Has Ahold Weathered The Storm?

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MUCH TO BE DONE CEO Moberg will be forced to sell assets to pay down debt

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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 accountants of embattled Dutch retailer Royal Ahold. Looking on skeptically from rows of tables at Ahold headquarters were equity analysts and fund managers starving 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 retailer 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 Hannu Ryopponen, CFO for barely a month. But the bottom line, alas, was all too clear: Ahold's 2002 loss, reported for the first time on Oct. 2, was $1.45 billion on sales of $73 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 are now recommending Ahold stock. The rationale: As bad as things look, there are signs that the worst is over. "This is no widows-and-orphans 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% just 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 Nirmalya Kumar, a marketing professor at Swiss business school IMD International.

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. Benjamin, CEO of Chicago-based NutraSweet Co., as U.S. Foodservice's new CEO.

The next step comes on 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 no more nasty surprises are lurking

Sounds good. But these moves will be at the expense of future growth. Hiving off operations in Poland would deal Ahold out of one of Europe's few growth markets. And selling U.S. Foodservice will lop $17.4 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 sound business that got knocked sideways by the dreadful U.S. Foodservice acquisition," says Richard Perks, director of retail research at British market-watcher Mintel International Group Ltd. And getting knocked sideways again is something Royal Ahold can't afford. ■

–*By Jack Ewing in Frankfurt*

AHOLD'S TATTERED FINANCES