# Relative value is in the eye of the Ahold-er

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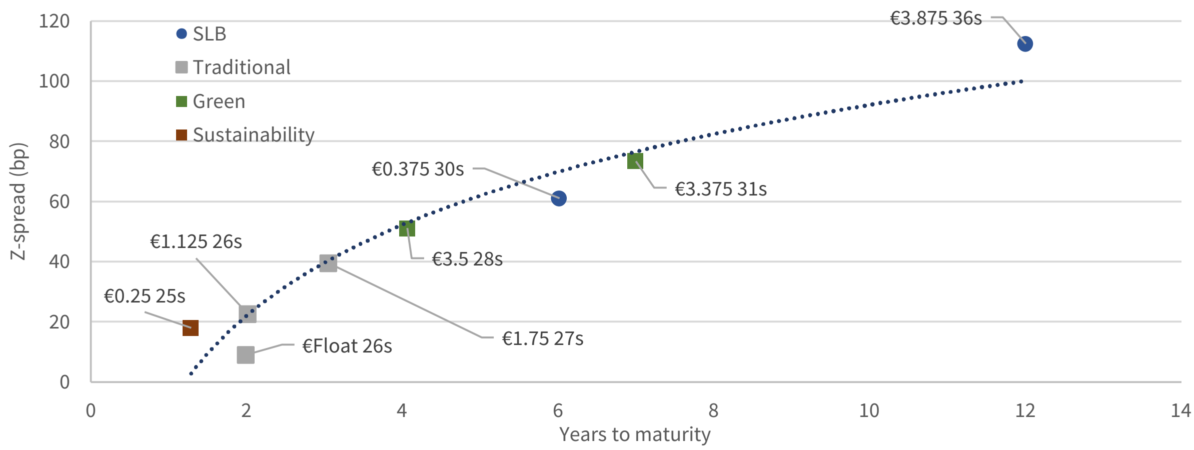
On 4 March 2024 Ahold (ticker ADNA), a Belgian-Dutch multinational retail company, brought a three-tranche deal to market. [1] What made this deal notable was that it combined vanilla, green and sustainability-linked debt in a single transaction. Ahold's flexible use of ESG-labelled debt shown in its outstanding EUR capital structure, comprising vanilla, green, sustainable and Sustainability-Linked Bonds (SLBs) linked to two different sets of targets.

This creates an interesting case study. From an issuer perspective, how are the complementary types of products used to finance different investment needs? From an investor perspective, how can certain securities be used to support alternative parts of an issuer's decarbonisation journey? For both investor and issuer, how does the pricing compare?

In summary:

- Restricting eligibility criteria from the sustainability framework to the green framework has focused Ahold's Use-of-Proceeds criteria on projects to reduce Scope 1 + 2 emissions. This is understandable as they are more easily within direct influence of Ahold's investments.
- Ahold has links to deforestation via its supply chain, and its new SLB framework includes a target on emissions coming from land-based sources. Comparing its KPIs to other SLBs in the supermarket sector suggests the Ahold structure is the most comprehensive in its target coverage.
- In the recent issuance, the green bond priced with a lower new issue premium than the SLB. Market pricing on the new SLB is still wide to the curve, suggesting no value is being assigned to the step-up option. Pricing on the old SLB implies a 60% chance of its targets being missed, which may suggest the market has not yet digested the improved targets.

*Figure 1. ADNA EUR bond spreads. Source: Bloomberg, accessed 13 Mar 2024.*




[1] "[Ahold Delhaize successfully prices a multi-tranche EUR transaction, including Sustainability-Linked and Green tranches]", Ahold Delhaize, 4 Mar 2024.

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## Background

Koninklijke Ahold Delhaize N.V., commonly known as Ahold, is a Dutch-Belgian retail group. Dutch Ahold merged with Belgian Delhazie Group in 2016 to form the current company, with annual revenues of €88.6n in 2023.[2] Despite being based in Europe, 61.5% of net sales come from its US brands.[2]

On 4 March 2024 it priced a three-tranche €1.6bn transaction comprising a €0.4bn 2-year Floating Rate Note (FRN), a €0.5bn 7-year green bond and a €0.7bn 12-year Sustainability-Linked Bond (SLB).[1]

**It is unusual to see such a combination of Use-Of-Proceeds (UoP), Sustainability-Linked and non-labelled debt products in a single deal. In this note we review Ahold's capital structure, to understand the complementary uses of each category of debt for Ahold, and the relative pricing for investors.**

### Deforestation exposure

Ahold is also an interesting issuer for investors with concerns about deforestation.

Ahold's deforestation exposure is linked to its supply chain for key commodities. It has committed to zero deforestation and conversion by 2025, although this only covers the sourcing of its own brand products, and potentially includes offsets.[3]

Research shows Ahold sells beef products imported from Brazil in its Dutch and US retail stores, which is directly linked to deforestation through JBS, a Brazilian meat processor. Subsequent statements suggest the European-based stores will no longer source Brazilian meat, but these restrictions do not apply to the US-based shops.[4]

Ahold was included in the inaugural AFII Representative Deforestation Credit Portfolio (RDCP), with an AFII Deforestation Score (ADS) of 10.[5] This high score, indicating a higher potential for deforestation exposure, was driven by poor transparency, including poor scores from data providers. The 1.75% 27s (ISIN XS2150015555), which is not ESG-labelled, was included in the portfolio for monitoring purposes.

Use of labelled debt is less developed for nature solutions, and we review the structures for investors concerned about potential deforestation exposure.

## Ahold outstanding bonds

Table 1 shows outstanding bonds from the Ahold corporate structure. There are 12 bonds, of which five are ESG-labelled.

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[2] "Year in review 2023", Ahold Delhaize, accessed 11 Mar 2024.
[3] "Deforestation and Conversion", Ahold Delhaize, accessed 11 Mar 2024.
[4] See for example "Processed beef sold at Delhaize, Albert Heijn and Stop & Shop supermarkets linked to Brazillian deforestation", Mighty Earth, 16 Dec 2021, "Supermarkets Across Europe Drop Brazillian Beef over Deforestation linked to meat giant JBS", Mighty Earth, 15 Dec 2021, and "Supermarkets drop Brazillian beef products linked to deforestation", FT, 16 Dec 2021. For more analysis on JBS please see "The Forensic Carbon Accountant: JBS SLB", AFII, 21 Sep 2023.
[5] For full details please see "RDCP: Deforestation exposure in liquid credit portfolios", AFII, 22 Dec 2023.

*Table 1. ADNA outstanding bonds over $0.1bn. Source: Bloomberg, accessed 13 Mar 2024.*

| Description | Issuing Entity | ISIN | Issue Date | Maturity | ESG-label | Currency | Amount Outstanding (bn) |
|---|---|---|---|---|---|---|---|
| ADNA €0.875 24s | Koninklijke Ahold Delhaize NV | XS1685798370 | 19-Sep-17 | 19-Sep-24 | | EUR | 0.75 |
| ADNA €0.25 25s | Koninklijke Ahold Delhaize NV | XS2018636600 | 26-Jun-19 | 26-Jun-25 | Sustainable | EUR | 0.60 |
| ADNA €Float 26s | Koninklijke Ahold Delhaize NV | XS2780024977 | 11-Mar-24 | 11-Mar-26 | | EUR | 0.40 |
| ADNA €1.125 26s | Koninklijke Ahold Delhaize NV | XS1787477543 | 19-Mar-18 | 19-Mar-26 | | EUR | 0.50 |
| ADNA €1.75 27s | Koninklijke Ahold Delhaize NV | XS2150015555 | 02-Apr-20 | 02-Apr-27 | | EUR | 0.50 |
| ADNA €3.5 28s | Koninklijke Ahold Delhaize NV | XS2596537972 | 04-Apr-23 | 04-Apr-28 | Green | EUR | 0.50 |
| ADNA €0.375 30s | Koninklijke Ahold Delhaize NV | XS2317288301 | 18-Mar-21 | 18-Mar-30 | SLB | EUR | 0.60 |
| ADNA €3.375 31s | Koninklijke Ahold Delhaize NV | XS2780025271 | 11-Mar-24 | 11-Mar-31 | Green | EUR | 0.50 |
| ADNA €3.875 36s | Koninklijke Ahold Delhaize NV | XS2780025511 | 11-Mar-24 | 11-Mar-36 | SLB | EUR | 0.70 |
| ADNA $6.875 29s | Ahold Finance USA LLC | US008685AB51 | 29-Apr-99 | 01-May-29 | | USD | 0.50 |
| ADNA $9 31s | Delhaize America LLC | US246688AF27 | 17-Dec-01 | 15-Apr-31 | | USD | 0.27 |
| ADNA $5.7 40s | Koninklijke Ahold Delhaize NV | US24668PAE79 | 21-Mar-11 | 01-Oct-40 | | USD | 0.48 |

The three recent bonds, highlighted in blue in Table 1, extend the maturity of Ahold's outstanding EUR issuance, and increase its ESG-labelled securities from three to five.

## Use-of-Proceeds instruments

UoP instruments, which include green and sustainable products, are bonds where the capital is restricted to certain eligible investments. Sustainable bonds typically have broader eligibility of proceeds than green.

The first ADNA sustainable bond issued in 2019 had a broad focus, with three categories of eligible investment: procurement of sustainably produced products, reducing emissions and food waste, and promoting healthier eating.[6] The second category is split into four sub-categories: renewable energy, energy efficiency, green buildings and pollution prevention and control.

The green bond framework, used for bonds issued in 2023 and 2024, has five categories of eligible investment, of which four are the abovementioned sub-categories from the sustainability framework. Green buildings, energy efficiency, renewable energy, and pollution prevention and control are used again, with clean transportation as the new category.

In terms of understanding the materiality of each category to Ahold's overall climate impact, we consider which emissions categories each UoP category can influence. Table 2 shows Ahold's emissions reported to CDP,[7] and Table 3 maps the categories of bond investments to the emissions categories.

*Table 2. Ahold's CDP emissions. Source: Ahold.*

| Metric tons $CO_2e$ | Scope 1 | Scope 2 (location-based) | Scope 2 (market-based) | Purchased goods and services | Use of Sold Products | Other upstream | Other downstream |
|---|---|---|---|---|---|---|---|
| 2021 | 1,794,000 | 1,770,000 | 1,099,000 | 58,800,000 | 3,200,000 | 1,400,000 | 1,200,000 |
| 2022 | 1,823,000 | 1,668,000 | 1,014,000 | 57,100,000 | 3,300,000 | 1,400,000 | 1,200,000 |

[6] "Sustainability Bond Framework", Ahold Delhaize, Jun 2019.
[7] "Ahold Delhaize Climate Change 2023 CDP submissions", Ahold, accessed 14 Mar 2024.

Ahold's emissions are dominated by Scope 3 purchased goods and services, which comprise 86% of total emissions (using Scope 2 location-based).

The majority of UoP categories are focused on Scope 1 and 2 emissions, which is typical as these are directly within the issuer's operational control and hence are where capex/opex choices have the most impact.

*Table 3. Ahold UoP categories and emissions influence. Source: Ahold, AFII.*

| UoP category | Bond Framework | Primary emissions influence |
|---|---|---|
| Procurement of sustainably produced products | Sustainability | Scope 3 - purchased goods and services |
| Promoting healthier eating | Sustainability | Limited impact on emissions |
| Green buildings | Green / Sustainability | Scope 1 |
| Energy efficiency | Green / Sustainability | Scope 2 |
| Renewable energy | Green / Sustainability | Scope 2 |
| Pollution prevention and control | Green / Sustainability | Scope 3 - other downstream |
| Clean transportation | Green | Scope 1 |

While the category 'procurement of sustainably produced products' may potentially affect emissions coming from Scope 3 purchased goods and services, which is the largest contributer of Ahold's emissions, this was not included in the green bond framework.

## Sustainability-Linked Bonds

Ahold has issued two SLBs. It has used the Sustainability-Linked framework for other debt too; there is a Sustainability-Linked Revolving Credit Facility launched in 2020[8] and refinanced in 2022,[1] as well as a Sustainability-Linked Commercial Paper programme.[9]

The first SLB (ISIN XS2317288301) used two Sustainability Performance Targets (SPTs). One, to reduce Scope 1 and 2 emissions by 29% from 2018 to 2025, and two, to reduce food waste as a percentage of food sales by 32% from 2016 to 2025.[10] The bond coupon increases by 0.25% if one or both targets are missed.

For the new SLB, the framework was updated. Table 4 shows the targets featured in the Sustainability-Linked Financing Framework (SLFF). The 2025 targets for the existing KPIs were made more challenging, and a new KPI linked to two categories of Scope 3 emissions was added: Forest Land and Agriculture (FLAG), and Energy & Industry (E&I) emissions categories. Ahold has 2030 targets for these pending SBTi verification. [11]

*Table 4. Ahold SPT details. Source: Ahold.*

| SLFF | | | 2021 | 2021 | 2024 | 2024 |
|---|---|---|---|---|---|---|
| Target date | | Baseline | 2025 | 2030 | 2025 | 2030 |
| KPI1 | Scope 1 + 2 emissions | 2018 | -29% | -50% | -38% | -50% |
| KPI2 | Food waste intensity | 2016 | -32% | -50% | -40% | -50% |
| KPI3a | Scope 3 FLAG emissions | 2020 | n/a | n/a | | -30.3% |
| KPI3b | Scope 3 E&I emissions | 2020 | n/a | n/a | | -42% |

8 "Ahold Delhaize announces €1 billion Sustainability-Linked Revolving Credit Facility", Ahold Delhaize, 11 Dec 2020.
9 "Sustainability-Linked Commercial Paper Program", Ahold Dehaize, Aug 2023.
10 "Sustainability-Linked Bond Program", Ahold Delhaize, Mar 2021.
11 "Sustainability-Linked Bond Framework", Ahold Delhaize, Mar 2024.

As the SLB structure is used for the longest-dated bond (maturity 2036), the 2030 targets have been used. A 0.25% step-up will apply if any of the four targets are not achieved.[12]

Three other European supermarkets have issued SLBs, but Ahold's emissions targets are the most comprehensive. Carrefour, a French retailer, includes Scope 3 emissions coming from purchased goods and services, although makes no reference to FLAG emissions.[13] Auchan, through its parent Elo Group, issued an SLB which will include FLAG emissions in the future.[14] Such a structure improves impact, but creates uncertainty for bond investors. Only REWE, a privately-owned German retailer, includes targets on FLAG emissions in its SLB,but excludes other sources of Scope 3 emissions.[15] **This shows that the Ahold deal has the most comprehensive targets.**

### Vanilla debt

It was interesting to see Ahold include a Floating-Rate Note (FRN) vanilla bond in its recent issuance, its first non-ESG labelled bond since Apr 2020. This was a short-dated security with only a two year maturity, and was also the smallest at €0.4bn.

Green bonds are generally focused on longer-dated structures. In 2023, €212bn across 382 green bonds were issued in EUR. Only 24 with €8.3bn had maturities of two years or less.[16]

**The FRN (alongside the SLB) was to refinance a 2023 acquisition, and so may not have been eligible for green financing.**[17]

## Complementary use of different ESG-labelled debt structures

It is constructive to see an issuer use such a range of ESG-labelled debt for different purposes.

The focus of Ahold's UoP debt has been capex/opex, primarily to lower Scope 1 and 2 emissions and associated climate impacts. Its initial Sustainability framework was tightened and converted into a Green framework, and when deployed for this recent green bond issuance was reported to have contributed to a -2bps concession (i.e. inside the secondary curve) and took the most orders.[17] Ahold appears successfully to be using the demand for green bonds to secure attractive financing for these investments.

However, Ahold's primary environmental impact comes through its Scope 3 emissions from upstream goods; for example Ahold is reported to be selling products linked to deforestation earlier in the supply chain. The sustainability bond commits Ahold to more responsible procurement, while the new SLB has targets for Scope 3 emissions reductions coming from land-use change that are pending SBTi verification. Ahold also took advantage of the greater freedom of proceeds allocation from the SLB framework to use this bond to refinance acquisition financing.

**By offering a range of debt products, Ahold has given investors a choice over which part of its decarbonisation journey to invest in.**

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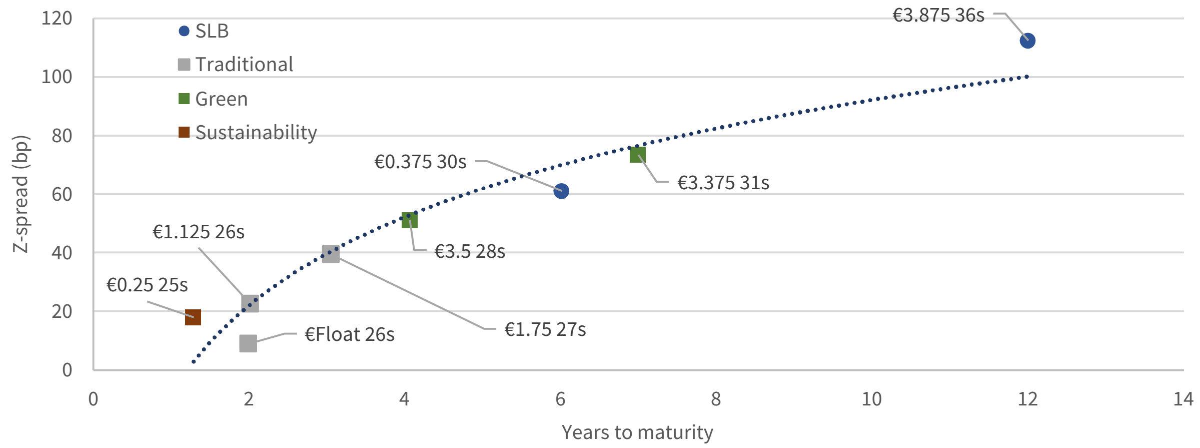
[12] "Offering Circular", Ahold Delhaize, 7 Mar 2024.
[13] As analysed in "Carrefour: 1 SLB, 2 KPIs, 3 Scopes of emissions included", AFII, 2 May 2023.
[14] Please see "Le SLB d'Auchan, il change la vie?", AFII, 22 Sep 2023.
[15] A case study in included in "Sustainability-Linked Bonds bumper week", AFII, 11 Sep 2023.
[16] Source Bloomberg, accessed 13 Mar 2024.
[17] "Ahold Delhaize offers three flavours in one €1.6bn deal", GlobalCapital, 4 Mar 2024.

## Market pricing

Figure 2 shows recent pricing on the Ahold debt capital structure.

*Figure 2. ADNA EUR bond spreads. Source: Bloomberg, accessed 13 Mar 2024.*




The recently issued vanilla FRN seems to be trading quite tight, at nearly half the spread of the similar maturity 1.125% 26s. At issuance it was reported to have priced with a -8bps concession, i.e. 8bps inside the secondary bond curve, with the short-dated FRN being described as 'rare'.[17]

The old SLB, the 0.375% 30s, seem also to be priced inside the curve, suggesting the market is valuing the step-up option. A premium of 10bps implies a 60% probability of the target being missed, and the 25bps step up being received.

The framework used for the new SLB, the 3.875% 36s, has lowered the interim 2025 targets although they are not referenced in the new bond. We interpret this as a sign of confidence from Ahold that the earlier 2025 targets, as referenced in the old SLB, will be achieved, information which may not yet have been digested by the market.

## SLB pricing

The new SLB has two characteristics which make its option value potentially material.[18]

Firstly, because the bond is long dated, the potential step-up is paid for five years. This gives an estimated maximum cumulative discounted value of 0.98%.[19]

Secondly, there are four separate KPIs, and the step-up is paid if any are missed. While there will be some correlation between the KPIs, as each is broadly linked to overall sustainability performance, they will not be perfectly correlated, and a First-To-Default SPT will be between the higher probability of one target being missed and the sum of all being missed.

Using a minimum probability of 75% of any target being missed produces an option value of 7bps.

[18] For full details of the AFII pricing framework please see "An option pricing approach for Sustainability-Linked Bonds", AFII, 8 Nov 2022.

[19] This still does not achieve the minimum value to be classified as a greenback SLB, however is a lot higher than other deals in the market. For reference, a greenback SLB is proposed in "Greenback SLBs: an impact standardisation proposal", AFII, 10 May 2023.

The bond was reported at issuance as being priced with a 10bps concession, and it still looks to be trading wide of the curve, although we recognise there are no directly comparable bonds with similar maturities.

Given the fact that the new SLB has four non-overlapping KPIs linked to a single step-up, model pricing suggests this bond may have a positive option value. Equally, considering that Ahold's current 2025 targets are more ambitious than the SPTs in the old SLB, there may be a lower chance of that bond receiving a step-up coupon.

## Conclusions

Ahold, a Belgian-Dutch retail group, recently issued a three-tranche deal, combining vanilla, green, and SLB products. This demonstrates the complementariness of such products, which provide flexibility for both issuers and investors, the former to raise capital for different investments and the latter to identify their core decarbonisation focus.

Ahold's most significant carbon footprint comes from its upstream purchased goods and services, and has links to Brazillian deforestation. The new SLB has a Scope 3 emissions target focused on those coming from Forest Land and Agriculture, which improves transparency in a difficult space. This compares well with other SLBs in the supermarket industry that have yet to include such comprehensive targets.

Market pricing on the new SLB suggests a low option value, which is surprising given the structure has four non-overlapping KPIs, and so may be attractive. Market pricing on the old SLB implies a 60% chance of those targets being missed, which may reflect the market's failure to digest Ahold's tightening of the 2025 targets in its most recent framework.

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