THE NETHERLANDS

HAS AHOld WEATHERED THE STORM?

The grocery giant, buffeted by scandal, may be staggering toward recovery.

IT WAS THE ANALYST MEETING from hell. At the front of the room in Zaandam, Netherlands, on Oct. 2 were executives and analysts of embattled Dutch retailer Royal Ahold. Looking on skeptically from rows of tables at Ahold headquarters were equity analysts and fund managers waiting for information after a nearly total blackout of financial data since February, when news broke that the company's U.S. foodservice subsidiary had inflated sales by manipulating supplier incentive programs. The revelation touched off Europe's biggest corporate accounting scandal and threw the future of the world's third-largest supermarket into doubt.

The analysts questioning grew increasingly testy as Ahold management proved unable to give precise information on such basic issues as the yearly interest bill. "We are struggling to understand the numbers," admitted Harmen van Veenoot, CFO, for barely a month. But the bottom line, sad, was all too clear: Ahold's 2002 loss, reported for the first time on Oct. 2, was $1.45 billion on sales of $78 billion. Declared Merrill Lynch & Co. analyst Andrew Fowler afterward. "I don't think I've ever seen a meltdown on this scale." So it might seem surprising that Fowler and other analysts were now recommending Ahold stock. The rationale: As bad as things look, there are signs that the worst is over. "This is no Whirlpool or Enron stock," Fowler says. "But if you're willing to take a chance, I do think it will come out the other end in two years looking cheap."

"A LOST YEAR"

IN FACT, THERE may be reasons for guarded optimism about Ahold. Its shares have risen 7% since the analyst meeting as investors regain confidence that the really bad news is out and Ahold is on the mend. Moreover, some operations remain highly profitable, such as the Stop & Shop supermarket chain in the U.S. Northeast and Albert Heijn, the dominant food retailer in the Netherlands. "There are fundamental problems, but they can be overcome," says Namayya Kumar, a marketing professor at Wharton business school at International Business.

At least a semblance of stability is returning. CEO Anders Moberg, former CEO of Swedish home furnishings juggernaut IKEA Group, calls 2003 "a lost year," as management spent all its energy just trying to understand what was going on. But on Oct. 14, Moberg crossed off one of the most crucial items on his to-do list: by hiring Lawrence S. Berenberg, CEO of Chicago-based NutraWen Co., as U.S. foodservice's new CEO.

The next step comes in Nov 7, when Moberg promises a detailed road map for Ahold's turnaround. With adjusted debt estimated at more than $20 billion by Standard & Poor's, Ahold has no choice but to sell assets and slim down. "We are all over the place. We need to focus," Moberg told shareholders in September. Already Ahold has begun selling off its Asian and Latin American holdings. Analysts figure Ahold will probably have to take a hard look at its unprofitable stores in Poland and other Eastern European countries. And they expect Ahold to sell U.S. foodservice after it has returned to profitability and buyers can be assured of no more nasty surprises are lurking.

Sounds good. But these moves will be at the expense of future growth. Having off operations in Poland would deal Ahold out of one of Europe's few growth markets. And selling U.S. Foodservice will drop $1.4 billion from the top line. Yet keeping it probably isn't an option. Ahold has proven all too vividly that it was out of its depth when it bought the company in 2000. "Ahold is fundamentally a small business that got knocked sideways by the dreadful U.S. food-service acquisition," says Richard Perks, director of retail research at British market-watcher Hambro International Group Ltd. And getting knocked sideways again is something Royal Ahold can't afford.

- By Jack Ewing in Frankfurt