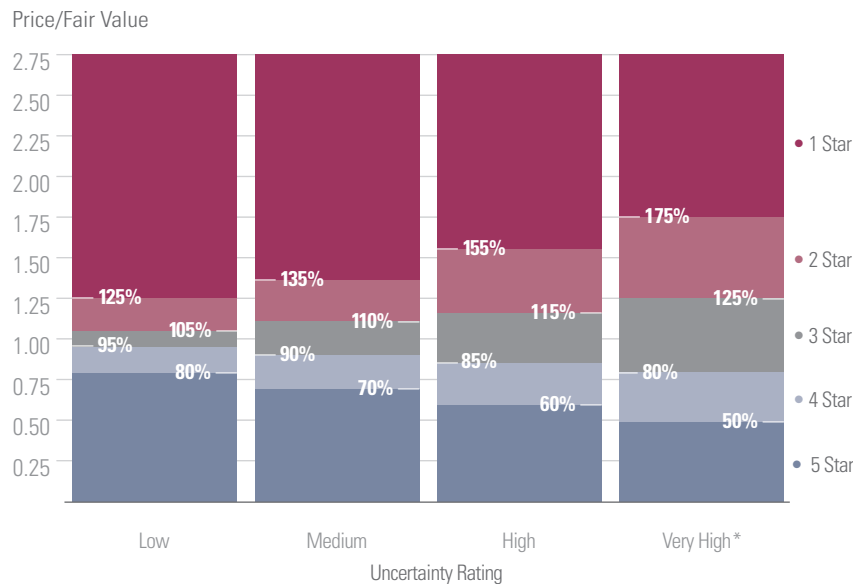
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Morningstar’s Approach to Rating Corporate Credit

- ▶ Offers a proprietary measure of the credit quality of companies on our coverage list.
- ▶ Encapsulates our in-depth modeling and quantitative work in one letter grade.
- ▶ Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- ▶ Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- ▶ Five years of detailed pro-forma financial statements
- ▶ Annual estimates of free cash flow
- ▶ Annual forecasts of return on invested capital
- ▶ Scenario analyses, including upside and downside cases
- ▶ Forecasts of leverage, coverage, and liquidity ratios for five years
- ▶ Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it’s important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

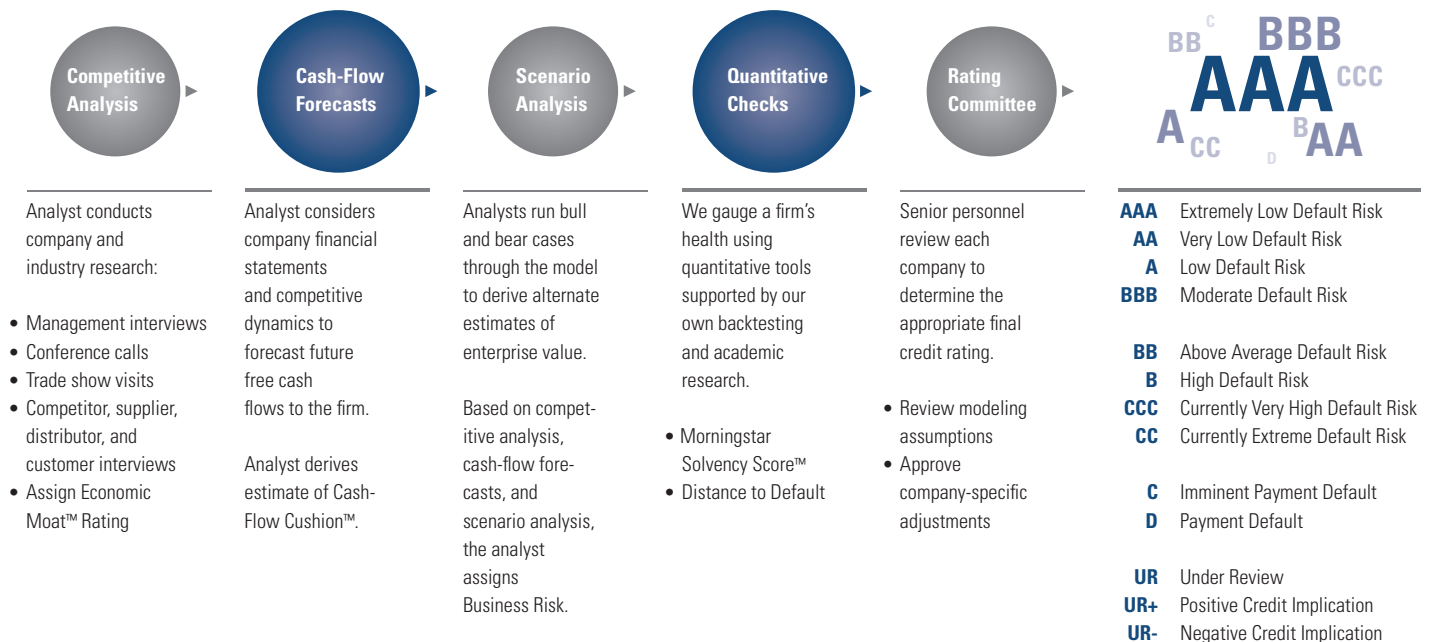
Business Risk

Business Risk captures the fundamental uncertainty around a firm’s business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar’s proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm’s future financial health. The measure reveals how many times a company’s internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

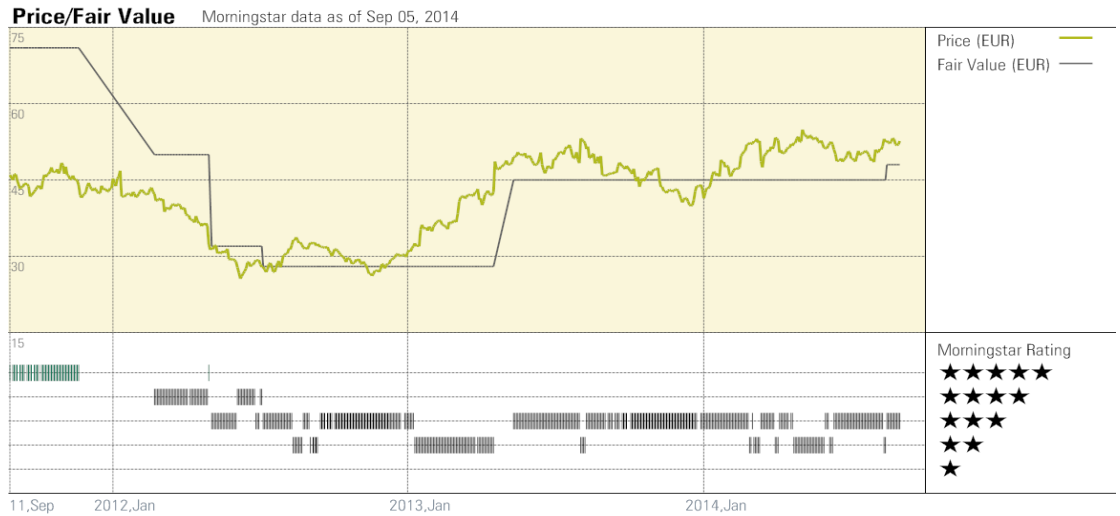
We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Delhaize Group SA DELB (XBRU) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
52.68 EUR	48.00 EUR	28.80 EUR	74.40 EUR	High	None	Negative	Standard	—	Retail - Defensive



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