Nomad Foods Limited

Fourth Quarter and Full Year 2016 Earnings Investor Call

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PRESENTATION

Operator:

Good day everyone and welcome to the Nomad Foods Fourth Quarter and Full Year 2016 Earnings Call. Today's conference is being recorded. At this time I'd like to turn the call over to Mr. Taposh Bari, Head of Investor Relations. Please go ahead.

Taposh Bari:

Thank you, Operator. Good morning and good afternoon everyone. This is Taposh Bari, Head of Investor Relations at Nomad Foods. Thank you for joining us to review our fourth quarter and full year 2016 earnings results, which will be led by our CEO Stéfan Descheemaeker and our CFO Paul Kenyon.

Before we begin, I would draw your attention to the disclaimer on Slide 2. I do not plan to read through it but ask that you do so in your own time. I would also note that we may make forward-looking statements that are based on our view of the Group's performance at this time. Actual results may differ due to risks and uncertainties, and these are discussed in our press release, our filings with the SEC and this slide in our Investor Presentation which includes cautionary language.

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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 the slide presentation available on our website. With that, I will hand it over to Stéfan.

Stéfan Descheemaeker:

Thank you, Taposh, and welcome to the Nomad team. Good morning, good afternoon everyone and thank you for joining us for our fourth quarter 2016 end earnings call.

2016 marked an important milestone along our quest to transform Nomad Foods into a global portfolio of best-in-class consumer food companies. Specific areas of focus included the following. First, to stabilize top-line trends; second, to realize synergies from the Findus acquisition; and third, to generate strong free cash flow to drive consolidation within the global food industry. With the year now complete, I am proud to say that we have made progress in each of these areas.

We are well on our way to stabilizing the top-line sales with fourth quarter like-for-like sales declining 2.7%, marking a fifth consecutive quarter of sequential improvement. We believe the improving trend line is a testament to our Must Win Battles strategy, which is clearly working with sales of these products in growth in the fourth quarter of 2016, a real positive inflection point.

Moreover, we are pleased to report that the improving top-line trends have carried over into 2017 with first quarter 2017 like-for-like sales moving into positive territory. While there is still work to be done, we are very encouraged by this development and believe we have reached the tipping point of the turnaround. Our strategy is being validated with good visibility into the number of 360 degree Must Win Battle activations still to be launched over the coming months. As a result, we now expect like-for-like sales to be positive in 2017.

Regarding the Findus acquisition, we are making good progress on the integration and enter 2017 with €12 million of realized annualized synergies. We remain confident in our ability to deliver €43 million to €48 million in annualized synergies by 2018.

Finally on cash flow, we generated €224 million as adjusted free cash flow in 2016, exceeding our stated target of €200 million for the year. We believe our ability to generate significant cash flow, along with an improving operational foundation, positions us to consider future strategic acquisitions that span beyond the frozen category and with global geographic reach.

Before handing over to Paul to cover the financials, I would like to spend a few minutes to reacquaint you with our Must Win Battles strategy, which has been at the core of our improving sales strategy. One year ago, we conducted a portfolio-wide strategic assessment where we identified the Group's most scalable opportunities. We applied a number of criteria to identify business lines that would yield the greatest return from focused application of our resources. The outcome of this exercise was our Must Win Battles strategy, which represented a renewed and improved commercial focus on core categories like Fish, Vegetables and Prepared Meals, while leveraging local icons throughout our portfolio. Must Win Battles are being deployed through a series of 360 degree activations which are, in effect, coordinating efforts across product innovation, packaging renovation, in-store execution and media.

We are very pleased with the progress we have made thus far. Sales from Must Win Battles accounted for nearly 70% of net sales in 2016 and posted their first quarter of positive growth during the fourth quarter of 2016. The strategy is working, trends are improving and we have solid visibility into a significant number of 360 degree activations through the first half of 2017.

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Turning to Slide 5, you can see that Fish Fingers and Spinach serve as two powerful success stories of our Must Win Battles strategy. Fish Fingers was the first Must Win Battle that we launched in multiple markets through highly effective Captain advertising, innovation using crispier crumbs coatings and gluten-free variants, upgraded packaging and revised promotional tactics. The outcome of this 360 degree activation has proven highly effective with Fish Fingers growing over 6% in the fourth quarter of 2016, a third consecutive quarter of growth for one of our largest business lines.

Spinach is another encouraging case study. This is a large core category that has been neglected for some time. We recently activated Must Win Battles against this category across Germany, Austria and the Netherlands in the fourth quarter. Again, our strategy is paying off with a return to positive growth of nearly 2%. This is a meaningful improvement versus prior quarters where the business declined in the 6% to 7% range.

Moving to Slide 6, you can see that the turnaround is underway. We believe we are entering 2017 on a much stronger operational footing that positions us to pursue our longer-term strategic vision of transforming Nomad into a global portfolio of best-in-class consumer food companies. Acquisitions will be a key driver of that goal as we actively pursue opportunities in both frozen and non-frozen, and geographic expansion into new markets, including the US.

With that, I will hand over to Paul to review the financials in more detail.

Paul Kenyon:

Thank you, Stéfan. Before turning back to the presentation, please note that the financial information represents pro forma as adjusted figures for 2015 and as adjusted figures for 2016. All figures have been adjusted for exceptional items, restructuring and transaction-related items, and all of my comments from hereon will refer to those as adjusted numbers. To aid users of our financial information, we have included within the presentation an appendix from Slide 18 onwards which will enable you to reconcile non-IFRS financial information to our reported financial information. It also includes a definitions slide to help users of our financial information understand the basis of calculation of the various measures that we use.

Turning to Slide 7, we thought that it would be helpful to continue to fill in the quarter-on-quarter growth for the Group to demonstrate our progress. As you can see, with a 2.7% decline, the fourth quarter shows an improvement in the quarter-on-quarter rate of decline for the fifth consecutive quarter starting from the 8% decline in the trough of Q3 2015. As Stéfan noted in his comments, the improving top-line trends have carried over into 2017 with first quarter 2017 like-for-like sales performance now expected to move into positive territory.

Turning to Slide 8, we show the year-on-year revenue bridge for the fourth quarter of 2016. Revenue was down €35.6 million or 6.8% year-on-year. Adjusting for currency impacts and chart of account alignments, the like-for-like decline was 2.7%, a further improvement on the rate of decline in the third quarter and a significant improvement on the same quarter in the prior year. As has been the case in the past few quarters, the Group's largest markets, namely the UK, Italy and Germany, showed improved performance compared to the prior quarter with Germany being the first to return to growth: up 6.0% year-on-year on a like-for-like basis, a significant improvement versus prior quarters. The UK and Italy, down 3.6% and 3.4%, respectively, also saw reduced rates of decline year-on-year compared to the prior quarter as the Group activated Must Win Battles. Sweden declined by 5.7% due to lower sales of peas to industrial buyers following the poor harvest, while France, down 5.1% like-for-like, continued to see the impact of the portfolio transition from the old Iglo brand to the market-leading Findus brand. Other markets performance was driven by Norway, down 4.4% on the exit of a private label contract, and Austria down 3.0% due to a customer bankruptcy.

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Turning to Slide 9, we show our year-on-year gross profit movement for the fourth quarter of 2016. Gross profit declined by €2.0 million, resulting primarily from translational currency impacts. Adjusting for those impacts and chart of account alignments, the like-for-like growth was €3.7 million, driven by improved mix from the growth of Must Win Battles and overlapping increased promotional investment in Q4 2015. Gross margin increased by 1.5 percentage points driven largely by higher margin Must Win Battle sales and channel mix.

Turning to Slide 10, we outline our operating performance for the fourth quarter. I have already discussed revenue and gross profit in earlier slides so I won't comment on these again now. A&P investment was €10.4 million higher, and on a like-for-like basis was €12.7 million higher as the Group increased investment levels behind the launch of Must Win Battles. As we outlined on previous earnings calls, our A&P investment was planned to be disproportionately concentrated in the fourth quarter of 2016 in support of our 360 Degree Must Win Battle activations, which began in earnest in September 2016. Moreover, given the success of the Must Win Battles throughout Q4, we made a tactical decision to continue our support through the end of December, opportunistically upsizing investment levels. Indirect costs were €2.5 million lower year-on-year but remained flat on a like for like basis.

Resulting Q4 2016 As Adjusted EBITDA was €62.1 million, representing 12.8% of revenues while EBITDA margin declined by 0.9 percentage points. Underlying gross profit growth was offset by currency translation and the aforementioned 40% increase in advertising spend behind Must Win Battle activations. We are seeing strong returns on our A&P investments and expect 2017 to reflect a more normal spending seasonality versus last year.

In Q4, the effective tax rate was 23%, consistent with earlier quarters and with Q4 2015. As adjusted earnings per share declined by €0.04 year-on-year due to the decrease in as adjusted profit for the period.

Turning to Slide 11, we show the year-on-year revenue bridge for the full year 2016. Revenue was down €124 million or 6.0% year-on-year. Adjusting for currency impacts, chart of account alignments, the exit from Russia, an additional trading day in Q1 2016 due to the leap year, and the business acquisition of La Cocinera in Spain, the like-for-like decline was 4.0%. As has been the case throughout the year, the decline in sales was driven by the Group's three largest markets, namely the UK, Italy and Germany, although each of these markets has shown a steady improvement each quarter in the rate of decline year-on-year, with Germany returning to growth in Q4.

Turning to Slide 12, we show our year-on-year gross profit movement for the full year 2016. Gross profit declined by €33.7 million. Adjusting for constant currency impacts, chart of accounts alignments, the exit from Russia, the business acquisition of La Cocinera in Spain, the decline was €18.7 million, driven by lower sales volumes, the operational issues in Sweden in the first half of the year, the raw material shortage in Italy until the end of the third quarter on Natural Fish, and the weakening of the euro against the US dollar. Better pricing and promotional management provided considerable mitigation to these impacts.

Gross margin improved by 0.1 percentage points, driven by pricing year-on-year, improved trade terms management, offset by an adverse mix, the impact of the lower harvest volumes and the dilutive effect of the La Cocinera acquisition.

Turning to Slide 13, we outline our operating performance for the full year 2016. I have already discussed revenue and gross profit in earlier slides so I won't comment on these again now. A&P investment was €6.4 million lower. Adjusting for currency impacts and chart of account alignments, the like-for-like investment was flat year-on-year.

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Indirect costs were €20.5 million lower year-on-year. Adjusting for currency impacts, the like-for-like reduction was €14.3 million year-on-year due to synergy realization, the benefits from the Group's lean reorganization program and the year-on-year impact of zero bonus payout in 2016.

Resulting full year 2016 As Adjusted EBITDA was €324.9 million, representing 16.9% of revenues. The effective tax rate for the year was 23%, consistent with 2015. As adjusted earnings per share decreased by €0.04 driven by the decrease in as adjusted profit.

Slide 14 shows the as adjusted cash flow for 2016. The key drivers in the operating cash flow performance, aside from the EBITDA movement, are working capital which showed an inflow of €34 million; €16 million of this inflow was one-time in nature, being related to final settlement of the completion accounts for the Findus deal. The remaining cash inflow of €18 million was primarily due to improved management of debtors. Inventories were broadly flat as the lower agricultural harvests were balanced by increased finished goods stock associated with the transfer of production from Sweden to Germany.

Capital expenditure at just over 2% of turnover is in line with our long-run expectations; €2.6 million of that spend relates to Findus IT integration and, hence, is non-recurring in nature. As previously noted, capital expenditure levels typically spike up in the fourth quarter due to the Christmas factory shutdowns when major projects are carried out.

Tax paid was around €8 million lower than the prior year due to refunds of tax in Germany and Italy of €3 million and €2 million, respectfully. We also have lower phasing of payments in 2016 versus 2015. Our effective cash tax rate in 2016 was 12.5%.

Restructuring and non-recurring cash flows of €49 million were largely driven by costs associated with the integration of the Findus Group, the implementation of the Nomad strategy and the restructuring programs in a number of the group's factories.

The operating cash flow conversion for 2016 was 96.6%, which was significantly ahead of the prior year. The free cash flow pre-restructuring and non-recurring costs delivery of €224 million was in line with our €200 million annual target once you adjust for the €16 million one-time Findus settlement and the lower level of cash tax outflows, and equates to a cash conversion rate of 91.6%.

Our net leverage ratio for 2016 was 3.5 times, which is 0.5 times lower than the 2015 ratio of 4.0 times.

Turning to Slide 15, we introduce guidance for 2017. Please note that all references to currency translation are made assuming foreign currency exchange rates as of March 28, 2017. As we have already commented, we expect like-for-like sales growth to be in positive territory in the first quarter of 2017 at a Group level. Our expectation is that this trend will continue for the balance of the year as growth in the Must Win Battles are partially offset by the ongoing rationalization of low and unprofitable businesses within our portfolio.

The combination of currency translation and the anniversary of last year's leap year are expected to negatively impact first quarter 2017 reported revenue growth by approximately 400 basis points versus the aforementioned like-for-like results. 2017 gross profit is currently expected to be ahead of 2016.

Regarding 2017 EBITDA, positive underlying growth is expected be to offset by the reinstatement of the in-year bonus scheme, the anniversary of last year's leap year and foreign currency translation, which will be almost entirely weighted to the first half of the year. As adjusted 2017 EBITDA is expected, therefore, to be down approximately €10 million versus last year with the trend driven entirely by the anniversary of last year's leap year and foreign currency translation.

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In terms of quarterly cadence, we expect gross profit and EBITDA will be more concentrated in the back half of 2017 versus 2016 due to the timing of UK price increases and a more normalized seasonal pattern of A&P spend. As a result, we expect year-on-year changes in EBITDA to show gradual improvement throughout the year with the fourth quarter posting the strongest year on year performance.

As adjusted free cash flow pre-restructuring and non-recurring costs is again expected to be in the region of €200 million.

In terms of the restructuring and non-recurring cash flows, we currently anticipate investing around €90 million in restructuring and non-recurring activities, in line with our prior expectations, as we execute on the closure of the Bjuv plant and other supply chain right-sizing initiatives; continue the roll-out of the Group's lean overhead program, and further progress the integration of the Group's IT platform. In addition, the Group expects to pay between €30 million and €40 million in settlement of historic tax liabilities.

I will now hand you back to Stéfan.

Stéfan Descheemaeker:

Thank you, Paul. So, in summary, we believe more than ever that we have the right strategy in place to stabilize the business. The return of our Must Win Battles to growth in Q4 is a real demonstration that the strategy is working. Moreover, the encouraging progress on sales in Q1 and visibility into more Must Win Battle activations gives us confidence that we can stabilize the top-line during 2017. We continue to make progress on synergy delivery and the capability of the business on the cost and cash disciplines remains strong.

I am encouraged by the results we are reporting today and also guided by the Company's shared values, which includes a mindset of never being satisfied and always seeking greater opportunity. To that end, the Nomad team is focused on flawless execution of our strategy and we look forward to providing you with updates throughout the year.

With that I will turn the session over to Q&A. Operator, back to you.

Operator:

Thank you. If you would like to ask a question, please press star, one on your phone. Please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that's star, one for any questions.

We'll take our first question from Steve Strycula with UBS.

Steven Strycula:

Hey, good morning.

Stéfan Descheemaeker:

Hi, Steve.

Steven Strycula:

Good quarter, guys. A question on the sale outlook, as you might imagine. There's a bunch of moving pieces in the first quarter with the Easter shift. I'm sure you guys have some kind of sell-in benefit as well

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for some of the new product you're putting out in the marketplace. Can you help us peel back the onion a little bit as to kind of how baseline sales are doing and comment a little bit more as to what's driving the improvement in the like-for-like sales trend? Is it sales velocity? Is it distribution, market share? Can you help us just understand what's really happening from a storyline perspective? That'd be really helpful.

Stéfan Descheemaeker:

Okay, let me start and please, Paul, complement me if you think it's missing something.

The very simple answer is these are very straightforward numbers, to say the least. It's very clear, number on. Number two, it's mostly driven by the Must Win Battles. We told you that we were growing Q4 and that we still keep growing in Q1, and so you have this sequential improvement from the Must Win Battles to grow the sale, and on and on and on. That's something we have been doing over the last five, six quarters. We're not—obviously you need to keep, to remain disciplined, and as we told you, part of the Must Win Battles are already activated and we know that we still have a lot to activate in the course of Q1 and Q2, especially Q2. So overall, it's really a good strength and it's a good strength selling and sell-out.

Paul, if you want to say anything else on top for Easter.

Paul Kenyon:

Yes. I think you're right to call out Easter, Steve. It does have an impact on some of our markets, particularly those in Southern Europe. It's difficult with Easter being in I think end of Week 2, beginning of Week 3 in April, so precisely call how much we'll see in the last, end of March. It can be up to €10 million but we'll know better when we get to the Q2 results, but that's a kind of moveout of Q1 into Q2. So the fact that we're in positive territory in Q1 despite the Easter effect I think is very encouraging.

Stéfan Descheemaeker:

With Easter in March last year.

Paul Kenyon:

Yes.

Steven Strycula:

That's helpful. Then, Paul, can you comment as to when we met with you in December, just a little bit more color and kind of like UK price negotiations? Clearly, I think, you've made your resets at this point. Is it a phased in approach? It sounds like it is for the back half of the year. How do you expect a more challenged market like the UK, how should we think about kind of the sales and selection there? What's moving the top-line most? What's it most responsive to in terms of the ad spend you're putting back into the business?

Paul Kenyon:

The encouraging thing I guess, to take the last point first, is that we've seen good response across the Must Win Battles. Stéfan called out fish fingers and spinach. We've also seen a good response on peas where we've launched the peas MWB and in other parts of our fish and poultry and meals portfolios. So, we've seen the strongest response on fish fingers but it was the first to go so it's had time to build. I think at this point we feel pretty encouraged by every Must Win Battle activation. We obviously track closely to check that they stay in good health.

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In terms of where are we going to see the biggest moves, clearly 50% of our sales is concentrated in the UK, Italy and Germany, so they are the big drivers of the movement. Just as in '16 they have been the big drivers of the decline, we expect them to be the motors of improvement in '17; probably fairly logical.

In terms of the UK specifically, we, as you know, moved early on pricing so we went to the trade beginning of October, targeting beginning of November for price action knowing that December/January would be a good result. We got a good set of discussions with the trade and those price rises were all landed by the end of the year. I think it's fair to say that it is a fairly big step-up for the UK consumer and therefore we have chosen in Q1 to engage in perhaps a little more price promotion than we would normally engage in, to smooth the move from the old pricing to the new pricing, but that is a temporary effect in Q1 that should moderate in Q2 and beyond. I think the UK team so far have done a very, very strong job on executing what was a significant price rise through to UK consumers.

Stéfan Descheemaeker:

Back to your question about advertising, Steve, and the other ingredients, it's really a combination. What we have observed is you really need in a pragmatic way to come up with a 360 activation which is all the ingredients at the right time put together. So, yes, advertising is working but it's difficult for us to dissect to the different ingredients. It's really a combination that's working.

Paul Kenyon:

Yes, and I think it's an important point Stéfan makes: advertising is important because it reminds people to go to the store and buy your products. The best advertising we have is the packaging that sits on the shelf every day and we've invested a significant amount of thought into how we can get really engaging packaging with great food value that motivates people to buy, and I think some of the turn we are seeing on our Must Win Battles is because the product looks great on the shelf now, and it didn't in the past.

Steven Strycula:

Paul, on the margin bridge to get to the guidance that you were highlighting, how do we think about some of the moving pieces? There's a lot of unanticipated stuff that happened last year, the pea harvest, etc., the transactional exposure. Can you kind of quantify what the transactional impact is as you think about roughly the EBITDA bridge for next year and how much advertising spend is on a net basis coming back into the P&L as you invest behind these battles? Just to give investors better clarity as to kind of what the baseline margin rate is for your core business ex some of these catch-ups in spending.

Paul Kenyon:

Sure. The transaction impact obviously is concentrated into sterling/dollar and we are fully hedged for 2017 so we know what we're going to be dealing with and we have priced for all of that. So, we believe, provided the pricing holds, that we have mitigated the transactional FX impact on the business in '17.

In terms of advertising, I'm glad you asked that question because I was really keen to get the point across. We do not currently plan to spend any more euros in 2017 than we did in 2016, so the full-year investment in A&P should be about the same. What you will see is a very different phasing. So, as you know, in 2016 we deliberately held back on A&P in the first eight months of the year so that we could really have a high quality, high pressure launch of the Must Win Battles from mid-September to the end of December. What we will be moving to in 2017 is a much more traditional always on methodology which we have researched thoroughly with our media buying agency and we believe that always on through the year will be a good support to our Must Win Battles. So, it's not that we need to spend huge amounts of money to drive them into growth. We chose to do that to get off to a good start on the launch but we

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believe the always on where every week consumers in every market, whether in the Must Win Battle launch, will see a pulse of regular advertising targeted, obviously, at our core consumers viewing slots will do the job for us very well.

Stéfan, do you have any build on that?

Stéfan Descheemaeker:

No, I think it's exactly that. We've come to the conclusion that going on and off on ads doesn't make too much sense in that category at least, and so it's going to be very balanced and instead of being back-ended or whatever, it's going to be across the year, obviously a bit less during the summer.

Steven Strycula:

Okay. One question and then I'll pass it along. Is there any opportunity, Paul, to refinance some of you higher borrowing costs and bring down, do some interest expense savings this year? To that, maybe, what is the latest update on your thinking for the M&A pipeline? Last call you mentioned ideally you would want a European frozen asset that would be more bolt-on or fold into your current footprint. Is the deal activity or the marketplace that you have a line of sight within the next 9 to 12 months that the marketplace has numerous options out there? Or are you thinking you're going to have to look elsewhere because maybe the European pipeline isn't as full as maybe you had thought a few months ago? Thanks.

Paul Kenyon:

So, refinancing, we obviously keep our capital structure under constant review and we do track market conditions. When we have news we will update, but I don't particularly want to get into predictions on that.

On M&A, we do continue to scan European frozen because we see opportunities there that would be highly synergistic, but I think the fact that we are seeing the base business stabilize gives us the confidence to look further afield. So, we would not necessarily limit ourselves to European frozen assets, but Stéfan, perhaps you should comment on that.

Stéfan Descheemaeker:

I think to your point, Paul, the priority number one for us was to make sure that we have a solid foundation. You can't have a serious M&A game without having your core business into solid, with solid ground. That's what we're doing right now. In the meantime, which is also fundamental in the minimum, more than ever, more than 5 or 10 years ago or before that, it's not only the ability to acquire but there's also the ability to come up with best practice, new skills. So, by moving to Must Win Battles we're learning a lot. We have also improved significantly or measurably management skills. We're doing it as (inaudible). It's not only just to improve the existing business. It's also a great way for us in the future to obviously expand beyond and create value in any acquisitions, whether it's in frozen food or in other food categories.

Operator:

We'll take our next question from Rob Dickerson with Deutsche Bank.

Rob Dickerson:

Thank you. Good morning.

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Stéfan Descheemaeker:

Bonjour.

Rob Dickerson:

A number of questions were already asked fairly comprehensive, so that's positive. It saves some time for me. Just a couple of questions. One, kind of top-line cadence to the year; the next one M&A. Is there any color you can provide, really mainly for Q4 and let's say for Q1 and even some general estimate for volume and price for the year? It just seems like obviously there's some pricing that would have obviously come through I would think in Q4 than obviously in Q1 as you've stated, in the UK, and it sounds like you need to promote a bit more back to try to help some of that pricing to support the volumes. I'm not sure if some of the gross margin lift that we saw with Q4 was driven by pricing. I'm also not sure how much of the positive, the expectation for positive like-for-like in Q1 in '17 is driven by pricing. So, just any color you can give us around pricing relative to volume in the quarter of Q1 in '17 and then any color you can provide with respect to how some of that pricing may or may not be helping your gross margin. Thanks.

Paul Kenyon:

Sure. First of all, let's take the Quarter 4 year-over-year comparison. Those keen students of the Company who have been with us all the way on our journey will remember Q4 last year we had a number of issues in the Findus business which we acquired on November 2, 2015. We had some relatively one-time in nature issues that have not recurred in '16, so probably the biggest was the warehouse commissioning what we inherited from the prior management, prior owners of Findus, which required quite considerable efforts to get the warehouse fully up and running and the costs flowed through the normal P&L in the fourth quarter. Those haven't repeated so that has helped the margins, so that is probably a big chunk of the margin improvement year-over-year.

Pricing actually is fairly simple to answer. In most of our markets we typically price for inflation and we have had two quite distinct inflationary pressures on the business, both of them FX related. In 2016, the euro/dollar declined, or depreciation, which hit during 2016 once our hedging ran out was priced for and that has been the big driver of pricing in the business in 2016. In 2017, obviously it will be the post-Brexit sterling/dollar impact in FX and that again we have priced for from the start of the year. As I said earlier, we have chosen to invest a little bit more in promotions in Q1 to smooth the path for the UK consumer, but that we expect to moderate from Q2 onwards, so you will see the pricing come through on that.

In terms of volumes, that varies depending on the individual strategies we have in each market. So, in some markets we have a kind of volume maximization strategy going and we are quite happy to trade volume for value. In some of our bigger markets where we were seeing household penetration fall away, we have been prepared to consider volume as well. So, if you looked at our CJS presentation back in January, you would have seen household penetration rising as both value and volume sales on fish fingers came through.

So, it is very much the story depends on Must Win Battles, Must Win Battle market to market, but we are very value focused. That said, we are very happy to see volumes decrease as well where it makes sense to do so.

Rob Dickerson:

Okay, great. Then just in terms of gross margin, EBITDA margin expectation for '17, I know you kind of touched on it earlier kind of in general. Is there a hard target that you want to give us, potentially? I just

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ask because I know you had a target, I think earlier on. Was it for 2018? It was a few years forward EBITDA margin. I'm just curious kind of how you're viewing '17 specifically and then how we should be thinking about that against that base margin improvement potential let's say over the next two years.

Paul Kenyon:

I think if you look at our guidance, we're expecting like-for-like sales growth in the year. At the same time, because of translation FX, which is our sterling profits being worth less in euros, we are expecting EBITDA to be modestly down post translation FX. So, logically, our EBITDA margin will be slightly off year-on-year. We clearly could cut back on investment in the business to manage that but we think cutting back on investments in the business because of a translation move is a mug's game. We will always take the right approach to the business.

The other big thing to bear in mind, Rob, as we called out in the guidance, we are reinstating the in-year bonus scheme, which we think is important because the team, frankly, have done a very good job of turning this business round, so gross margins will improve, but once you slot the bonus in clearly that absorbs it this year.

Longer term, and I'm not going to put a year on it, but longer term our ambition remains to get the best of both of the businesses we've put together. So, we want the entrepreneurial drive of Findus and the closeness to the market; we want the efficiency, the rigor, the cash and the EBITDA delivery of the Iglo business and we continue to work hard on that. As Stéfan said, one of our values is we're never satisfied, we're always striving so you will always find us slightly dissatisfied with where we are and striving to achieve better.

Rob Dickerson:

Okay, great. That all makes sense. Then lastly, just on M&A, a quick follow-up. I know that you just said that stabilization of the top-line with the current business, it essentially increases confidence and therefore kind of moves forward timing, or let's say expectation on potentially moving outside of Western Europe. You put in the slides, or you do call out more explicitly than you have previously, the US and ex Frozen US. I know this has been discussed kind of since the beginning as a potential move, but it was usually kind of in general that maybe it would happen at some point. Are there areas that you're seeing that not only is there more confidence from your end but maybe there are more opportunities arising just given a lot of these 'pressured foundation brands' in the US, number one, and then maybe number two, there might be opportunities not only with a cash purchase or a stock purchase but more of the Reverse Morris Trust structure. I'm not sure if you'd be open to that as well. Thanks.

Stéfan Descheemaeker:

I understand, I understand that. The first point, yes, we are obviously talking about the US but it doesn't mean that we would not obviously look for acquisitions in Europe, so it's not only US, it's Europe. It's going to be Frozen Food.

The second piece is obviously very difficult to come up with a timetable. I've been in M&A for many years and the first thing you learn is don't commit to any timeline because you don't know. Obviously what we know is the kind of focus we're going to—we have behind M&A right now.

The third piece, behind the categories, I would put it that way, Frozen Food is good for us because you can do two things. One is you can obviously leverage scale, especially in Frozen Food Europe, procurement, supply chain and all these things. You can also obviously apply best practice like (inaudible) management, (inaudible) if needed and DBB and other things.

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In the other categories where probably scale matters a bit less, and where the skills you can obviously leverage with the things I just mentioned before can be applied successfully. That's exactly the kind of work we're doing right now. We're trying to determine exactly where it can work best.

Rob Dickerson:

Okay, great. Stéfan, Paul, thank you.

Stéfan Descheemaeker:

You're welcome.

Operator:

Thank you. We'll take our next question from Jon Tanwanteng with CJS Securities.

Jonathan Tanwanteng:

Good morning. Nice job on achieving the positive like-for-like sales and thank you for taking my question. Can you start with just a little bit more detail on the legacy tax settlement issue you noted in the guidance. What's causing those exactly?

Paul Kenyon:

These are tax issues that go back to the beginning of the century, in some cases. European tax authorities move slowly and very painfully, so we have been in review with them for some time now and we expect this year to conclude those, and that's our current estimate of the cash settlement of those legacy issues.

Jonathan Tanwanteng:

Okay. I guess from there, as you head into '18, how much can we actually expect in non-recurring cash expense to decline by, barring a significant acquisition?

Paul Kenyon:

We've always said steady-state is 15 to 20. I think if you add the 50 we did last year to the 90 this year, which was in line with our previous guidance, that gets you to about 140. We'd always said about 170 to do the whole of Findus, so we may find some costs roll into '18, and obviously we'll update depending on performance at the end of '17.

Jonathan Tanwanteng:

Okay, great. That's all. Then just a question on the bonus reinstatement. How much of a headwind do you actually expect that to be on a year-over-year basis?

Paul Kenyon:

Difficult to predict without knowing the precise performance of the business because it's quite a complex scheme. We've got a range of local targets. If I were guessing how much it will cost, it will probably cost somewhere between 15 and 20, depending on payout and individual achievement of targets.

Stéfan Descheemaeker:

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Yes.

Jonathan Tanwanteng:

Thank you, great. Finally back to the M&A side. Not to beat a dead horse but is the pipeline where you want to see it in terms of number of opportunities right now and are the valuations or competition for these assets in rational territory?

Stéfan Descheemaeker:

I think overall the prices obviously are not low, but again, the key point for us is the synergy you can extract, so that makes a significant difference between, let's say, the players. Those that are able to come up with the right combination between efficiency on one side and the brand building on the other side are fantastically positioned, and that's something we feel that that's our ambition; exactly to have both the efficiency which is DBB which is also obviously think like supply chain restructuring which can be procurement, and at the same time brand building, (inaudible) management (inaudible). So, to find a sweet spot is absolutely fundamental for us in the future and one obviously we are going to be able to compete in the food industry, which is in and of itself fascinating right now. You see a lot of things happening from the consumer standpoint and also the investment standpoint.

Jonathan Tanwanteng:

Great. Thank you very much.

Operator:

We'll take our next question from Brian Holland with Consumer Edge Research.

Brian Holland:

Thanks. Hi gentlemen. Quickly on the like-for-like inflecting positive, forgive me if you've called this out at some point during your remarks this morning, but can you give us a sense of order of magnitude how positive they are inflecting? Is it a little bit north of flat? It is low single digits? Is it better? Then obviously there are some calendar headwinds in Q1 that you guys are going against. Are we backing all those out when we think about it? If that is the context, should we be thinking about this being able to accelerate into Q2?

Paul Kenyon:

In terms of what does positive momentum mean, it means we expect there to be growth on a like-for-like basis. The like-for-like basis strips out two factors. One is currency movements because obviously they're still annualizing the post-Brexit FX impact of sterling versus euro. The other one is obviously there's no leap year in 2017 so we have one less trading day in the quarter. So, we take those two out but other than that the numbers are completely clean.

In terms of momentum into Q2, as I said earlier, Easter effect difficult to call because it's not moved that far into April, but we would expect anything up to €10 million between out of Q1 into Q2. So, you know, I think we will have help in Q2 because Easter sits there and that is important for our Southern European markets and Germany. Those are probably the key moving parts.

In terms of what does positive momentum mean, as a reminder we are coming from minus 2.7 in Q4, so in prior movement a 2.7% improvement would have been seen as a good impact. We're obviously

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forecasting to do better than that, but I wouldn't want for people to be running away with expectations. I think it will be a good result but we're talking modestly over zero rather than a lot.

Brian Holland:

Perfect. That's helpful context, thank you. Most of the questions have been answered here but just a couple of quick ones. Can you help us think about synergy delivery in '17? Thinking about where cumulative synergies ended at Fiscal '16 and knowing that you're looking at 43 to 48 by '18, where do you expect that to be at the end of '17?

Paul Kenyon:

If you look at what we have delivered, we were at about 5.5 at the end of Q3 and we have delivered—which was about 10. We've delivered another 2 in Q4. So we ended up at about €8 million to €9 million for the year which annualizes to 12. Most people seem to be modeling high 18s to low 20s millions of euros on a cumulative basis in 2017, which is in line with what we've always said. You get a big step-up in '18, partly because of the factory closure, partly because we inherited a number of two-year contracts that we can only renegotiate as we head into '18.

Brian Holland:

Great, thanks. I'll get out of here on this one. Headlines on fish supply (inaudible) how do you think about that? Any impact there? Just if there's any commentary. Then kind of how the hake fillet situation has gone for you guys and improved, I believe through Q4 and into Q1, just kind of the backdrop there.

Paul Kenyon:

Sure. So, fish supply, as ever I start with our largest specie, pollock, which we are blessed with a strong biomass and stable quotas, and it's wild caught, so the supply of that fish has been good and continues to be good, so we're not seeing a lot of input cost movement there so far. In terms of other species, the hake fillet shortage has been resolved in Q4, so we had a normal level of supply coming into Q1 and we would expect that to remain in place for the whole of '17. We don't expect to be seeing (inaudible) and obviously that gives a bit of a tailwind in our Italian business. We took the opportunity of resumption of supply to actually re-pack the entire range and add a couple of species. So, tuna, for example, we are selling for the first time. So, we turned it into a bit more than just the restoration of supply; we did a re-launch.

It is fair to say that certain species, salmon, for example, we've seen significant input cost inflation which we passed on to consumers, and the other is some of the whitefish, cod and haddock, there's some short-term shortages again; where we see inflationary costs come through we price because we're focused on value, not volume.

Brian Holland:

Great. Thanks, gentlemen. See you next week.

Stéfan Descheemaeker:

Okay.

Paul Kenyon:

Will do.

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Operator:

At this time, I'd like to turn the call back to Management for any additional or closing remarks.

Stéfan Descheemaeker:

Thank you very much. Let finish by thanking you all for attending the call today. I take encouragement from the progress made on implementing our strategy so far. There is still much to do and we remain focused on our key objectives for the business: firstly, to stabilize the top-line, which will occur in the first quarter; secondly, to deliver Findus acquisition synergies; and thirdly, generating strong cash flow. The progress we made in 2016 positions us to pursue our longer-term strategic vision of transforming Nomad into a global portfolio of best-in-class consumer food companies.

With that I wish you a good day and I hand back to the Operator.

Operator:

Thank you. That does conclude today's conference. Thank you for your participation. You may now disconnect.

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