

GIANT PARENT COMPANY GETTING BIGGER, PLANS MERGER WITH RIVAL

By Nick Malawskey

Published by The Patriot News, June 24, 2015



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Royal Ahold, parent company of Giant Food stores and other supermarket chains, has announced plans to merge with another supermarket giant.

More than a month **after announcing they had entered into merger talks**, Dutch retailer Royal Ahold NV, which operates the Giant and other supermarket chains, said Wednesday it plans to merge with Belgium-based Delhaize Group, in a deal that will create one of the largest supermarket companies in the United States.

The deal was announced at a joint press conference Wednesday in Brussels. The news comes shortly **after an announcement in May** that the companies were considering merging. If the merger is finalized, the combined company will be the fifth largest food retailer in the United States.

Ahold and Delhaize officials said the merger will allow the combined company to cut costs and leverage greater buying power, allowing them to compete on a more even footing with their rivals.

In the aisles themselves, it's unlikely that shoppers will see many changes as a result of the merger.

"From a consumer standpoint, you don't tend to see a lot of impact," said Keith Daniels, Partner at **Carl Marks Advisors headquartered in New York**, who has been involved in grocery chain reorganizations in the past.

Although characterized as a "merger of equals," – the combined companies will have an integrated board – Ahold will purchase outstanding Delhaize shares at a premium. The combined company will also be listed internationally under the Ahold name. Ahold shareholders will also control a majority stake in the new company.

At a press conference in Brussels, Ahold and Delhaize executives said the combined companies would be based in the Netherlands, with an European headquarters in Belgium. It is unclear what the merger's details are in terms of a joint US-operation.

Frans Muller, Delhaize CEO, said the combined companies find synergies without touching their established brands "at their heart."

However, it is very likely that reorganizing the combined US-operations would include merging back-end operations. Specifically, Muller said the combined company would look at its supply chain, which could result in combining warehousing and logistics services. He also said other back-office operations – such as IT – could be affected.

Cost-saving consolidation could also affect other corporate administrative functions, such as finance, purchasing or accounts payable, said Daniels.

However, without detailed disclosures from Ahold or Delhaize, it's hard to predict what the companies plans are, he said, "and none of this happens overnight."

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Ahold's Giant operations are based in Carlisle, and the company is among the top 10 employers in Cumberland County, according to state estimates.

As to what the merger could mean for the Carlisle headquarters, Daniels said whether or not a company merges headquarters tends to vary from acquisition to acquisition. In Kroger-Harris Teeter merger, for example, the combined company kept their brand headquarters separate.

Daniels said Ahold and Delhaize both have regional headquarters for their separate brands, which indicates they believe in keeping some independence in the operations. Whether or not that continues post-merger, however, remains to be seen.

Christopher Brand, a spokesman for Ahold USA, said in an email; "It would be premature to comment on future plans except to say that we will continue to operate our existing strong and trusted local banners across the U.S. and that no decisions have been made concerning headquarter locations in the U.S."

The merged company will be the fifth largest food retailer in the U.S. market, which accounts for about two-thirds of both retailers annual sales. Ahold has about 768 stores in the US split amongst its Shop & Save, Giant and Martins brands. Delhaize operates around 1,295 stores under the Food Lion and Hannaford brands.

However, both Ahold and Delhaize – along with most mid-market

retailers in the U.S. – have been under pressure from larger big-box retailers (Walmart and, to a lesser extent Target) and discount grocers like dollar stores, which aggressively expanded into the food business during the great recession.

Daniels said he expects to see merger and acquisition activity to continue to increase in the mid-market space, driven by the competition from Walmart and other rivals.

"I think we'll continue to see that happening," he said. "I don't think this is done yet."

Company executives said the merger would allow the combined company to directly compete with those brands by creating cost savings, allowing them to negotiate more with suppliers, and will also drive innovation, namely in online shopping. Ahold's Peapod service has been growing rapidly (it is now the largest online food retailer in the U.S), as has the entire online food marketplace. Worldwide online sales for Ahold increased from €426 million in 2010 to €1.2 billion last year.

Adding Peapod to Delhaize's existing food shopping network under a combined company offers a tremendous opportunity, said company executives in Brussels.

The Ahold-Delhaize merger is expected to close in mid-2016, subject to regulatory approvals.

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