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Nomad Foods Limited

First Quarter 2017 Earnings Conference Call

May 25, 2017

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PRESENTATION

Operator:

Good day, everyone, and welcome to the Nomad Foods First Quarter 2017 Earnings Conference Call. Today's conference is being recorded. At this time I would like to turn the call over to Taposh Bari, Head of Investor Relations at Nomad Foods. Please go ahead.

Taposh Bari:

Thank you for joining us to review our first quarter 2017 earnings results. With me on the call today are Stéfan Descheemaeker, our CEO, and Paul Kenyon, our CFO.

Before we begin, I would draw your attention to the disclaimer on Slide 2 of our presentation. This conference call may make forward-looking statements that are based on our view of the Company's prospects at this time. Actual results may differ due to risks and uncertainties which are discussed in our press release, our filings with the SEC, and this slide in our Investor Presentation which includes cautionary language.

We will also discuss non-GAAP financial measures during the call today. These non-IFRS financial measures should not be considered a replacement for, and should be read together with, IFRS results. Users can find the IFRS to non-IFRS reconciliations within our earnings release and in the appendices at the end of this slide presentation available on our website.

Finally, please note that the financial information within this presentation does represent adjusted figures for 2016 and 2017. As a result, all figures have been adjusted for exceptional items, restructuring and transaction-related items, and all comments from here will refer to those adjusted numbers.

With that, I will hand you over to Stéfan.

Stéfan Descheemaeker:

Thank you, Taposh. Two thousand seventeen is off to a very encouraging start with Q1 posting a return to positive organic revenue and volume growth, and EBITDA margins that were in line with expectations that we outlined on our fourth quarter 2016 call in late March.

We are particularly pleased by our return to organic revenue growth despite a later timing of Easter, which, as you know, shifted into Q2 this year. Moreover, the strong momentum that we experienced in Q1 has continued into the current quarter, leading us to raise our full-year revenue, EBITDA, and free cash flow guidance.

We now expect 2017 organic revenues to grow in the low single digits percentage range, Adjusted EBITDA to be in the range of €315 million to €325 million, and adjusted free cash flow to be greater than €200 million for the year. Paul will provide further detail on our financial results and EBITDA guidance assumptions in a moment. Overall, our improving performance has created a renewed level of energy and optimism through our organization, as well as better alignments with over 10 partners.

Turning to this past quarter's highlights, Q1 marked a return to organic revenue growth of positive 1.1%, a major milestone along our journey and further validation of our strategy. Our improved financial performance continues to be driven by must-win battles, which accounted for approximately 70% of revenue and so our sources of organic revenue growth accelerates from positive 1.2% in Q4 2016 to positive 5.5% in Q1 of 2017. Both our repaid partners and consumers are responding favorably to must-win battle activations, which are underpinned by product innovation, new and improved packaging, and enhanced in-store execution and media efforts.

As you may recall, we began to activate the bout of our must-win battle last fall through key categories, like fish fingers. Our efforts are gaining traction with good visibility. We ended 2016 having activated 60% of our must-win battles and remain on track again through activation plans.

Another encouraging proof point is the breadth of our revenue recovery, which is spanning across multiple geographies and categories and resulting in a number of slides (phon) starting to flash green across our portfolio.

Our top three markets—U.K., Italy, and Germany—all posted another quarter of sequentially improved revenue trends. Germany, which was the first of the three to have turned positive in Q4 2016, grew revenue organically by 10% in Q1. I am pleased to announce that Italy is also now in the green with organic revenue growth rising to 8% in Q1, marked improvements from the 3% decline in Q4 2016. U.K. revenue declined organically by 3% in the quarter, an improvement from the 4% decline in Q4 2016. The decline was driven by higher planned promotions to help this price increase that we along with our competitors, implemented this response to Brexit-induced cost inflation. We're pleased with the execution of these actions and have seen promotions moderately this far in Q2. As a result, we expect U.K. revenues to turn positive in short order.

Without getting into too much detail on this call, I will say that we are pleased with the way Q2 is progressing. While April revenue trends benefited from the Easter shift, the underlying momentum in the business is promising, practically given the returns to (inaudible) way on A&P cadence thus far in 2017.

Our improved top-line trajectory is coupled by our commitment to operation excellence while striking a balance between brand building and cost efficiencies. We continue to alleviate our gain in areas like network enhancement, lean manufacturing, and GBB. In the meantime, our integration of Findus remains on track, as we recently completed the closure of the Bjuv plant in Sweden. All in all, we continue to enhance our talk of NCs, which we believe will serve us well in the future.

Finally, we fortified our balance sheet through the successful refinancing of approximately €1.5 billion of debt sequenced (phon) to the quarter-end. In doing so, we achieved a number of goals. First, we reduced our cost of capital and now expect annualized savings of €14 million on a cash basis; second, we extended our maturities; third, we hedged rate exposure by fixing two-thirds above net; and fourth, we diversified our lending base.

I'd like to conclude my remarks with a word on M&A, which, as you know, remains a key element of our growth strategy. We have the team, expertise, and balance sheet to build a global portfolio of best-in-class food companies. Our commitment remains, first and foremost, to creating shareholder value. As a result, we will remain disciplined with particular sensitivity to valuation in adhering to the following four M&A criteria. Number one, market leadership position in a niche category; number two, businesses with sustainable competitive advantages; number three, strong management; and number four, attractive free cash flow characteristics.

In summary, we are pleased with our strong start to the year and now have increased confidence in our full-year performance, which is leading us to raise our guidance. I look forward to updating you on our progress throughout the year as our must-win battles activation, which are driving the improved results we are reporting today to become even more impactful to the overall portfolio.

With that, I will hand it to Paul.

Paul Kenyon:

Thank you, Stéfan. I'll begin with an overview of the first quarter results, which were in line with the expectations that we provided to you on our last earnings call in late March.

First quarter reported revenue decreased 2.9% while organic revenue increased by 1.1%. Organic growth was driven by 3% volume in mix growth, which was offset by 1.9% in negative pricing, primarily reflecting our pre-planned decision to offer trade support alongside U.K. price increases. It is worth noting that these actions were successful, isolated to the first quarter, and have since moderated.

Reported revenue growth was offset by approximately 400 basis points at both FX translation and the anniversary of an extra trading day in last year's first quarter.

Slide 4 illustrates the sequential progression of organic revenue growth since 2015, along with an overlay of must-win battle growth since we began to implement the strategy in 2016. The success of our must-win battle activations are driving organic revenue growth which entered into positive territory overall in Q1 2017.

On Slide 5 we break out the trend across our three largest markets—U.K., Italy and Germany—as well as the remaining countries in our portfolio. We are encouraged by the positive momentum across the big three, particularly in Germany and Italy, and look forward to their success stories translating across our other markets in due time.

Turning to Slide 6, gross margins contracted 120 basis points to 29.4%, with volume and mix showing good progression. This was offset by pricing inflations (phon). There are three distinct factors impacting the pricing and promotions line that are worth highlighting. First, we implemented price increases in the U.K. to offset currency-driven product cost inflation. Second, we executed plan promotions and trade support in the U.K. to help smooth higher prices to the consumer. Third, we encountered a more normalized rates promotional activity in Q1 2017 versus Q1 2016 where promotions were unusually suppressed due to the hake fish shortage in Italy and product supply issues in Sweden. Overall, these results are in line with our prior expectations and we continue to expect gross margins to expand this year, a trend that we expect will become evident when we report second quarter results.

On Slide 7, I will review our operating performance during the quarter. I will skip revenue and gross profit country, which I've just discussed in detail. We continue to tightly manage our operating expenses which reflects to last year despite more normalized A&P spend and the reinstatement of bonuses. A&P increased 3% as we returned to a more normalized quarterly phasing versus 2016. This was offset by indirect expenses which declined 2%.

Results in Adjusted EBITDA was €89 million, representing 16.7% of revenues. Adjusted EBITDA declined 11% year-over-year with seven percentage points of the decline attributable to FX translation and the anniversary of an extra trading day versus the year-ago period. Excluding these factors, the 4% underlying decline was primarily driven by the aforementioned U.K. promotional investment to smooth in higher prices and the annualization of unusually low promotional activity in Q1 of 2016.

Depreciation and amortization of €12 million was flat versus last year, financing costs were €18 million. As you know, we refinanced our entire debt stack in early May and we now expect financing costs to be approximately €60 million to €65 million in 2017. The effective tax rate was 23%, in line with previous quarters in Q1 2016, leading to adjusted EPS of €0.25 for the quarter.

Turning to cash flow on Slide 8, the key drivers in the operating cash flow performance, aside from the EBITDA movement, our working capital, which showed a modest inflow of €2.6 million in the period due to capital management of debt as in a season where normally we would use cash flow working capital. Adjusted cap ex, which excludes nonrecurring Findus integration costs of €1.2 million increased by €1 million year-over-year. Cash tax, which was €1.9 million lower than the prior year, was driven by a tax refund.

Restructuring and nonrecurring cash flows of €23.4 million were largely driven by severance costs associated with the closure of production facilities in Sweden and further integration from the Findus Group. Operating cash flow conversion for Q1 2017 was 95.2%, significantly ahead of the prior year. Adjusted free cash flow delivery of €69 million is in line with our 2017 target, which we now expect to be at least €200 million for the year.

Turning to Slide 9, we are raising our full-year 2017 guidance. We now expect 2017 organic revenue growth in the low single digits percentage range, EBITDA to be in a range of €315 million to €325 million, and free cash flow to be at least €200 million for the year. Our updated outlook reflects greater confidence in our must-win battle strategy with just over a third of the year now having been completed.

Our updated guidance is based on the following underlying assumptions for the full-year 2017 and assumes foreign exchange rates as of May 23, 2017, positive organic revenue growth in the low single digits percentage range. Reported revenue is expected to include around 170 basis points offset related to currency translation and the anniversary of a leap year comparison with the impact to Q2 being approximately 225 basis points. Gross profits and gross margin are both expected to be ahead of 2016. A&P investments are expected to be comparable to last year in euros. We expect underlying indirect expenses to decline versus 2016, but will be more than offset by an incremental €15 million to €20 million from the reinstatement of bonuses. Underlying EBITDA is now expected to grow mid to high single digits before the effects of currency, the extra trading day, and bonus reinstatement.

In terms of quarterly considerations, as already mentioned, the second quarter will benefit from the later timing of Easter which created an approximately 100 basis points, or €6 million headwind, to Q1 revenue. We expect that to reverse this quarter, creating a tailwind of similar magnitude to Q2's underlying revenue growth. We expect positive top-line momentum to continue throughout the year. As such, we expect low single digit organic revenue growth in the back half of the year, and given the benefits of the Easter shift, for Q2 growth to be above that trend.

We continue to expect 2017 Adjusted EBITDA to be more second-half weighted than in 2016 with the fourth quarter showing the greatest year-over-year improvements when we anniversary last year's sizable A&P increase, get past the FX translation headwinds from the first half of this year, and lap a €7 million reversal of our bonus accrual in the third quarter. To that end, third quarter operating costs are expected to show the greatest deleverage due to a combination of this year's bonus reinstatement and the anniversary of the of the aforementioned €7 million bonus accrual reversal.

Finally, on cash flow we now expect to generate adjusted free cash flow of at least €200 million. We expect this figure to be offset by €105 million of restructuring and nonrecurring cash charges which now includes costs related to our recent debt refinancing. Also included will be the settlement of legacy tax issues which we continue to anticipate will be in the €30 million to €40 million range on top of €105 million.

That concludes our prepared remarks. I will now turn the session over to Q&A. Operator, back to you.

Operator:

Thank you. If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

We'll take our first question from Rob Dickerson with Deutsche Bank. Please go ahead, Sir.

Rob Dickerson:

Thank you very much. Good job, guys. First question I have is, I guess, if you look at the must-win battle up 5.5% in quarter—I think you said previously that must-win battles were approximately 70% of sales—and you can kind of combine that with U.K., Germany, and Italy, which I think is about half of revenues in Germany and Italy up high single digit, I'm just curious; what is—I guess outside of the U.K., are there other regions that are essentially holding you back from putting up, let's call it, a mid single-digit, like-for-like number relative to the low single-digit, and just kind of how do you think about those other regions outside of those, I guess outside of the must-win battles and then also outside of your core three markets?

Stéfan Descheemaeker:

Thanks for the comment Rob. We appreciate it. Overall, when you see the difference between the 5.5% and the 1.1%, which is your point, I think it's geographically speaking and structurally speaking, it's really about, it's more about the Nordics, so we have some challenges, all the interesting challenges. It has more to do with either private label, for example, in Norway, or industry products in Sweden. That, by their very nature, are doing down and sometimes, you know are just cancelled. So that's one thing.

At the same time, as we said, we're making a lot of progress in most of countries. We seem to have one or two countries that are a bit behind, which is normal.

Rob Dickerson:

Okay. Great. Then just in terms of Germany and Italy more specifically, the organic growth performance is obviously impressive, but that also includes, I'm assuming, some Easter shift. So, can you just remind us what were the core drivers of that performance despite, I'm assuming, some pressure coming out of the Easter?

Stéfan Descheemaeker:

Again, it has to do with must-win battle. To your point, Easter shift obviously is going even help obviously your Q2 as opposed to Q1. So that's going to even help further Germany. But this has to do with—Germany is probably the country that started the must-win battles before the others. They were ready with things like fish fingers, which was obviously very helpful. So that's that. They've continued in the meantime with the rest of the fish range, and we're also making progress with vegetable, so good combination and good execution.

Rob Dickerson:

Okay. Thanks. Then just a last one for Paul. Paul, yes, I think you said for the year you're net financing costs or, I think around €60 million to €70 million. You did 18 million in Q1, so I guess there's a bit of improvement in the rest of the year. So I just wanted to clarify that. Then secondly, just in terms of free cash flow, I know EBITDA is going up a bit, free cash flow is still around that €200 million range. Last year you did to €225 million. It seems like this year there's a little incremental refi costs that are coming into that free cash flow number. So, I guess, one, just kind of clarify why you wouldn't expect a little bit better than the €200 million of free cash flow this year considering a little bit better EBITDA forecasts; and then also considering kind of how you did last year in terms of free cash flow. That's it. Thanks.

Paul Kenyon:

Okay. So financing costs, obviously we will see a benefit from the refinancing, but we only did the refinancing in May, so you'll see just under eight months' benefit from that, so that's why you didn't see an impact in Q1, obviously, as you know. In terms of the cash flow, I think the cash flow is pretty much aligned to where we expected it to be. We generated €68 million last year. We've generated €69 million this year. Working capital actually has—management has improved.

I guess in terms of cash in the bank, we've seen higher outflows this year on restructuring and nonrecurring, and that is driven by the closure of the Bjuv factory at the end of the quarter, which resulted in a significant severance cost payment, so that is what's driving the step up in the restructuring and nonrecurring.

In terms of expectations for the year, I mean we did do €224 million last year, but we did call our that €16 million of that was a long-time refund of consideration on the Findus deal following the completion of the closing accounts, and we also felt we had an €8 million tailwind on tax due to credits from prior years, so we really felt—and I think communicated at the time—the proper number was €200 million. We reiterated that guidance for this year. We've shifted it up to above €200 million. Because obviously we will see lower cash interest payments going out to the business. It's possible that some of the EBITDA will feed through as well, although it depends on the working capital cycle of where we deliver the results. But, certainly, we have shifted to above €200 million rather than a solid €200 million.

Rob Dickerson:

Okay. Great. Makes sense. Thank you.

Operator:

We'll take our next question from Steve Strycula from UBS. Please go ahead, Sir.

Steven Strycula:

Hi. Good afternoon and congratulations on a good quarter. Have a top-line question first and then a margin question for Paul. For the top-line, just want to understand. We saw a better-than-expected rate of improvement in the first quarter. How should we think about the volume and pricing contribution mix as we move through the balance of the year as you get better visibility into your must-win battles? I imagine price gets a little bit better because of the U.K. pricing dynamic, but can you help us understand what's happening with the volumes as we move through the balance of the year and, ultimately, what that means for market share across some of your key regions?

Stéfan Descheemaeker:

Well, let me start with the market share because at the end of the day—between set out and market share, that's a reality. We can see that by, let's say, month after month after month and we're starting to gain market share, which is really encouraging, and it's not limited to the last countries, but obviously starting with countries like Germany and Italy. But, overall, on a weighted average, over the last four weeks—and you can check this obviously—we're gaining market share. So that's one thing.

Second, the question is obviously is it between sell-in and sellout. I'll make it very simple. It's a very healthy trend at this stage, so there is nothing like selling ahead of sellout by the country. So that's where we are, and we have no reason to believe that it's going to be different in the rest of the year. What we've seen in Q2 so far is—we're pleased.

Steven Strycula:

Great. Then on the margin front, Paul, can you talk about the price increases that you've put through, particularly in the U.K. as it relates to some of the inflation that you're experiencing there? What has been the retailer response? Have competitors followed? Has private label followed in the category? Just trying to monitor the price gaps. Then now that we're into the second quarter, how has—have you been able to peel off the trade spend a little bit and push through some of that pricing so we can get confidence as the rate of gross margin improvement rebounds as we move through the balance of the year? Thank you.

Paul Kenyon:

Sure. So, the price rises went in from the 1st of January where we took headline pricing progressively through the first quarter where we took pack content down, and as we previously communicated in the end of March with our full-year results, we chose to step up the level of promotions in Q1, so you see that impact coming through in Q1. As expected, that is moderating in Q2 and will be gone by Q3, and obviously we now we have a full set of packed content reduction in the market as well. So, I think the program is proceeding exactly in line with plan and expectations and that gives us confidence that the margin will improve from Q2 onwards.

I guess the other two things to think about when you're thinking about margin development through the year, we do move out of the anniversary of some of the supply issues. As we move through the year, we called out that in this call, said we had some product supply issues up in Sweden and as a result of the warehouse implementation, which we'll be out of shortly. So, you won't see extra promotions year-on-year. Obviously, last year, the harvests were particularly poor, so it depends on how those turn out, but if we have a more normal harvest, we will have a benefit to margin through that period as well. So I think there are plenty of tailwinds that support our margin position going forward.

Steven Strycula:

Got you. Just a clarification on Rob's question that the free cash flow should improve in the third and fourth quarter relative to the first half as some of these cash restructuring charges kind of dissipate after the factory closure timing; is that correct?

Paul Kenyon:

Yes. So in terms of cash left in the bank, as it were, yes, you will see the restructuring costs are broadly front-end weighted. The integration costs obviously roll through the whole year. So, the way to think about it is we spent €10 million of the Bjuv costs last year. We have €40 million this year. We've seen a chunk of those materialize in Q1. You'll see most of the rest, but not all materialize in Q2. So probably of the €40 million remaining, you'll see us to €30 million in the first half and then there will be the rundown costs on the site up for the rest of the year.

Steven Strycula:

Great. Congrats on a good quarter.

Operator:

We'll take our next question from Bill Chappell from SunTrust. Please go ahead, Sir.

William Chappell:

Thanks. Good morning, afternoon.

Paul Kenyon:

Hi.

Stéfan Descheemaeker:

Good morning.

William Chappell:

Just, I wanted to follow up on just kind of the overall category growth. Have you seen much in terms of change? I mean, I appreciate it was—you had good growth and certainly in a favorable comparison with last year, but kind of what you're seeing and if that's really much different from the southern versus northern or different parts of Europe, or is it pretty even across the whole region?

Stéfan Descheemaeker:

Let's put it this way, I think it's been a bit business as usual. It's not even a slow start for the category as such overall. It's difficult to see a material difference between the regions, but some regions, for example, like Italy, are doing extremely well, but probably we are part of the category, which obviously is very helpful. But overall, as I said, we are gaining market share, so it's more than offsetting any difficulty.

So for the last 12 weeks where the industry was a bit negative, but we increasing our market share, so that makes a difference. Volume wise, we are—it's stable. I would leave that way; nothing else.

William Chappell:

Okay. Then on the kind of the restage, repackaging, where we now? I think there was another kind of sell-in over the past couple of months. Is there still another tranche to go in the fall or are you largely done with kind of restaging everything?

Stéfan Descheemaeker:

No. No. Nothing has changed. As Paul mentioned, we are on track with the re-launch, so 50% at the end of last year, and it's going to be 70% at the end of stage 1, and the rest of the re-launch will take place here in the fall and by the end of the year. So, everything goes according to plan; nothing fast and nothing slower, which is right, which is the right thing to do. We just want to make sure that we have all the components ready.

William Chappell:

Okay. Well then just my last question, maybe help me understand—you've said several times in the call and in the release that everything is on plan, everything was in line with guidance, but raised the EBITDA guidance for the full year. So, what—I understand we've had two more months of good momentum, but kind of, is it pricing is holding up better, trade promotions are holding up better, what's kind of the biggest driver of that upside to the EBITDA guidance?

Paul Kenyon:

So, we've increased EBITDA for a range €315 million to €325 million. What gives us confidence to do that? I think the sales performance is giving us confidence. We're seeing the must-win battles respond very well to the new strategy. Clearly, they tend to be modestly accretive in margin terms and obviously the three largest markets, which are just under half of our sales, tend to be accretive as well. So, we get quite a nice mix effect as the three largest markets grow their must-win battles, so I think that helps. Then we continue to work hard, as Stéfan said in his comments, on lean, on zero-based budgeting, on net revenue management, so I think as we're just a third of the way through the year, I suppose, we have greater visibility and I think a bit more confidence as well.

William Chappell:

I guess I'm just trying to understand, like did things meaningfully accelerate, excluding the Easter shift in April and May?

Paul Kenyon:

Yes. I mean, we clarified it's about a €6 million shift out of Q1 into Q2 this year.

William Chappell:

No. Excluding Easter, something—obviously you said momentums continued. Did it actually accelerate in the past two months?

Stéfan Descheemaeker:

As we've said, we are pleased with the results so far and mathematically moving from positive to a low single-digit means something in terms of sales rubbishness, I would put it that way. From there, as Paul mentioned, the margins are not disappointing. We still have some positive mix, three countries versus the rest, and then mathematically, it makes a difference. That's how we—we're starting indeed from a slightly more optimistic view on our sales.

William Chappell:

Got it.

Stéfan Descheemaeker:

Hence, obviously the revised guidance in terms of sales.

William Chappell:

Okay. Thanks so much.

Stéfan Descheemaeker:

You're welcome.

Operator:

As a reminder, if you would like to ask a question, please press star, one.

We'll take our next question from Brian Holland from Consumer Edge Research. Please go ahead, Sir.

Brian Holland:

Thanks. Hello, gentlemen. I wanted to ask—and I apologize, I jumped on a little bit late here, so forgive me if I'm being repetitive—but wanted to ask about U.K. and France, which I guess on a relative basis are still a little bit of a laggard behind Germany and Italy as far as rate of improvement. I understand the reasons why entering into the transition in France and the promotion in U.K., as you work through the pricing (phon). Just curious, if we look over the balance of the year, thinking about an inflection point, and as you've gotten into Q2, when should we expect that rate of improvement to kind of accelerate in line with what we're seeing in Germany and Italy, or do you not anticipate that kind of progression? (Inaudible).

Stéfan Descheemaeker:

Let's put it this way, for both in these, we are going according to plan; so just to make it simple in U.K. and France. The situations are different, technically different. France is we had to recycle obviously the Iglo products and SKUs, which is now happening. We are at the end of this process. So what we should expect is obviously probably an acceleration because basically it's about having to recycle the whole thing. In the U.K., it's going to be more progressive, which is something we've always said from the start because we knew that we had to digest this and smooth the price increase, which is something we've been doing in the course of Q1, and now little by little, obviously, we should see our gross margin improving the right way.

So two very different situations, but, however, very much according to plan.

Brian Holland:

Okay. Understood. So, we are close on France to kind of that inflection. I guess I understood the dynamics. I was just curious about timing. France we're very close to that inflection point and probably a little bit more back-half. Then U.K., does that improve considerably here in Q2 or do we still kind of wait for that all to flow through before we see the acceleration? (Inaudible).

Stéfan Descheemaeker:

As I said, it's a big difference. In France you could define this as an inflection point for very technical reasons because we had to recycle the products and so, to your point, the answer is, yes, we have reached this inflection point. In the U.K., it's not so much a question of the inflection point, it's much more progressively improving, which is something we're doing.

Brian Holland:

Okay. Appreciate that. Looking a little bit longer term, obviously the playbook is working beautifully here and really strong progress across the board. Maybe just a different way of asking a question that you've been asked for the past few quarters; I guess in the U.S. as we look at frozen food where there's been pockets of improvement, but those pockets of improvement have been led by those players who are really driving constant, consistent new product news, innovation, etc. Obviously your first wait (phon) has gone really well and according to maybe even better to plan, but as we think about kind of keeping that momentum, how do you think about that, what's going to drive that, and maybe where are your focus points as far as kind of keeping the product fresh, staying in front of the consumer, and staying relevant and how that works in your markets as we think about when we start to lap some of the (inaudible)?

Stéfan Descheemaeker:

It's a very good question, Brian. It's absolutely fair. For the first two years we really have refocused the organization behind renovation, and you're absolutely right. So we really stopped all these innovations that were not in line with our strategy and so it's been quite a shift. Now we're not going the change this, so the renovation is an ongoing effort and you always meet with your existing SKUs. You always need to make sure that you have a positive gap for you versus the private label. So that's not going to change.

At the same time, and always in line with the must-win battle strategy, yes, indeed, obviously you need to know to resume this process of innovation with new trends and all these things. It's really something we're preparing right now. More to come; obviously more to come first with the Board and all their things, but it's going to be part of our plans, yes, indeed.

So we're going to move from innovation only three years ago to renovation, mostly renovation, to a probably now a better combination of renovation and innovation.

Brian Holland:

Thanks. I appreciate the color. Last one if I could—and, again, forgive me if you addressed this topic earlier—but just asking about M&A, I know there was a little bit of—when you talked about sort of your view on M&A last quarter and you mentioned North America, I think that got a little bit of buzz. Can you just sort of frame for us the way that you think about M&A on a global basis? I mean, do you go step-by-step and look toward a tuck-in closer to your core markets today and category? Are you willing at this point to make a jump into the U.S. and North America, or is that sort of just kind of reiterating that you ultimately aspire to have a global platform that maybe you would progress to that as opposed to maybe leaping to that next? I'm just curious if you could confirm how you think about (inaudible).

Stéfan Descheemaeker:

Let me give you a bit of background. The first two years, I don't think we have spent more than a second in terms of M&A for a very simple reason, you just don't build an M&A strategy if your foundations are not strong enough. So that's what we're doing, and little by little, I think, we've seen the progress, which is fine because it's not only reinforce our business asserts, but in the same time, we have created, we are building new capabilities within the organization in terms of lean manufacturing, in terms of networking management, in terms of zero budgeting, and it's going to be helpful for the future for any acquisitions we will consider. So that's a bit of background of what we've been doing for the last two years.

In the meantime, in terms of M&A, wherever the geography is, we're not going to change our criteria. Our criteria have remained the same. It's a market leadership position in a niche category; business with sustainable competitive advantages, strong management, attractive free cash flow characteristic. In the meantime, we're going to combine this with the new capabilities we have created and that's how we're going to grow.

Though, in terms of perfect label, there we still a lot to do in all categories in Europe. By the way, this is where we have the most synergistic leads, obviously when you can combine best practice and scale. Best example was obviously Findus. Nothing is comparable. You don't have another Findus in this industry, but you have some other very interesting things to do. So that's the perfect playbook. But what I've learned also in my life, in M&A you should obviously—you have the perfect playbook, you have to prepare yourself for this. You have to do all these things and at some stage, something totally out of the blue might come. So that's why—and we've always said that U.S. might be an option, but let's say if we respect the playbook the way we've created it over the last two years, Europe is a more natural, obviously, let's say, priority. But you may never say never.

Brian Holland:

Thanks. I appreciate the insight. Continued success.

Operator:

We have one more question from Jon Tanwanteng from CJS Securities. Please go ahead, Sir.

Jonathan Tanwanteng:

Good morning and congratulations on a nice quarter and achieving the organic growth.

Paul Kenyon:

Thank you, Jon.

Jonathan Tanwanteng:

In the same vicinity of the prior question, just for '18 and beyond, once you've activated all your must-win battles, do you focus on the lagging countries of the non-core product categories and can those get back to organic growth or even flat at all?

Stéfan Descheemaeker:

To your point, I think we still have a lot to do with our must-win battles and we believe that there is still a lot of potential with this. In the meantime, it's not that we haven't done anything with our secondary battles. In some countries, like the U.K., for example, if you remember, the secondary battles, are still representing an important piece of the equation, and so the teams on the local basis are working on this and, quite frankly, with some success. The results are difference. The A&P coverage is obviously lower, but it doesn't mean that we shouldn't change the packaging, you shouldn't improve the quality, and all these things. So, must-win battles and secondary battles definitely in the last countries do represent an important improvement potential for beyond '17. So that's the way I would label it.

In the meantime, and back to the previous question, little by little, we're going to move from renovation-only to innovation, but always obviously first with the must-win battle in mind. So that's our organic playbook for '17 and the years to come.

Jonathan Tanwanteng:

Got you. Beyond the secondary battles, are there product categories or businesses that you'd like to exit or divest potentially at all?

Stéfan Descheemaeker:

No. No. I think that's why we have carefully selected our must-win battles. We have the different criteria. Criteria number one was the attractiveness of the shift category; second was the market share we had; and the third one was, on top of growth, is also pricing potential. We haven't changed our minds, so this still represents a very interesting avenue for growth. No reason to change at this stage and, yes, you can always consider at some stage to add a category, but the real question will be then, build or buy. Building a new category from scratch, we've learned it the hard way in the past, is very difficult. So, more than that, this focus on must-win battles is the right thing to do.

Jonathan Tanwanteng:

Great. I noticed you called out in the press release expenses incurred for investigation of strategic opportunities, but does that specifically include M&A, and if so, how should we think about the environment and how it's changed maybe since the last time you reported earnings?

Paul Kenyon:

As in when we do M&A, that category would be where the costs landed. But, I mean, as Stéfan said, we have been very focused on the turnaround thus far. I think having stabilized the basis, we do feel ready and we certainly have the balance sheets to support M&A, but no rush.

Stéfan Descheemaeker:

We have the people.

Paul Kenyon:

We have the people. So, we're in good shape.

Jonathan Tanwanteng:

Okay. Great. Then just one last one. If you could, just a quick update on various supply situations in your businesses. For example, you had the hake issue last year, salmon pricing has been a headwind, veggie harvest and etc.; have those all been resolved to a satisfaction? Is there anything new going on and how do those collectively impact margins heading forward? Thanks.

Paul Kenyon:

Hake supply we reinstated from Q4 last year, so no issues there. In fact we set up a new supply chain to increase robustness on that specie, sell-in pricing is what it is, so, I mean, that's a market-wide issue and we price accordingly. Agricultural harvests, if you have an insight into where the pattern is over the growing areas we source from, Jon, I'd be very happy to take your advice. It is literally in the lap of the gods in terms of nature. I think last year was a particularly poor harvest and it is unusual to see both peas and spinach being negative, so that was unusual to have both those important vegetables have a bad harvest, so we would anticipate a better harvest this year (inaudible).

Jonathan Tanwanteng:

Yes. Okay. Great. Thank you very much.

Operator:

That concludes today's question-and-answer session. I'd like to turn the conference back over to Stéfan Descheemaeker for any additional or closing remarks.

Stéfan Descheemaeker:

Thank you, Operator, and let me come back to the prepared message. So, thank you for joining us on the call today. In summary, I'm pleased with the progress we've made today and believe there is still a significant amount of opportunity in front of us. Our strategy is gaining traction and exceeding our expectations, leaving us the confidence to raise guidance at this stage in the year.

I would like to express my thanks to the entire Nomad Team for their hard work, dedication, and continued focus, and look forward to providing you with another update when we report Q2 earnings in August. Thank you.

Operator:

This concludes today's presentation. Thank you for your participation. You may now disconnect.