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Transcription

Title: Nomad Foods Fourth Quarter and Full Year 2015 Earnings Conference Call

Date: 31.03.2016

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Conference Ref. No: EV00039229

Duration: 50:35

Presentation

Operator

Hello and welcome to the Nomad Foods Fourth Quarter and Full-Year 2015 Earnings Conference Call. Throughout this call, all participants will be in listen-only mode, and afterwards there will be a question and answer session. Just to remind you, this session is being recorded. I'll now hand you over to Paul Kenyon. Please begin.

Paul Kenyon

Thank you, operator. Good morning, good afternoon everyone, and thank you for joining us. Before we start I just wanted to draw your attention to the disclaimer on page 1. I don't propose to read through it, but do draw your attention to it. And with that, I will turn you over to Stéfan.

Stéfan Descheemaeker

Thank you, Paul. And I will start by updating you on progress versus our strategy during 2015. So turning to slide 4, I will take each element of our strategy in turn. So first of all, we have made significant progress in consolidating the European frozen business with the anchor investment of Iglo completed on 1st June, being augmented by the highly synergistic deal to acquire the Findus Continental European business which completed 2nd November. This has created the largest European frozen food business by a factor of 2.7 times, with market-leading position in ten of our markets. It has also brought the opportunity to access significant synergies, as we have already announced a range of €35–40 million by the end of 2018 derived from indirect procurement and commercial savings.

Today we have informed Swedish employees of our request to enter negotiations with the local unions around the closure of our manufacturing facility in Bjuv, Sweden, which would result in targeted savings of approximately €10 million by 2019 with the bulk of those savings delivered by 2018. As a result, our synergy target has potentially increased to a range of €43–48 million by the end of 2018, with additional potential reductions to working capital and future capital expenditure requirements. We continue to see opportunities to do bolt-on synergistic acquisitions in European frozen, and have the cash resources available to fund that without recourse to the equity market. As ever, we remain extremely disciplined on valuation.

Moving to the middle block in the top row, slide 4. I have just mentioned our 2.7 times leadership position in the European frozen. And it is worth mentioning that the frozen market in Europe continues to be extremely resilient, registering compound annual growth of 1.5% over the last ten-year period. We continue to believe that frozen is well-positioned to benefit from emerging consumer trends focusing on the use of preservatives – frozen has none – nutrient preservation, where frozen outperforms chilled, and food waste, where frozen outperforms chilled and ambient. Clearly, consumer behaviour does not change overnight, and we will need to be patient in educating consumers about the benefits of switching to frozen. But we remain confident that the frozen category has a healthy future ahead of it.

Turning to our iconic brands. As many of you will know, our continuous brand awareness averages just over 80% across our top seven markets, and right now we have a lot of focus on how we can leverage that strong equity to drive improved sales performance. We are refocusing our sales and marketing resource behind our must-win battles; that is, the four or five key priority products or categories for each market. These have not been defined, and will benefit from the heavy weight of advertising and more focused promotion plans from the second quarter of 2016 onwards.

We are also developing new advertising campaigns that draw on some of our iconic advertising from the past; for example, re-introducing the Captain in our key markets, as well as running out our very successful vegetables advertising that has been piloted in Sweden and Spain. The first of the new campaigns went on air Q1, and while we only have a couple of weeks of data, the early results are encouraging so far.

Lastly, our R&D team are hard at work developing new products that build off our core iconic products. We saw good results from the wholegrain coating launch in 2015; likewise, the new crispy ovenable coating for Sofficini pancake range in Italy. And there will be more to come in the September launch window this year. I've spoken before about the deep level of consumer goods experience in the senior leadership team, which has enabled me to refresh the Group executive team mainly through

internal rotations and promotion, although we also have been able to attract high-quality talents to build out our capability, most notably in the sales excellence and revenue management disciplines.

The team has stepped up on the integration of the Findus acquisition, and I'm confident that we're well on the way to building an integration machine that will allow us to deliver value for investors from acquisitions in a disciplined, repeatable and sustainable way. The proof of this will be, of course, in the delivery of the predicted synergies, and we are well on track to deliver those in line with our guidance, which was today updated to a potential range of €43–48 million by 2018.

Moving on to attractive financial characteristic and significant cash flow generation: we have a real opportunity in this space. The management team have historically been extremely good at margin delivering cash conversion, with a track record of EBITDA margins around 20% and cash conversion ratios of around 90%. The good news is that they know have a larger business to deploy that skill set across. And I see no reason why, in the medium term, once the predicted synergies are delivered from the Findus acquisition, that Nomad cannot get back closer to the 20% margin and 90% cash conversion level that the business has historically delivered. The real challenge lies in restoring the business to net sales growth, and I have already talked about the exciting plans that we have to restore the core of the business back to health. On top of that, the revenue management programme that I instigated straight after joining the business has influenced the annual negotiations round that took place in the first quarter of 2016, and we should start to see the benefits of that programme flow from the second quarter onwards.

To give you an example of a new integrated approach: in the UK, our largest market, we've just announced the relaunch of 57 products with improved quality or larger pack size to provide even better consumer value, supported by new television advertising campaign featuring the Captain's sponsorship of *The Simpsons* tea time slot, and the trade-wide shopper marketing plans, including front-of-store presence, end-of-aisles point-of-sale material and promotional support. Lastly, looking at the 2015 sales performance: while we have seen declines in our top three markets, we also have grown sales in a number of other markets like France, Sweden, Portugal and the Netherlands.

The last point on the chart highlights the multiple organic growth drivers for the business. I have already talked about the actions that are in place to restore the business to top-line growth, and the fruits of that work should now show themselves for the second quarter of 2016 onwards as we progressively slow the rates of decline quarter-on-quarter. Beyond that, we have an enlarged portfolio with the opportunity to rollout successful products across a wide geographic footprint. And we have a highly experienced team working to improve efficiency and productivity across our supply network and our indirect cost base. Out of that will come strong cash flows that we can reinvest in the business or use to build out our European frozen footprint.

With that, I will hand over to Paul who is going to cover the financials.

Paul Kenyon

Thank you, Stéfan. Before turning to the presentation, please note that the financial statements represent pro forma as-adjusted figures. For comparative purposes, the financial information in this presentation is based on the three and 12 months to December 2015 of Iglo Group and the three and 12 months to September 2015 for the Findus Group, being the most recent audited financial statements available. All figures have been adjusted for exceptional items, restructurings and transaction-related items. All of my comments from here on will refer to those pro forma as-adjusted numbers.

Turning to slide 6, we show the year-on-year performance for the last three months of 2015. Net revenue was down €18.2 million or 3.3% year-on-year. Adjusting for currency impacts, the exit from Romania, Slovakia, Turkey, and Russia, differences in the number of trading days and the business acquisition of La Cocinera in Spain, the like-for-like decline was 6.6%; a 1% improvement on the rate of decline in the third quarter. The decline in sales was driven by the Group's three largest markets, namely the UK, Italy, and Germany, although each of those markets showed reduced decline year-on-year compared to the prior quarter. The Findus Group markets were in total broadly flat on a like-for-like basis.

Gross profit declined €25.8 million, driven by lower sales, the volume impact of which drove inefficiencies in our manufacturing facilities coupled with significantly higher levels of promotional investment year-on-year, as we thought to remain relevant to value-seeking consumers. Deterioration in the dollar/euro exchange rate also drove higher cost inflation in the quarter. A&P investment was €6.1 million lower, in part driven by the benefits arising from moving to a single, global media-buying deal. Indirect costs were €2 million higher year-on-year, driven by increased Nomad headquarters costs and higher depreciation charges in the Findus group. Excluding those effects, indirect costs with €2 million lower, primarily due to lower bonus pay-out levels aligned to business performance. Taxation was €6.9 million lower, due to a combination of lower overall profitability and

an improved mix of taxable profits across the Group. Earnings per share decreased by €0.08 year-on-year, due to the decrease in profit.

Slide 7 contains the comments that I have just made, so I will not repeat them now, but instead turn to slide 8 where we show the full-year performance of the last 12 months of 2015. Net revenue was down €61.6 million or 2.9% year-on-year. Adjusting for currency impacts, the exit from Romania, Slovakia, Turkey, and Russia, the business acquisitions of La Cocinera in Spain and Lutosa in Belgium, as well as the disposals of two of our factories in Norway, the like-for-like decline was 4.9%. The sales performance was impacted by a continuation of the tough grocery retail environment across our top three markets, as consumers continue to exhibit value-seeking behaviour.

The decline in sales was concentrated in the Group's three largest markets, namely the UK, Italy, and Germany, and I will provide more details commentary on the latest slide. Gross profit declined by €54.3 million driven by lower sales volumes, the impact of which drove inefficiencies in our manufacturing facilities coupled with high levels of promotional investment year-on-year, as we sought to remain relevant to value-seeking consumers. We also saw a deterioration of the dollar/euro exchange rate which drove higher cost inflation on our fish business in the latter part of the year. A&P investment was €16.3 million lower year-on-year, which was driven by reduction in our non-working media costs. We also realised the benefits of moving to a single global media-buying deal. Gross rating points are broadly flat year-on-year, so the weight of advertising in front of consumers' eyes was maintained. The savings in year-on-year indirect costs of €8.4 million was primarily due to lower bonus pay-out levels aligned to business performance. Pro forma as-adjusted EBITDA was €345.2 million which was 7.2% down year-on-year, driven the impact of lower sales and the knock-on impact on the gross margin. Taxation was €14.8 million lower, due to a combination of lower overall profitability and an improved mix of taxable profits across the Group. Earnings per share decreased by €0.08 year-on-year due to the decrease in profit.

Slide 9 contains the comments that I have just made, so I will not repeat them now, but will turn to slide 10 to give a little more colour on the sales performance. Given that this is the first time that we are including the results for the newly acquired Findus business, I have shown the individual drivers behind the legacy Iglo and legacy Findus businesses separately on the next three slides in the interest of transparency. In future, we will present combined figures for Nomad only, although we will obviously continue to provide commentary on individual market performance as appropriate where required, to aid understanding of the overall Group results. We have benefited from a strong pound, partly offset by weakening currencies in Sweden and Norway. Adjusting for that translation FX impact, plus the exit from Romania, Slovakia, Turkey, and Russia, gives a like-for-like sales comparator of €2.14 billion. As a reminder, approximately 80% of our sales are concentrated in the UK, Italy, Germany, Sweden, Norway, and France, so I will focus my comments on those markets.

The UK declined by 5.8% on a like-for-like basis in the year, as consumer and customer trends continued to impact on the business. Consumers continued to exhibit value-seeking behaviour, and as a consequence the German discount chains continued to grow, with Aldi and Lidl up little up 12.1% year-on-year in the latest Kantar data. The traditional retailers, who account for 70% of our UK business, have declined by 0.5% in sales in the same period. The Big Four remain highly focused on price, resulting in high levels of promotion investment in our UK business year-on-year as we seek to remain relevant to consumers. Online remains an opportunity in the UK. Our business continues to perform ahead of market norms with 10% of our business going through retailers' online operations, and we recorded growth of 13% in the quarter and 13% in the full-year.

Italy was the largest driver of the overall sales decline, with a drop of 12.5% year-on-year. And the reasons for the decline remain the same as described at the Q3 results, although the rate of decline moderated somewhat in Q4. Consumer confidence remains extremely fragile in Italy resulting an increased penetration levels for private label, which grew by 3.7%, and discounters which grew by 2.7%. The bulk of the decline came in parts of the portfolio such as natural fish and natural vegetables, where the level of differentiation versus private label is relatively low. A further driver of decline in the core portfolio was the decision to focus resources, including A&P, on supporting new product development ahead of the core.

The other strategic issue that we are now in the process of addressing in Italy is that of trade margin. While the trade makes higher cash margins on our products, due to our relatively higher price points, they make lower percentage margins. And as they start to come under pressure from value-seeking consumers switching to discount channels, the current focus of the traditional retailers is on percentage margin. This has driven a significant dislocation with the trade during 2015, restricting our access to keep promotional slots on the largest product lines, and in some cases limiting distribution as well. To combat this, we made new appointments to the senior management team at the end of Q3 who have progressively re-engaged with the trade, and leveraged the new revenue management techniques, with a view to realigning the price-pack architecture of our core products specifically to address this issue.

Germany declined by 7.7% year-on-year, as the hard discounters continued to gain share through extending their ranges into value-added products in the frozen category. The traditional retailers have responded by launching expanded private label value-added ranges, and while we have only seen modest declines in distribution the shelves have inevitably become more crowded, and our businesses suffered as a result. However, in those sectors where we are able to differentiate against private label and cater to consumer needs, we have seen good performance. One such example is in fish fingers which have grown 4.4% year-on-year, supported by the launch of the wholegrain coated product. Encouragingly, this is a core category in Germany, and one of our must-win battles, and hence gives some encouragement for the future.

Sweden like-for-like net sales grew by 0.7% year-on-year on the back of a good retail business performance, offset slightly by lower industrial – i.e. agricultural raw material – sales, due to a poor harvest in 2014. The retail performance was led by vegetables on the back of a highly successful advertising campaign now being rolled out across other markets, and the natural fish portfolio.

Norway like-for-like sales declined by 3.1% year-on-year, primarily in the retail natural fish business where the Group faced strong price competition from local producers sourcing in Norwegian kroner. Findus sources its fish largely in US dollars, and hence was disadvantaged when the Norwegian krone devalued by around 17% over the course of the year. In addition, the sales performance was impacted by the merger between ICA and the Coop in May.

France grew net sales by 6% in the year despite significant retail consolidation, and a market that was in decline overall. The growth was across the portfolio, most notably in fish and potatoes, with a significant level of innovation around the core portfolio.

The business acquisition block relates to the incremental sales arising from the acquisitions of Lutosa in Belgium in March 2014 and La Cocinera in Spain in April 2015.

Finally, the legacy Iglo business declined by 7.3% on a like-for-like basis, which was at the better end of our prior guidance of high-single-digit decline, with Q4 showing a modest slowing of the rate of decline versus Q3. The legacy Findus business grew broadly in line with the overall frozen market.

Turning to the margin performance on slide 11: we analysed the gross profit movement year-over-year by key driver. Excluding the impact of FX rates and exited markets, our like-for-like gross profit comparison is €685.1 million. Working across the page from this, Iglo volume and mix impact was negative year-on-year. Although volume was down due to the sales performance, we did see a positive mix as we continued to manage the portfolio towards the higher-margin products such as fish and meals, which both have favourable mix impacts year-on-year. As I touched upon earlier, we have had to increase investment and trade promotions in our markets to remain relevant to value-seeking consumers, and the impact of this can be seen in the price and promotion bar. This has been partly offset by COGS deflation in the legacy Iglo business, which is mainly driven by favourable sterling/euro movements of the UK as a net importer of euro-priced goods, offset by the decline in the euro versus the dollar towards the end of the year.

Moving on to Findus, volume and mix was favourable year-on-year driven by the strong sales performance in Sweden and France. Pricing and promotion levels were held flat in Findus across all major markets. The bulk of the COGS inflation in Findus is driven by France, as the weaker euro in the second half of the year impacted costs notably on the fish portfolio. The business acquisitions contributed €2.1 million.

Moving on to the EBITDA bridge on slide 12. The bulk of the decline in both Iglo and Findus is due to the gross profit decline covered on the previous slide. This decline has been partly offset by savings in A&P in Iglo, as the Group cut non-working costs as well as realising the benefits of moving to a single global media-buying deal. Most importantly, as I mentioned earlier, gross rating points are broadly flat year-on-year, so the weight of advertising in front of consumers' eyes was maintained at a lower cost. Findus modestly increased A&P investment during the year. The savings in direct costs is primarily due to a lower bonus pay-out aligned to the business performance, while the Findus savings include some one-off benefits from pension accrual releases, as well as the benefits of tighter cost control year-on-year. In terms of EBITDA margin performance, Iglo was in line with our long run strategic target of around 20%, while the legacy Findus business was substantially below that level at 10.5%.

Slide 13 shows the pro forma as adjusted cash flow. The key drivers in the operating cash flow variance, aside from EBITDA movement, are working capital which showed a slightly reduced inflow year-on-year. The legacy Iglo business maintained its

strong track record of delivery in this area, recording a fifth successive year of negative working capital at year-end and a second successive year of negative average working capital. Capital expenditures rose by €7.6 million year-on-year due to increased investments in Sweden manufacturing and IT in France. Restructuring costs rose by €7 million driven by increased restructuring costs in Sweden manufacturing. The management incentive payments relate to a pre-existing scheme in the legacy Iglo business, payment of which was triggered by the sale of the business to Nomad in June. The operating cash flow conversion year-over-year has declined from 89.3% to 84.9%. This is driven by dropping the performance of the legacy Findus business, while the legacy Iglo business delivered a conversion ratio of 93.6% up from 90% in the prior year.

The pro forma as-adjusted free cash flow declined by €39.6 million year-on-year, from €225 million to a €185.4 million, principally driven by the reduction in EBITDA, the increase in capital expenditure and the modest reduction in the level of working capital inflow. Notwithstanding the performance in 2015, the Company reaffirms its ambition of delivering free cash flow, pre restructuring and non-recurring costs, of €200 million in 2016. In terms of the likely level of restructuring and non-recurring cash flows, the Company's current view is that around 60% of the €200 million free cash generation, pre restructuring and non-recurring, will be deployed on integration of the Findus acquisition, delivery of synergies, the proposed closure of the Bjuv plant and other restructuring initiatives. Clearly, 2016 is a busy year from this perspective, and the company would expect such investments in future years to be significantly lower. I will now hand you back to Stéfan.

Stéfan Descheemaeker

Thank you Paul. And moving onto slide 15. Following the announcement earlier today that we requested to enter negotiation with the unions to close the Bjuv site, we have identified a potential €10 million of targeted savings by 2019, with the bulk of those savings delivered by 2018. As a result, our synergy target has potentially increased to €43–48 million by the end of 2018. In addition to the EBITDA effect, there could be significant working capital and capital expenditure savings and avoidances. The cost of the closure would be significant, with gross cost of around €50 million forecast for 2016, comprising primarily severance costs and capital expenditures required to enable transfer of production to other sites. These costs would be offset by the aforementioned cost and capital expenditure avoidance, salary[?] savings, working capital reduction and cost and capital expenditure avoidance. Our all-in calculation of the simple payback of this restructuring is approximately three years, with the project being completed by 2019. The proposed closure of the Bjuv facility is an important step in rationalising our manufacturing footprint and improving capacity utilisation across our network.

So in summary, as Paul has shown, while the business environment has remained tough in Q4 we believe that we have the right actions in place to stabilise the business and expect to see progressive improvement from the second quarter of 2016 onwards. As we previously guided to, the Q4 2015 year-on-year like-for-like sales trends was expected to be slightly better than Q3, and we have delivered on that.

Q1 is expected to be in line with Q4, and the expectation remain that we will see progressive improvement for the second quarter onward. The capability of the business on the cost and cash disciplines remains strong, with the former Iglo business maintaining its track record of delivering EBITDA margins of around 20% and cash conversion ratios of around 90%, which gives us a good base to build on going into 2016.

And with that, I will turn the session over to Q&A. And operator, back to you.

Q&A

Operator

Thank you very much. Ladies and gentlemen, if you would like to ask a question please press 01 on your telephone keypads now. You can withdraw your question at any time by pressing 02 to cancel, and there will now be a brief pause while questions are being registered.

And our first question comes from the line of John Tanwanteng of CJS Securities. Please go ahead, your line is now open.

John Tanwanteng

Good morning gentlemen, nice to see the sequential improvement in the Iglo business. Just looking at Iglo, where did you see the biggest impact on revenue from a strategic standpoint, and maybe provide a little colour on what worked and what didn't? And going beyond that, do any of those initiatives applied to the Findus business as well, and could we expect acceleration there in the future?

Stéfan Descheemaeker

Let me start. Thank you, John, for the question. I would say in Q4, what we've seen is we've defined these must-win battles as the future strategy for the company. And so what we probably have seen in Q4 is already, tactically, operators going alongside the must-win battles with obviously the allocation of the promotion slot. Obviously, already some advertising going to must-win battles. And so we have already seen some early results. It's absolutely too early to say though that it hasn't delivered something significant, but at least that's how we've seen though the – let's say, there's some slowing down of the decline. So that's one thing.

Q1 obviously is very much in preparation of what we've seen in terms of key must-win battles. In the meantime, you know, we've also defined must-win battles for Findus. The business model is quite different, but overall you have a lot of convergence. And to make it simple, I would say that Iglo is probably moved too much to concentration, centralisation of the commercial strategy in the past, and we are moving into something which is probably more agile, more local.

And at the same time with Findus we're doing the other way around, so making sure that obviously the supporting functions will be more centralised – like supply for example, exactly what we're doing right now with Bjuv; moving and just trying to generate more money and to be able to move to obviously reinvest back. And obviously at the same time what we can see is Findus is also trying to leverage, let's say, the central resources in terms of A&P, in terms of innovation. So that's how we see the future. And yes, obviously more to come Q1, Q2.

John Tanwanteng

Okay great, thanks. And from a synergy standpoint, how do you expect the timing of realisations to play out, inclusive of the plant closures that you've discussed?

Stéfan Descheemaeker

You know, compared to the – you may remember the first time we came with these synergies, we just mentioned something like between €25–30 million, with a slow start in 2016. In the meantime, what we said is we move from 25 to 4 – 32 to 2. Obviously, €35–40 million and now obviously something beyond, with an €8 million additional delivery. And at the same time, we also have said that it would be – instead of being realised at the very end of the programme in 2018, we think that obviously has accelerated somewhat so we shouldn't see a bit more in 2016 already. With Bjuv, obviously this potential €8 million, as Paul mentioned, will come between 2016, 2017, 2018, and obviously full potential in 2019.

Paul Kenyon

Yeah, I mean just to provide a bit more colour there, John. I mean, if you about the nature of the synergies, the indirect synergies where we are combining units in France and Belgium will obviously come in 2016. Procurement synergies we're able to get after in 2016, but you have an annual negotiation cycle on a lot of our procurement contracts, particularly the vegetable side of the business. And on the fish side of the business there tend to be two negotiations a year tied into the fishing seasons. So we can get some in 2016, but not of all. The Bjuv plant closure obviously is subject to consultation with the unions, so is a potential €8 million at the moment. That would typically start to roll in from 2017 because the – if we are successful with the union negotiations that will roll in the beginning of 2017. So I think there's a kind of different rhythm to it depending on the nature of the synergy we're talking about.

John Tanwanteng

Got it. And then Paul, just – did I hear you correctly that the one-time restructuring and closure and all the other costs, the impact on the cash flow will be 60% of that €200 million in 2016?

Paul Kenyon

That's roughly what we expect.

John Tanwanteng

Okay, got it. And then just a question on currency. The sterling has moved quite a bit versus the dollar and the euro since December: how should we think of the effect on the T&L[?] over the next quarter or so?

Paul Kenyon

So the sterling effect is largely translation of sales and profits, and we always like-for-like for you so that you can see constant currency. In terms of the sterling/euro impact, we have about €120 million of imports to the UK and about €40 million of exports to the UK, so there's kind of net €80 million exposure that we hedge.

John Tanwanteng

Okay great, and then just any update on the potential for more acquisitions? I know your hands are full with integration, but where are you seeing the biggest opportunities? Are you active? How does it sit your ideal capital structure?

Stéfan Descheemaeker

This is an excellent point, John. I mean, I think we're doing two things. One is we are creating, especially as we learn, obviously with Findus we creating what I like to call some sort of integration machine that will serve us very well for future acquisitions. And to start with, obviously with bolt-on acquisitions in the very same industry, so frozen food in Europe. We're demonstrating, I would say; I would be careful, but we are demonstrating that within the same industry, within obviously adjacent categories, that's where the synergies are going to be the highest. And that's exactly what we want to do in the foreseeable future. Later, obviously we will expand further to other categories, but the very highly synergistic deals will come from there. And obviously to your point, it's premature to mention any names at this stage. But obviously we're looking.

John Tanwanteng

Okay. Thank you very much, and great job again.

Operator

Thank you. Our next question comes on the line of Rob Dickerson of Consumer Edge Research. Please go ahead, your line is now open.

Rob Dickerson

Thank you very much. Good morning. So I just had a couple of questions. I guess firstly just around the financials; I know you for – on a like-for-like basis and I guess for pro forma basis you've included the Findus as of Q3. So I guess, as I understand it a bit, I'm wondering if there's any way to get any colour on what Q4 would have been considering that's what actually just occurred? So I guess firstly, is there any additional information you can give us around Findus, what happened having Q4 on an organic growth like-for-like basis, and then also potentially on an EBITDA basis? Thanks.

Paul Kenyon

So we went with the October to September financials because they were audited, so we felt that was the soundest basis on which to provide information to public markets. So we aren't planning to update Q4 yet. The acquisition continues to be a positive one from our perspective, and is trailing in line with expectations. So no nasty surprises, but we went with the October to September financials because it was under one ownership and audited, so that's the reason.

Rob Dickerson

Fair enough. So at some point though, we should still expect to get actual calendar 2015 pro forma numbers? I mean, just for modelling purposes as we look going forward, because I'm assuming for 2016 we'll actually have the full-year – and so I'm assuming as we get to the end of 2016 that you'll actually provide the pro forma on Findus?

Paul Kenyon

Yes, as we roll through 2016 we'll compare like-for-like quarters.

Rob Dickerson

Okay, great. And then just to stick on the Findus side for just a minute. So it seems like originally, in that guidance over some period of time that you provided, the target number for Findus EBITDA is €71 million. So if we look at the numbers you provided today, it seems like it came in a bit light, and mostly driven by a reduction in margin if we assume that sales are flat. So firstly, is that €71 million still good for modelling purposes as we think about going forward? Number one.

And then number two, if the number did come in a bit lighter than expected, and the margin seemed to be maybe a bit more pressure than expected, was there any rationale as to why that occurred? Thanks.

Paul Kenyon

Sure. So I mean €71 million was what we acquired, so I think that's still a reasonable basis for modelling. The end of the year did see some inflationary pressure, as I said in the presentation, Rob, on the Findus side, due to dollar/euro impacts; particularly in French market, which is obviously in euros, but obviously also Norway and Sweden were also impacted by currency weakness versus the dollar, which is the primary currency for fish purchases across the Group. There is inevitably a gap between being impacted by that and being able to price through the annual negotiation rounds with the customers. So I think the key driver of the margin weakness you saw in the final quarter in Findus was the euro/dollar exchange rate impact through fish which they are seeking to recover through pricing, through the negotiations with the customers at the beginning of 2016, but obviously you do get a time lag effect.

Rob Dickerson

Okay great. Fair enough. And then lastly, just on the free cash flow expectation for 2016: it looks like the adjusted pro forma free cash flow came a bit light this year relative to €200 million. But again, it sounds like there is some recovery of that in 2016, so the €200 million go-forward run rate still holds. So then if we do assume the 60% going to the restructuring, plant closure etc., is that – you know, it doesn't seem like I have an end-of-year cash balance yet, but if we just take the €120 million that's left over, it does seem like there's some amount for – you need cash balance. Is it safe to assume that that cash will go to deleverage?

Paul Kenyon

So yeah, so it's €80 million that's left; so you have €200 million of free cash flow, 60% of it deployed on reinvestment, which is €120 million, so you've got €80 million left. In the absence of any other application that we see would create value for shareholders, then yes, it would go towards deleveraging at least on a net debt basis, even if we didn't choose to repay down debt.

Rob Dickerson

Okay, fair enough. And then lastly, just on EBITDA margin. I know guidance longer term is still at 20%. Sounds like if you were able to still hold that on the Iglo side. If there is some time lag effect on Findus, just off[?] for currency in Q4 were a bit pressured: how do we think about that EBITDA margin potential for 2016?

Paul Kenyon

So I think if you look at Findus at 10.5% in 2015, it's been running at those levels for some time, so that clearly on their current asset base is what they can deliver. As we start to get the synergies through – and clearly we'll see indirect synergies, as I said to the previous question, coming through from 2016 – you will see procurement probably start to come through second half of 2016 as we get into the renegotiation of contract cycle. And then obviously, the plant closure, assuming that we are successful which we believe we will be in our negotiations with the unions in Sweden, would hit in 2017. So you will see that Findus margin pick-up progressively with the delivery of the synergies.

The current synergies would get you to high-teens, probably not all the way to 20%. There is a structural reason for that in the Findus business, in that about one-third of it is food service and private label. And while the food service business looks like a good business, structurally they tend to run at slightly lower gross margins. So we would perhaps not get Findus all the way there, but we would be aiming at high-teens by 2018.

Rob Dickerson

Okay great. And then just lastly, for like-for-like sales progression throughout 2016: just to clarify, it seems like the expectation is that the Q1 results, which I'm sure you've already seen some of, considering it's the end of March – the expectation is that the Q1 period should be somewhat similar to what we're seeing in Q4, and then as we get into the – you know, having the promotional period and advertising etc., in Q2 that we were kind of hoping to see kind of an improvement sequentially each quarter this year. Is that fair?

Paul Kenyon

Yeah. So if you look at the CAGNY[?] presentation, slide 31, there was a chart there that showed the sales progression for Iglo-only. But the picture is obviously similar for Nomad because Iglo is about 66% of the combined business. You will see that that lays out when the new strategy arrives. And I think Stéfan expressed it very clearly at the beginning of the call: you know, what we've seen in Q4 is that as the strategy has been discussed and explained to people across the organisation, they've taken the opportunity where they can tactically do make changes. So the occasional promotion has been switched; advertising, we stayed with the old campaign because it was all we had, but perhaps they shifted back to core products rather than new products in the advertising flight[?]. So I think you've seen a modest improvement in Q4.

We would expect the same kind of behaviour in Q1, which is why we're not looking for a particularly different trajectory in Q1. But once the new advertising hits in Q2, the new promotional agreements from the annual negotiations, and then through Q3, Q4, when new products arrive, we would expect progress improvement.

Stéfan, I don't know whether you have anything to add to that?

Stéfan Descheemaeker

I think Q1, as we repeatedly mentioned, is more preparation time. Probably progression in terms of tactical moves, and then obviously the real changes in terms of must-win battles and the activation which are starting really now, so that's going to be interesting too to see. And especially for Iglo and for the three largest countries.

Rob Dickerson

Okay great, thanks so much. I appreciate it.

Operator

Thank you. Our next question comes from the line of Gearóid Casey of KKR Credit. Please go ahead, your line is now open.

Gearóid Casey

Hi guys. First question is around, I guess, the trend to discounters. So if you look I guess at Germany in particular, I suppose they've reached saturation in terms of what the discounters can do there, and they're at a much higher proportion of the market compared to the UK now. What's happening obviously is that discounters have changed strategy and are at moving towards the value-add product, which in turn impacts your own shelf space. I guess, thinking over the medium term, are you concerned in any way that this sort of trend in Germany will move to the UK and move to Italy, and could actually impact more of the business going forward?

Stéfan Descheemaeker

It's a very good question, and I think it's a very broad question impacting FMCG overall in Europe. The fact is, in terms of channel evolution you indeed have discounters moving up. And again, who am I, but I guess as a retailer in the UK, yes, I would expect a further evolution growth of the discounters like Aldi and Lidl – that's a fact – and in some other countries as well. But at the same time, when you see the different evolutions: you have the traditional players, you have the discounters, you have convenience and you have digital; just, you know, simplifying the different trends. And so you know what we're doing with digital; we think it's a great plus for us. We're doing pretty well in the UK. We have what it takes to be very present in France, which is the second largest digital market in Europe, and we don't see any reason why digital would not obviously improve and grow over time in the rest of Europe, so that's one thing.

Second is discounters. Discounters – let's put it this way: you have different discounters and it varies by country. So for example, Aldi is pretty much still in the hard discount area mindset: limited to their products, very limited number of SKUs, 1,200–1,300 SKUs by store. While Lidl, 'lidl by lidl' – sorry for this! – is moving to some sort of soft discount concept; again, depends on the country. As you can see that more and more, let's say, branded products in their stores: Coca-Cola, other people, you know, many other people. And so yeah, I don't see any reasons we wouldn't play in that game. We need to play that cautiously, because obviously you don't want to be at the mercy of these people. But at the same time there is a way to do business with these guys without compromising yourself. So that is the second trend.

Third trend is convenience. Convenience is a very interesting trend, coming together sometimes with digital. It's something where we need to make progress. I think we need to adapt our assortment to convenience, which can be very different country by country. But still, what I keep in mind is: in convenience, most of the time the leading player takes – I wouldn't say takes it all, but takes a disproportionate part of the shelf, and that should play to our advantage. So overall, when you see the different trends – and you need to see the whole, the global picture – I think we are reasonably well positioned.

Gearóid Casey
Okay, makes sense. And in terms of the UK in particular, obviously the SKU rationalisation at Tesco was quite public. Have they completed that for all the frozen segment category now at the moment, or is there any other risks in terms of shelf space in the supermarkets generally in the UK?

Stéfan Descheemaeker
It's an ongoing process with Tesco, so it hasn't – you know, it has started, it hasn't finished yet. Which makes sense, by the way; as a former retailer, I can definitely understand that. At the same time, it's also interesting to see that moving away from too many new product developments, new innovations, by refocusing ourselves behind our core products, it plays well with this rationalisation. So I think it's – you know, number one from the retailer standpoint, it makes sense. And I think we can play reasonably smartly in line with our must-win battles in that strength.

Gearóid Casey
That's great, thanks. And finally, just a clarification question: Paul, in terms of free cash flow number, that €200 million, is that post-interest expense?

Paul Kenyon
Yeah.

Gearóid Casey
Okay, so the €80 million is real free cash flow post everything, yeah?

Paul Kenyon
That's right.

Gearóid Casey
Okay, thank you.

Operator
Thank you. Just to remind participants, if you would like to ask a question please press 01 on your telephone keypads. You can withdraw your question at any time by pressing 02 to cancel. There will now be a further pause while questions are being registered.

And our next question comes from the line of Rob Dickerson of Consumer Edge Research. Please go ahead, your line is now open.

Rob Dickerson

Hi. Thanks for the call. I just wanted to ask: I know you're still – it's obviously early days with Findus, and I know you mentioned that, even though the food service business [inaudible] operates at a lower margin. Do you have any thoughts as to whether you may or may not keep the private label business? Is that additive to overall Findus, or is there margin – could there be a further margin opportunity there?

Paul Kenyon

So very good question. If you look at the legacy Iglo business that was 97% branded, so we had a very small amount of private label sales; mainly vegetables to balance an agronomy in Germany, albeit with some fish as well. The private label business in the legacy Findus business was concentrated in the Nordics, so clearly as part of the consultations around Bjuv we will be reviewing the private label business in Sweden. But our expectation would be that as we exit Sweden that that business would likely be unattractive to retain. It was mainly agricultural ingredients operating at very low margins.

In Norway, the situation is slightly different because there are agricultural tariffs. So the private label business there is more attractive and could be more sustainable, and we're obviously conducting a review of that as we get to grips with the Norwegian business and the situation it finds itself in. So Norway is probably a bit special. Beyond that, I think we see ourselves very much as a branded business. And our focus is on growing our brands and building sustainable businesses on that basis.

Rob Dickerson

Okay, makes sense. And lastly, coming back to the M&A acquisition conversation. I know previously you mentioned potentially looking at other areas: food outside of frozen; you've also mentioned potentially looking to the US as well. But is it – it just seems like it's most likely a higher probability, just considering cash constraints through the restructuring this year and scalability that you may get in Europe, that it would seem as if acquisitions within Europe in the near term at least would be more likely than pushing further into the US. Is that fair? Can you comment on that?

Stéfan Descheemaeker

I think – you should never say never, but I think it's very fair. I think it's a fair statement, makes a lot of sense. Not only vis-à-vis our quote-unquote 'cash constraints', which I – you know, I still believe that €500–600 million is a sizeable amount of money. That's one thing. But more importantly, when you really can develop your integration machine, it's to start within the same – in the very same industry. And that's what we're doing right now, which from the operations and industry standpoint strategically makes a lot of sense.

Rob Dickerson

Okay great, thanks again. Bye-bye.

Operator

Thank you very much. Our next question comes from the line of Greg Kuczynski of Janus Capital. Please go ahead, your line is now open.

Greg Kuczynski

Hey guys, I apologise for a mechanical clerical question, I was late jumping on the call: could you just reiterate what the commentary was around the free cash flow target? You're sticking with a €200 million number, and that's a clean number?

Paul Kenyon

Yeah, so that is €200 million pre restructuring and non-recurring. And then we have provided additional guidance to help people model: of that €200 million, we anticipate currently spending 60% of that, or around €120 million, on integrating the Findus business, the proposed closure of the Bjuv factory and delivery of the synergies and other restructuring in the business.

Greg Kuczynski

Beautiful, thank you so much.

Operator
Thank you. And we have no further questions on the line, so I'll return the call to our speakers for closing comments.

Stéfan Descheemaeker
Thank you very much, and I obviously look forward to having you on the phone very soon for the next announcement. Thanks.

Operator
This now concludes our call. Thank you for attending. Participants, you may disconnect your lines.