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Nomad Foods Limited

Second Quarter 2017 Earnings Conference Call

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Robert Dickerson, *Deutsche Bank Securities*

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PRESENTATION

Operator:

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

Taposh Bari:

Thanks, Operator, and thank you all for joining us to review our second quarter 2017 earnings results. With me on the call today are Stéfan Descheemaeker, our CEO, as well as Jason Ashton, our Interim CFO.

Before we begin, I would like to draw your attention to the disclaimer on Slide 2 of our presentation. This conference call may make forward-looking statements that are based, in our view, of the Company's prospects at this time. Actual results may differ due to risks and uncertainties which we do discuss 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-IFRS 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 the slide presentation available on our website.

Finally, please note that certain financial information within this presentation represents adjusted figures for the years 2016 and 2017, and all adjusted figures have been adjusted for exceptional items, restructuring and transaction-related items, and all comments from hereon will refer to those adjusted numbers.

With that, I will hand the call over to Stéfan.

Stéfan Descheemaeker:

Thank you Taposh and thank you everyone for joining us on the call today.

We had a strong second quarter with organic revenue growth of 3.5%, gross margin expansion of 90 basis points, Adjusted EBITDA of €79 million, and adjusted EPS of €0.23 euro per share.

We continue to execute against our strategic agenda with a clear focus on growing profitable market share, generating strong free cash flow, and allocating capital in a manner that creates value for our Shareholders.

We experienced solid top line performance in Q2 driven by continued momentum within our core portfolio, which was supported by upgraded products and packaging, distribution gains, and improved promotional effectiveness. We benefited from ongoing multi-media support, including three very successful digital activations during the quarter, including “Fish Friday” in Germany, “Peas” in Italy and “Solidarity” in the U.K.

I'm especially pleased by our results this quarter in light of the heat wave that we experienced across Europe during the month of June, which had retailers stocking ice cream over savory frozen. Importantly, our business has shown a commensurate response during the months of July and August as weather has reverted to seasonal norms.

Amidst our strong operational performance, we continue to make the necessary investments to ensure that we sustain our strong momentum for years to come. This includes providing the appropriate levels of support behind our brands and our people while further developing our toolkit of capabilities in areas like net revenue management, lean manufacturing, and ZBB. These core competencies will be critical to sustaining both our current momentum and in executing against our long-term growth ambitions, which include M&A.

Based on our year-to-date performance and visibility through the rest of the year, we are raising the low end of our guidance and now expect 2017 Adjusted EBITDA to be €320 million to €325 million, which represents the upper half of our previous range. Our guidance continues to assume low single digit organic growth for both the full-year and the second half as we look to build on the momentum we have seen thus far in the year.

Turning to the second quarter highlights. First, we demonstrated continued organic revenue growth; second, we expanded our gross margins; and, third, we allocated capital in an accretive manner. I'd like to spend a few minutes on each of these points beginning with revenues.

Q2 organic revenue growth increased 3.5%, marking the second consecutive quarter of top line growth. As you know, Q2 benefited from a later Easter this year which we estimate to have helped revenue growth by approximately one point. Through the first six months of the year, organic revenue growth was up a solid 2.2% and in line with our full-year guidance range of low single digit growth.

Our top line growth is being driven by the combination of market share gains and a growing category footprint. In Q2, we gained 0.6 points of market share against low single digit category growth, resulting in 5% sell-out.

Our market share growth continues to be driven by strength within our Core portfolio, which we have referred to in the past as “Must Win Battles”. This part of our business grew 8.5% in the quarter and 6.8% through the first six months of the year. We continue to see a strong response to our new marketing campaigns, which feature local icons like The Captain, as well as upgraded packaging and improved in-store execution.

Q2 geographic performance closely resembled the trend we saw in Q1. Our branded business in Germany grew 20% while Italy was up 12%. These gains are being driven by a combination of in-market execution along with a strong response to improvements in our core frozen fish and vegetable lines. U.K. sales showed another quarter of sequential improvement as the consumer response to price increases has met our expectations. I’m also pleased to report that France has moved into positive territory, growing 3% in the quarter as the commercial integration between the Iglo and Findus brands is now completed.

Moving onto gross margins, where we reported 90 basis points of expansions versus last year. These results reflect favorable mix and early signs of execution along our net revenue management initiative. Q2 reflected a full quarter of pricing actions that we took in the U.K. to offset currency-driven inflation. We continue to believe there is opportunity to expand gross margins for 2017 and in the years to come.

Finally, we capitalized on an opportunity to repurchase 5% of our shares late in the second quarter, at a 25% discount to market. Our balance sheet remains strong and we continue to have ample capacity to pursue our M&A agenda. Year-to-date, we've generated over €150 million of adjusted free cash flow and expect to generate over €200 million for the year.

In summary, we are pleased with the continued momentum we are seeing in our business. As a result, we now expect to achieve full-year Adjusted EBITDA at the upper half of our previous guidance range despite incrementally unfavorable FX translation movement of €3 million due to the recent strengthening of the euro versus the pound.

Before I conclude, I would like to say a few comments about the changes that we announced this morning to our Board of Directors. We have the great fortune of attracting a talent like Mohamed Elsarky to our Board. Mohamed is a respected packaged food veteran working with many of the top brands throughout the world and was most recently CEO of Godiva. We really look forward to leveraging Mohamed’s insights and welcome him to our Board as he replaces Brian Welch, who is reallocating his time to focus on the recent investment made by his firm. We thank Brian for his commitment and support.

I’d like to now turn the call over to Jason Ashton, our Interim CFO. For those who have yet to meet him, Jason has been with the Company for the past five years and has worked closely with me as the Group Finance Director. He’ll be stepping up to the role of Interim CFO in the near-term as we continue our search for a new CFO. As you know, Paul Kenyon remains on our Board now as a Non-Executive Director and quite vested in our success.

With that, I will hand it to Jason.

Jason Ashton:

Thank you, Stéfan. Firstly, it's a pleasure to be here and thank you for joining us all on the call today.

Second quarter reported revenue increased 0.5% while organic revenue increased 3.5%. Organic growth was driven by 0.8% volume and mixed growth and 2.7% growth from pricing. Reported revenue growth was offset by approximately 300 basis points of FX translation. This is slightly greater than our guidance of 225 basis points due to the strengthening of the euro versus the pound sterling in June.

Slide 4 illustrates a sequential progression of organic revenue growth since the end of 2016 (phon), along with an overlay of “Must Win Battle” growth since we began to reprioritize our core portfolio in 2016. As we expected, strength in our core branded business was offset by declines in private label and industrial sales which are a lower margin and being de-prioritized.

As Stéfan mentioned, Q2 results benefited from the Easter shift, but were also adversely impacted by unseasonably warm temperatures during the month of June. In net, we think it is reasonable to evaluate momentum in the context of the 2.2% organic growth we reported for the first six months of the year.

On Slide 5, we show organic revenue trend across our three largest markets—U.K., Italy, and Germany—as well as the remaining countries in our portfolio. As Stéfan mentioned, Q2 trends closely resembled those of Q1, with Germany and Italy leading the way. Both countries are benefiting from much improved execution from a year ago, including the resolution of a customer dispute in Germany and the restoration of hake fish supply in Italy. The U.K. continues to show steady progress against a dynamic market backdrop.

Top line trends in our other markets also exhibited sequential improvement as a whole. Growth in France, Austria, and Norway was offset by declines in Sweden, which continues to work through the strategic wind down of its industrial business following the closure of the factory in Bjuv earlier this year.

Turning to Slide 6, gross margins expanded 90 basis points to 31.5%, with mix, price, and promotions contributing nicely. Mix was driven by strong growth within our higher margin “Must Win Battle” categories and planned declines in private label and industrial sales. Gains in price and promotion reflect efforts we are making on net revenue management, particularly in Germany and Italy. Pricing improvement also reflects U.K. price increases taken to offset FX-related inflation and the planned moderation of trade promotions that were made in Q1.

We continue to expect gross margins to expand this year and have made good progress with Q2’s improvement almost entirely offsetting the declines we reported in Q1.

On Slide 7, I will review our operating performance during the second quarter. I will skip revenue and gross profit commentary, which I just discussed in detail. We continue to tightly manage our operating expenses, which were flat to last year despite more normalized A&P spend. A&P increased 3%, as we returned to a more normalized quarterly phasing versus 2016.

Indirect expenses declined 1% versus last year due to synergies and expense discipline. Resulting Adjusted EBITDA was €79 million, representing 17.3% of revenues. Adjusted EBITDA increased 2% year-over-year. Depreciation & amortization of €10 million declined to last year due to the closure of our factory in Sweden.

Adjusted financing costs were €15 million, down 22%, reflecting improved cost of capital following the refinancing of our debt in early May. The effective tax rate was 23%, in line with previous quarters, leading to adjusted EPS of €0.23 for the quarter, which grew 21%. This was due to 20% growth in adjusted profit and a 1% year-on-year reduction in our weighted average share count, which partly reflects the repurchase of 9.8 million shares late in the quarter.

Turning to cash flow on Slide 8**,** for the first six months of the year**,** the key drivers in the operating cash flow performance, aside from the EBITDA movement are: working capital showed an inflow of €31.8

million in the period driven by careful cash management and operational changes relating to the closure of production facilities in Sweden; adjusted cap ex, which excludes non-recurring Findus integration costs of €2.5 million increased by €4.5 million year-over-year; adjusted cash tax paid was €4.8 million, lower than prior year, which was driven by a tax refund. This excludes €13.9 million of taxes paid related to the settlement of one-time legacy tax issues.

Restructuring and non-recurring cash flows of €46.4 million were largely driven by severance costs associated with the closure of production facilities in Sweden and further integration of the Findus Group where we are rolling out the Nomad ERP system. Adjusted cash interest paid decreased €4.9 million, reflecting savings from our debt refinance in May. This delta excludes one-time refinancing fees of €13.6 million.

We are quite pleased with adjusted free cash flow delivery of €155.4 million and operating cash flow conversion of 108.5% through the first six months of the year. That said, I would remind you that Q3 is typically a net cash usage quarter due to the timing of the harvests.

Turning to Slide 9 on our updated thoughts on 2017 guidance. Based on our year-to-date results and visibility into the remainder of the year, we are raising the low end of our 2017 Adjusted EBITDA guidance range. We now expect 2017 Adjusted EBITDA of €320 million to €325 million, representing the upper half of our previous range. This is despite an incremental €3 million of unfavorable FX translation versus our prior guidance. Our updated EBITDA guidance represents high single digit growth versus 2016 when excluding three offsetting factors this year, notably currency translation, an extra trading day in last year's base, and this year's reinstatement of bonuses.

Full-year guidance assumes that organic revenue growth will grow in the low single digits percentage range and free cash flow to be at least €200 million for the year.

I'd like to provide you with a few more thoughts around full-year 2017 guidance, which is based on foreign exchange rates as of August 23, 2017. For the year 2017, we expect positive organic revenue growth in the low single digits percentage range; reported revenue is expected to include a 250 basis points offset related to currency translation and the anniversary of a leap year comparison, with the FX translation impact to Q3 being approximately 180 basis points; gross margin rate is expected to be ahead of 2016 with greater year-over-year improvement in Q4 versus Q3. A&P investments are expected to be comparable to last year in euros. We expect underlying indirect expenses to decline versus 2016, but this will be more than offset by the reinstatement of bonuses.

In terms of quarterly considerations, we expect Q3 to be a net cash usage quarter due to the timing of our seasonal harvests. We continue to expect Q4 to post the greatest year-over-year change in EBITDA. In line with our previous guidance, this will be due to timing of expenses. As a reminder, we expect to realize bonus accruals in Q3 of this year versus a €7 million reversal last year. We continue to expect A&P phasing to be less skewed to the fourth quarter this year versus last.

Based on these factors, we expect total operating expenses in Q3 to be comparable to the 75 million euro amount we reported in Q2. We expect Q4 to represent our highest gross margin quarter of the year, and as a result, we expect Adjusted EBITDA to be greater in Q4 than in Q3.

Finally on cash flow, we continue to 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 non-recurring cash charges. Also included is a settlement of legacy tax issues which we continue to anticipate will be in the €30 million to €40 million range.

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

Operator:

Thank you. Today's question-and-answer session will be conducted electronically. If you would like to ask a question at this time, please press star, one on your touchtone telephone. If you are using a speakerphone, please turn your speaker function off to allow your signal to reach our equipment. Once again, that's star, one if you have a question at this time.

Our first question comes from Bill Chappell with SunTrust.

William Chappell:

Thanks. Good morning.

Stéfan Descheemaeker:

Morning, Bill. How are you doing?

William Chappell:

Good. Stéfan, you just alluded to the warm weather and the ice cream, I guess higher ice cream presence in Europe over the summer. Did that have a meaningful impact in the quarter? Could the numbers have been actually better or was that just a risk going into it?

Stéfan Descheemaeker:

Let's say June obviously we do have to deal with the weather, but it was good for ice cream. It was less good for us. The important thing for us is that with weather coming back to normal, July and August obviously, we could see that we came back on track. But, yes, we lost a bit of momentum in June, which is normal.

William Chappell:

Okay. Then just talking a little bit more about Germany, can you just give us a little more color? I mean, obviously 20% off of not that easy of a comparison, or compared to other countries, was pretty outstanding. Was there one area that really drove that and how sustainable is that as we move to the next couple of quarters?

Stéfan Descheemaeker:

Okay, so maybe for you, Jason.

Jason Ashton:

Yes. I think we're very pleased with the progress in net revenue management that we see in Germany with an increase in bagels baked sales. I guess the one word of caution is that we have the restoration all around, we covered the customer dispute which is in the base (phon). But we are pleased with the performance of the base in Germany.

William Chappell:

Just as a reminder, what that number would've been excluding that?

Stéfan Descheemaeker:

We don't provide that kind of guidance, obviously, but, overall, again back to what we've been doing with our core categories, we're very pleased all are doing well, but obviously that's what helped. But at this stage we're not coming with additional guidance.

William Chappell:

Okay. Then last one…

Stéfan Descheemaeker:

But the 20% is indeed—our search obviously is partly inflated by these easier comps.

William Chappell:

Got you. Last one for me. Can you remind us how much of a drag the weak harvest last year was on this year's numbers, and then kind of any early outlook on what this year's harvest looks like? I assume it's fairly normal with the weather so you should get back to kind of normal commodity costs; is that fair?

Jason Ashton:

As you point out, it's too early to say on our total harvest outcome. More to follow in Q3. We are overlapping a weaker comparison in 2016 due to that impact, which will be most seen in Q4. The quantification is less easy to get.

William Chappell:

Got it. Thanks so much.

Stéfan Descheemaeker:

Thank you, Bill.

Operator:

Our next question comes from Brian Holland with Consumer Edge Research.

Brian Holland:

Yes. Thanks, gentlemen. Just to follow up on Bill's question. To the extent that the ice cream placement was somewhat of a headwind, June relative to the prior year, I understand that the weather stabilized, but can you give us some context of what the weather situation is like this year relative to last year such that that might be a tailwind for you guys in Q3, or would you say it's kind of a net equal year-on-year?

Stéfan Descheemaeker:

Well, at this stage it's difficult to—I would recommend you to check in on what people like Nestle or Unilever said, if they said it was quite helpful for them, definitely for Unilever. But, again, the only thing I can say is it had an impact in June and more to come obviously in July and August and obviously for Q3. But by the finish, when you're getting out of the situation we had, you never know, but the only thing I can say is overall, including June by the way, we're growing our market share, which is ultimately the real test.

Brian Holland:

Okay. Thank you. On the revenue management initiatives, obviously positive that you guys are starting to realize those benefits here. I'm just kind of curious. Maybe I thought that this was going to be maybe a little more weighted towards '18. Can you just give us a sense of kind of what frame where you are in the journey of realizing these revenue management initiatives and realizing the benefits from that? I mean, is that a multiyear opportunity? Is that something where you're capturing a lot of it now and maybe that low-hanging fruit goes away in '18? Is there a way you can help us think about that?

Stéfan Descheemaeker:

Basically, to your point, it's a multiyear program by definition, but we are already seeing some results this year. The two things we have emphasized this year is, number one is promotion efficiency, which is a really very deep program. In other words, Brian (inaudible) has been doing country by country by country. We've check-mapped all our promotions and we've analyzed how they're doing, not only limited to sales but definitely in terms of gross margin, including cannibalization. From there you can really see country by country, even retailer by retailer what you can do. What are the good promotions, what are the bad promotions, and how we should reallocate money, not so much in terms of necessarily in terms of going down to the bottom line but sometimes you just have to reinvest. So that's exactly what we're doing and the situations are very different and interesting. Situations are very different country by country, retailer by retailer.

We've been doing this exercise. We're very pleased. It's a multiyear exercise. What it does is it gives some sort of—it's a shifting (phon) or promotion program country by country by country.

Let me give you an example. Spinach in Netherlands, for example, we've come to the conclusion that it's just very bad to promote this product because, I mean, basically in terms of price elasticity (phon) it's just very bad. So what we've decided is we've taken the money and reinvesting behind top line. That's one example of the kind of things we're doing. But, obviously net revenue management is not going to be limited to this, so there will be other programs coming obviously in the coming years.

Brian Holland:

Thanks, Stéfan. That's helpful color. Just last one for me. If we just look out to '18 and thinking about the way that you originally had framed the synergy realization on the Findus deal, and to the extent that that was tied to the Sweden plant closure which has now happened, can you just sort of reaffirm for us where you stand as far as conviction in not just the synergy benefits, but obviously the restructuring and nonrecurring investments behind that rolling off? They just kind of give us a sense of the visibility you have into that and why Investors should remain comfortable that we get that big step function in '18?

Jason Ashton:

Yes. There's no change in that picture and consistent with previous guidance.

Brian Holland:

Okay. Thanks so much. Best of luck.

Operator:

Our next question comes from Steve Strycula with UBS.

Steven Strycula:

Hey, guys. Congratulations on a great quarter.

Stéfan Descheemaeker:

Thank you, Steve.

Jason Ashton:

Thanks, Steve.

Steven Strycula:

One point of clarification on the sell-in versus sell-out trends. I thought I heard you say that kind of like the Nielsen consumption trends were 5% in the quarter, which was above what you're sell-in reported trends were. Could you just reconcile that for a second, just help us think through that?

Stéfan Descheemaeker:

The sell-in, sell-out you mean?

Steven Strycula:

Yes. Exactly.

Stéfan Descheemaeker:

Sell-in, sell-out is pretty comparable. It's in the region of 5%. It depends country by country, obviously, but overall the sell-out is very comparable to the sell-in, so no surprise from that standpoint. That's that. Obviously, so all we report (phon) is 3.5%, which as you know, the sell-out is 5%. Then, within the 5% you have different components country by country and, obviously, see also in terms of products. We're re-emphasizing the use of “Must Win Battles”, but as you know—I mean, we're doing pretty well with 8.5% in reported. But the big thing is to just mention is we're doing well with sell-outs, number one. The baseline is also very solid, so that's the second message, and we continue with H2.

Taposh Bari:

Steve, just keep in mind that 3.5% includes the non-branded part of our portfolio. The sell-out data that we're quoting is strictly branded.

Steven Strycula:

Which right now (inaudible).

Stéfan Descheemaeker:

That's obviously good news for margin.

Steven Strycula:

Right. No. That's helpful. Then, Stéfan, can you help us unpack and frame the multiyear revenue opportunity here? I mean, congratulations on, like, inflecting the business positive, but how should we think about the past few years where hundreds of basis points of market share were lost? How do you think about the recapture opportunity and, like, the duration of your ability to out-comp the category? Just help us think through, like, are we in the early innings still? What drivers have you not activated or you have conviction that'll continue to snowball forward? Just help us think about the revenue opportunity over the next few quarters or even years.

Stéfan Descheemaeker:

Thanks. I will not give you necessarily some figures, but at least I will give some directions. By the way, Steve, you're spot on. Obsession is obviously to regain the market share that was lost over the last years, so that's the priority number one for all operators. I can tell you with what we have right now with this program, we'll be focusing on country by country. It's working. We can see—let's not forget that we will obviously have achieved, let's say, all the “Must Win Battles” by the end of the year, which is fine, but you see a lot of potential.

Let's take the example of Germany. Germany was ahead of the game compared to other countries and you see still, despite some easy comps you see the results. You can see that this program is obviously multiyear, so the combination of, number one, the refocus behind what we're doing, that's one thing. Second thing is one thing we have put probably a bit behind us for the first year was NPD, so we had decided that we should renovate first, which was the right decision. Let's make sure that the products are in good shape. Then obviously at some stage we should resume the NPD program, definitely in line with our core categories. That's really something that we are obviously going to use right now more and more. We are comfortable with the portfolio we have right now. The pipeline is in a better shape than last year, so that's the second thing.

The third thing is let's not forget it's a good industry, so it's doing well. We're growing market share right now on the top of a solid performance country by country. Then, again, we think we still have a lot of new trends that we can tap further, and the countries and the center are working very actively behind it.

But to your point, the obsession is to regain the market share we lost. We're in good shape to become, to be again the market leader and be the category leader. That's our job.

Steven Strycula:

Great. Then one last question for Jason. How should we think about the magnitude of why operating expenses are up year-over-year the way that they are? I understand that there's the reversal of the bonus accruals for this year given the execution of the business, but what else is in that number for it to be up so dramatically year-over-year? Can you walk us through that, particularly in the third quarter?

Jason Ashton:

As you're quite right, you mentioned, there is the reversal of the bonus on indirects last year. There is also the small shift of A&P from Q2 into Q3, which is driving that operating expense.

Steven Strycula:

Okay. Thank you.

Jason Ashton:

Okay.

Operator:

Just as a reminder, please press star, one if you have a question at this time. Again, that's star, one for questions.

Our next question comes from Rob Dickerson with Deutsche Bank.

Robert Dickerson:

Thank you very much. Just a few questions. I guess following up on all of the questions that have been asked in terms of maybe some of the ice cream benefit drag that you experienced in June, it sounds like what you're saying is hopefully there's a little benefit. With normalizes, you come back in July and August, and if you look at your four regional buckets, really, U.K., Italy, Germany and then Other—and all of those have obviously progressed positively Q2 relative to Q1. Then we just kind of think about, I'm assuming, the “Must Win Battles” are now around that 70% level and probably accelerate or continue to increase in the back half of the year.

What prevents you from hitting the top end of your org sales guidance in this year?

Stéfan Descheemaeker:

Why are we raising the top end is very simple, we can see—obviously we're eight months in the year. We see the results. We're pleased with obviously the first six months. As you eluded, we're back to normal in July and August; that's exactly what we've said, and with that and the mix that we also have seen is, we think, it's probably more accurate to come up with a revised guidance, as simple as that eight months in the year.

Robert Dickerson:

Yes. No. I'm just asking, it seems like the first half of the year did well. Q2 accelerated, even if we back out the Easter shift. Is there anything in Q3, then Q4 that you still expect those to be maybe a little bit below what you were doing in Q2, or are these “Must Win Battles” in core margin mix positive countries expected to continue such that...?

Stéfan Descheemaeker:

No. No. Quite frankly, Rob, no, no. I think there is really nothing. I think we're going according to plan. We think the shape of our top line in H1 is going to be very much in line with H2 and vice versa. So nothing—at this stage we don't see anything specific, so no surprise.

Robert Dickerson:

Okay. Then in terms of the margin, is there any way to break out how much that was mix-driven, let's say, essentially by Germany and Italy, relative to just volume and price? Is it, like, half of the gross margin benefit or it's just because there's discontinued margin mix to positive shift on a regional basis?

Jason Ashton:

On the slide shown…

Stéfan Descheemaeker:

It's 6.

Jason Ashton:

On Slide 6—yes, thank you Stéfan—you can see the breakouts of the drivers. So, 1.4% is coming from mix, and as you can see, 1.8% from price and promo. As you quite rightly said there, part of that is coming from the momentum in Germany and Italy, but also as we landed, the price increases in the U.K. as we increased the promotions in Q1 to land that price increase, we have moderated those trade promotions in Q2, which is why you see the step up in price and promo.

Robert Dickerson:

Okay. Then just last one for me, Stéfan, I know the expectation and part of the plan into '18 is hopefully to continue to gain distribution and wins with the retailers. If you could remind us, as we get into the back half of '17 now, when do the majority of those conversations occur with the retailers for '18, or some of that occurs in '17 but part of that would really be early on in '18 for the rest of '18? Thank you.

Stéfan Descheemaeker:

It's a global pattern. Again, why I'm saying global, because each country and each retailer is a bit different, but global pattern is—you're starting to negotiate your price in September back-to-school for 2018, so kind of (inaudible), and, obviously, somehow the sooner the better. But overall, it's really September, October is the first part. Then in some countries you have a second conversation in the second half, but it depends. But most, let's say, consider it the real moment is Q3 2017 for 2018.

Robert Dickerson:

Okay. Great. Thanks a lot.

Stéfan Descheemaeker:

You're welcome.

Operator:

Our next question comes from Jon Tanwanteng from CJS Securities.

Jonathan Tanwanteng:

Good morning, gentlemen. Very nice quarter. Any update on the CFO search, either philosophically who you're looking for and, second, when you might expect that to conclude?

Stéfan Descheemaeker:

Making progress, Jon, making progress. As you can imagine, it's a big priority for us, and at the same time, we're doing extremely well with Jason. No word as such, so let's make sure that we have a (inaudible) the right CFO. It's a priority, but doing well.

Jonathan Tanwanteng:

Okay. Great. Just on the U.K., do you need to do anything more on the pricing front there given the continued FX headwinds you're still seeing? Maybe second, are the trade promotions you put in place to kind of to mitigate that impact of the price increases rolling off now?

Stéfan Descheemaeker:

Yes. I think, overall, the program that was put in place by the U.K. Team was extremely good. They really tackled inflation, the currency and revenue inflation last year, very decisively from the start for the right reasons. Number one, it was successful with the retailer and we could see that at the end of the year. Then we can see in the course of Q1, Q2, now successful with the consumers. That's one thing.

Then price is a never-ending story. You obviously have to revisit every time you have a good reason of how much you have to do this. We also know that and it's not limited to us as such in the years of benign inflations are a bit behind us, so there will be some inflation in some of the commodities. But, again, it's more food conversation overall in the industry than ourselves. The sooner you prepare, the better you are, that's very simple.

Jonathan Tanwanteng:

Okay. Great. Just a second part; are those promotions that you put in place fully rolled off now or is there more to go in Q3?

Stéfan Descheemaeker:

It's easing. Promotion, obviously, you can't say—it's never a cliff, but it's easing obviously. The base—as I said, the baseline in U.K. is very solid and it's obvious that the overall direction is to review the dependency upon promotions, but at some stage, sometimes for one quarter or two you have to change it and then coming back to normal, so we're getting back to normal.

Jonathan Tanwanteng:

Okay. Great. Then finally, how should we think about the landscape and opportunities out there for M&A right now? Are you any closer than you were three or six months ago?

Stéfan Descheemaeker:

I would put it this way, we are well-prepared. I think if we have to keep something in mind, you have to keep something in mind is, we went through this interesting time of obviously redeploying our top line, and with that we learned a lot. We learned a lot in terms of ZBB, we learned a lot in terms of net revenue management, and we're learning a lot in terms of lean (phon) manufacturing. Though that's pretty well our purpose for the existing business right now, but it's going to be very helpful for the future. For me, M&A is one thing. You have the deal making side, but you also have to know (phon) to make it work in terms of integration. From that standpoint, we are in much, much, much better shape that probably one year ago or two years ago. We have build capabilities and now it's time, obviously, to consider what kind of programs are. But don't expect from me, I mean, to come back with the names. I never did it in my life and I will never do it. But we are prepared and we're working on it.

Jonathan Tanwanteng:

Great. Thank you very much.

Operator:

At this time I would like to turn the conference back over to Management for any additional or closing remarks.

Stéfan Descheemaeker:

Thank you, Operator. In summary, we continue to make good progress on our strategic agenda and have delivered in excess of our expectations thus far through the first half of the year. Looking out, we are well-positioned to realize further market share gains against a stable category backdrop. We are also strengthening our capabilities in the likes of ZBB, net revenue management, and lean manufacturing. As we improve our operating performance and free cash generation, we will remain focused on creating Shareholder value through M&A, a strategic priority of ours.

Thank you for joining us on the call today and we look forward to updating you on our progress in November.

Operator:

That does conclude today's conference. Thank you for your participation.