Nomad Foods Limited

Fourth Quarter and Full-Year 2017 Earnings Conference Call

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PRESENTATION

Operator:

Good day and welcome to the Nomad Foods Fourth Quarter and Full-Year 2017 Earnings Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Taposh Bari, Head of Investor Relations. Please go ahead, Sir.

Taposh Bari:

Great. Thank you and thank you for joining us to review our fourth quarter 2017 earnings results. With me on the call today are Stéfan Descheemaeker, our CEO, and Jason Ashton, our Interim CFO.

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

We will also discuss non-IFRS financial measures during the call today. These non-IFRS financial measures should not be considered a replacement for and should be read together with IFRS results.

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Users can find the IFRS-to-non-IFRS reconciliations within our earnings release and also in the appendices at the end of the slide presentation that is available on our website.

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

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

Stéfan Descheemaeker:

Thank you Taposh and thank you everyone for joining us on the call today. Twenty-seventeen was an outstanding year for our Company, highlighted by organic revenue growth of 4%, 100 basis points of gross margin expansion, and €237 million of adjusted free cash flow. These results, which exceeded the guidance that we set at the start of the year, reflect the strength of our iconic brands, relentless execution throughout the organization, as well as our strategy.

We ended the year on a high note with fourth quarter organic revenue growth of 5.6%, gross margin expansion of 350 basis points, and Adjusted EBITDA growth of 31%. Importantly, Q4 marked the fourth consecutive quarter of positive organic revenue growth and market share expansion for our Company.

Fourth quarter organic revenue growth was in line with a bit of expectations that we recently provided in January when we announced the acquisition of Goodfellas, but ahead of our initial guidance of 3% back in November. Upside (phon) versus the initial 3% outlook was driven by a combination of two factors. First, we experienced better-than-expected growth in December where the category accelerated to 4%, and the U.K. and Germany performed at the very high level. Second, we had some shipments move into December out of January in Germany due to timing of some promotions versus a year ago.

In Q4 we gained 0.2 percentage points of market share against low single digit category growth, resulting in approximately 3.5% sales of growth of our branded business.

So, 2017 was a pivotal year for Nomad Foods. In only our second full year as a public company, we achieved a number of our goals, which I'd like to spend a moment reviewing with you.

First, we returned the business to sustainable growth trajectory, driven by market share gains and broad-based growth across most of our 13 geographies. As a market leader, we have driven the frozen food category, which grew approximately 2% for both the year and the fourth quarter. We successfully navigated currency revenue inflation in the U.K. through a series of pricing actions which helped us drive 100 basis points of gross margin expansion for the year at the total Company level.

We fortified our core portfolio known to many of you as must-win battles. Sales of our core grew 8% for the year thanks to a series of strategic investments behind products, packaging, and in-store execution. We unleased the power of our iconic Findus, Iglo and Birds Eye brands through increased media support which we self-funded through cost savings as our net A&P expense was up only 1% when executing the effects of FX.

We attracted new customers while driving brand health scores, greater sellout velocity, and growth in base volume. We further developed our capabilities, net revenue management, and supply chain which both contributed to improved gross margin into 2017 and will play an important role in helping us drive amenities and achieve a long-term target of 20% Adjusted EBITDA margins.

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Finally, we actively managed our balance sheet by lowering our operating cost below 3%, fixing nearly two-thirds of our interest rate exposure and extend our debt maturities until 2024.

We set a number of important milestones in 2017 but are still very early in our multiyear journey of building a best-in-class food company.

Turning to 2018, we will build on our momentum by continuing to focus on our core, while also mobilizing our innovation pipeline and playing an even greater role in driving frozen food category growth through increased focused and efforts around corporate social responsibility. We will complement strengthens in our legacy business with M&A once we close the Goodfellas Pizza acquisition. As you know, Goodfellas represents our first acquisition in two years and opens the door into an attractive frozen pizza category, which is the second-largest European savory frozen category after seafood, where we already enjoy number-one market share rank.

Upon closing the transaction, our first priority will be to integrate this market-leading brand into our U.K. and Ireland operations. As we've said, this business is expected to be immediately accretive to earnings and contribute between €22 million and €25 million of annual Adjusted EBITDA within two years of closing, or by the first half of 2020.

We plan to deliver another year of consolidated top and bottom line growth in 2018. Importantly, the shape of the CP&L will be balanced and reflective of the algorithm that we believe Nomad Foods can deliver sustainably over a multiyear period. In 2018 we expect to deliver low single digit organic revenue growth against a stronger year of revenue base.

With the bonus reinstatement now in the base, we expect EBITDA margin expansion to be greater this year versus last. Finally, we expect to incur fewer non-regulatory cash charges than we spent in 2017, even after the integration of Goodfellas.

Our initial 2018 guidance calls for Adjusted EBITDA of approximately €350 million to €360 million and adjusted EPS in the range of €1.08 to €1.13 per share. These figures include the expected benefits of Goodfellas. This implies Adjusted EBITDA growth in the high single digits range and EPS growth of 10% at their respective midpoints.

Twenty-eighteen is off to a strong start with Q1 organic revenue growth expected to increase approximately 2%. This is despite a more modest category backdrop during the month of January and the shipment phasing I mentioned at the start of this call. This performance is firmly within our low single-digit guidance for the year and, importantly, validates our ability to sustain market share gains over multiyear period as we lap strong comparisons. Next, we're on pace to deliver another year of growth with good visibility into Q1, our seasonally largest quarter of the year.

As most of you are aware, Samy Zekhout will join Nomad Foods as our permanent CFO next month, making this Jason's final call as Interim CFO since taking over the role seven months ago. I would like to once again personally thank Jason for his significant contribution to our performance, as well as excellent leadership throughout this transition.

With that, I will hand the call to Jason to review our fourth quarter and full-year results in more detail as our full-year guidance through 2018 guidance.

Jason Ashton:

Thank you, Stéfan, and thank you all for joining us on the call today.

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Fourth quarter reported revenue increased 4.7% with organic revenue growth up 5.6%. Organic revenue growth was driven by volume and mixed growth of 3% and pricing growth of 2.6%. Reported revenue growth was offset by approximately 90 basis points of FX translation.

Slide 4 illustrates the quarterly progression of organic revenue growth, showing positive momentum throughout 2017. As Stéfan mentioned, we expect another year of organic revenue growth in 2018 with Q1 expected to be up approximately 2%, in line with our full-year guidance of low single-digit growth.

On Slide 5 we show fourth quarter organic revenue trends across our three largest markets: the U.K., Italy, and Germany, as well as the remaining countries in our portfolio. There are a few call-outs on this slide, beginning with the U.K., which delivered a strong 9% growth rate in Q4, reflecting solid execution within the call, favorable category growth, and price increases.

Germany posted another quarter of impressive growth, up 16% in Q4 with a few percentage points of growth benefiting from a shift into December after January. After adjusting for this, as well as some distribution gains from favorable year-ago comps, Germany's underlined growth remains among the strongest across the group, and reflective of the Team's impressive execution against a mature and competitive market.

Turning to Slide 6, Q4 gross margins expanded 350 basis points to 31.5% with mix, price and promotions, and cost of goods favorability contributing factors. Price and promotion, which contributed to 170 basis points of gross margin expansion, was primarily driven by net revenue management initiatives. Cost of goods favorability, which helped gross margins 130 basis points, was driven by the anniversary of operational issues in Sweden and an improved harvest versus Q4 of 2016.

On Slide 7 I will review our operating performance during the fourth quarter. I will skip revenue and gross profit commentary which I just discussed in detail. Operating expenses increased 2% year-over-year with more normalized indirect expenses and a more seasonally balanced A&P phasing, creating offsets versus one another. Within operating expenses, A&P declined 7% and indirect increased 8% year-on-year.

As we previously discussed, we reinstated bonuses in 2017 versus no bonus payment in 2016. This was a source of indirect growth during the fourth quarter. Resulting Adjusted EBITDA was €82 million, representing 16% of revenues. Adjusted EBITDA increased 31% year-over-year.

Depreciation and amortization of €10 million declined to last year due to the closure of our factory in Sweden. Adjusted net financing costs were €14 million, down 25% year-on-year, reflecting improved cost of capital following the successful refinancing of our debt in early May, and a partial benefit from the debt reprice in December.

The effective tax rate was 23%, in line with previous quarters. Adjusted EPS was €0.27 for the quarter, an increase of 108%. This was due to 93% growth in adjusted profit and a 9% year-on-year reduction in our adjusted average share count. This excludes the Founder Preferred dividend for this quarter given that it was issued on January 2nd, subsequent to the quarter-end.

Turning to Slide 9 which outlines our P&L performance for the full-year 2017, for the full year we realized organic revenue growth of 3.9% which was offset by 1.9% from foreign exchange translation and 0.5% from the anniversary of the leap year, resulting in reported revenue growth of 1.5%.

Gross profits grew 5% in euros, equivalent to 100 basis points of gross margin expansion. Gross margin for the full year was driven by a combination of mix and price and promotions, which were partly offset by cost of goods inflation.

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Operating expenses increased 6%, driven by a 9% increase in in directs due to the reinstatement of bonuses. A&P declined 1% on a reported basis, but increased 1%, excluding currency translation.

Twenty-seventeen Adjusted EBITDA increased 1% to €328 million. Growth would have been 13% when excluding the reinstatement of bonuses, foreign currency translation, and the anniversary of the leap year.

Full-year adjusted diluted EPS increased 19% to €1 per share, driven by EBITDA growth, lower depreciation and amortization, lower financing costs, and a lower share count.

Turning to cash flow on Slide 10, for the year, we realized €237 million of adjusted free cash flow in 2017, ahead of our initial expectations set at the start of the year. The key drivers of free cash flow, aside from EBITDA, included working capital, which showed an inflow of €33 million. This was partly driven by the absence of cash bonus payments in 2017 versus the prior year.

Adjusted cap ex was €38 million or 2% of revenues. This excludes €4 million of nonrecurring Findus integration costs.

Adjusted tax paid was €38 million, reflecting 17% of our adjusted pretax income for the year. This excludes €39 million of payments related to the previously discussed settlement of one-time legacy tax matters.

Adjusted net interest and other finance costs were €49 million, reflecting the refinancing and repricing actions we undertook to strengthen our balance sheet throughout 2017.

For the year, operating cash flow conversion of 99% exceeded our long-term targets of 90%. Partially offsetting adjusted free cash flow for the year were restructuring and nonrecurring cash flows of €100 million for the year, which were in line with our expectations and driven largely by severance costs associated with the closure of production facilities in Sweden and further integration of the Findus Group where we are rolling out the Nomad ERP system.

Turning to Slide 11 and our initial 2018 guidance, which is based on foreign exchange rates as of March 20, 2018 and inclusive of expected partial year contribution from Goodfellas, which we expect to close in Q2. We expect organic revenue growth at a low single-digit percentage rate, which assumes moderate category growth and continued market share expansion. Given the strength of the euro versus local currencies, such as the pound sterling, Swedish krona, and Norwegian krona, we expect foreign currency translation to offset organic revenue growth by approximately 60 basis points for the year and 90 basis points for the first quarter.

We expect 2018 Adjusted EBITDA to be approximately €350 million to €360 million, representing year-over-year growth in the high single digits range. Our guidance assumes another year of gross margin expansion for our legacy business, which we expect to be offset by approximately 100 basis points of mix from Goodfellas on an annualized basis due to its slower growth margin profile versus our legacy business.

In summary, for our legacy business we expect the following: organic revenue growth in the low single digits range, gross margin expansion driven by net revenue management and supply chain, and a modest growth in operating expenses. Incremental to the performance of our legacy business will be a partial year of revenue contribution of approximately €90 million and EBITDA of approximately €10 million from the pending acquisition of Goodfellas. Goodfellas has a lower gross margin, and to a lesser extent, lower

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EBITDA margin as compared to the legacy business. That said, improving the profitability profile of Goodfellas is a fundamental driver of our integration strategy for this acquisition.

For the full-year 2018 we expect adjusted EPS to be approximately €1.08 to €1.13 in euro terms, which assumes the current share count of approximately €176 million and is therefore before any impact of potential future share repurchases or Founder share dividends.

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

Operator:

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

Our first question today comes from Steve Strycula of UBS. Please go ahead.

Steven Strycula:

Hi. Good morning, guys. Two quick questions for me. The first would be a point of clarification on the EBITDA guidance. Just want to make sure I heard it right. For the Goodfellas, was that €10 million contribution for this year or would that be on a full annualized run rate and so the eight months that you guys are going to have in the books this year?

Jason Ashton:

The €10 million is for the transitional year as we close in Q2.

Stéfan Descheemaeker:

In other words, it's not a full year.

Jason Ashton:

It's not a full year.

Steven Strycula:

Okay. Got you. Thank you for that. Then as it relates to the organic sales, I know, Stéfan, you called out that there was a little bit of a sell-in shipment benefit in the fourth quarter from Germany and that you guided for this first quarter to be roughly 2%, but there was a shift. So, (inaudible) the shift, is that right around 3%? That would be my question. Then can you give us a little bit of color commentary as to why the U.K. did so well in the quarter; and then, conversely, speak to the slowdown that we saw in Italy? Thank you.

Stéfan Descheemaeker:

Okay. Let me step back for a second on the Q1 2%. Overall, we really believe it's really a great outcome. You have to think that obviously it's on the back of a flat market, so, in other words, we're gaining market share. So, it's pretty much the same kind of trajectory as Q4. The only difference is obviously in Q4 the industry was much higher for a variety of reasons, one of them being obviously the shift in Germany.

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Back to the shift in Germany, you just have to think that at the end of the day the 2% is a correct number, including both the phasing and, obviously, Easter impact. I think one offsets the other, to make it simple. The 2%, back to your point, is very much in line with the algorithm we have.

Then if you go to the U.K., it's very interesting because indeed it's really—when you see the trajectory, Steve, you see that it started with Italy and Germany, and Germany is still in some sort of emerging markets trajectory at this stage, and U.K. took a bit more time. You remember we said, yes, there are reasons for this. One is we have the level of the ratio, the proportion of core categories divided by the total business is lower and so the impact is very high per category, but obviously on the global basis it takes more time. That's one thing. Second, we have, for a variety of reasons, obviously, the (inaudible) being one, is that we had to digestion various—and Jason explained this—we had to digest quite a series of price increase, which by definition takes a bit more time in terms of volume and value expansion.

But, overall, it's a great situation. When you see behind the numbers, and that's very important, you see definitely in the U.K., is the brand equity is doing well in the three countries, so the three countries obviously are the growth engine for the whole organization and we're very pleased to see that U.K. is now joining the other two. Does it answer your question, Steve?

Steven Strycula:

Yes. That was helpful. Can you comment on Italy in terms of, like, the slowdown there a little bit? I know you guys have had really strong comps there for a while, but I'll pass along after that. Thanks.

Stéfan Descheemaeker:

Yes. Let's say, Italy, the category as such, especially in January and it's coming back now, January was—the category was declining, so it was in negative territory. But one thing that hasn't changed is we keep, obviously, over time is we keep getting market share, so it's doing well. The beginning of the quarter was a bit difficult and now we're getting back on track. Very pleased.

Steven Strycula:

Thanks. Good quarter.

Stéfan Descheemaeker:

Thank you.

Jason Ashton:

Thank you.

Operator:

We will now take a question from Brian Holland of Consumer Edge Research.

Brian Holland:

Thanks. Good morning, gentlemen. First question, I guess following up on Steve with respect to the guidance, and he probed Q1, but as I look to the balance of the year, Q1 is obviously your easiest comp, if you will; as we go through the year, they get progressively more challenging. If you could just—whatever the highlights you'd like to point to where we can think about whether that's innovation, whether

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that's distribution gains, as we move through the balance of the year that's going to allow you to comp progressively or sequentially tougher numbers and still hit that low single-digit organic growth.

Stéfan Descheemaeker:

Thanks, Brian. Indeed, it's obviously—the whole story in 2018 is obviously growth and growth. That's very simple, and we're starting indeed with the Q1. When you think about it, it's really—this focus behind the core business, behind the core categories of country-by-country, this is exactly what we've been doing in 2017 and we're not going to deviate. I can tell you one of the reasons of the success is it's some sort of, let's say, obsessive very, very disciplined implementation by the whole organization. The thing we're going to do now, obviously, we're going to evolve, improve, obviously, the strategy behind, obviously, networking management moving to the next step, making sure that all the other countries are moving to the next step. You remember also that the first piece of the trajectory we're really focused behind renovation. Now we're starting to move back to innovation, big bets behind key categories and behind key trends, and the frozen food category works well with the key trends, and that's going to come obviously in Q2, Q3, Q4. This is the kind of programs we're going to activate further in the second part of the year, but obviously starting already in Q2.

So, yes, to your point, the comps are getting, obviously, more demanding, which is the name of the game, but we look forward to making it work.

Brian Holland:

Thanks. That's helpful. If I move down to the EBITDA guidance that you provided for the year, I guess, if you back out Goodfellas, you're kind of implying something close at the midpoint to about 5% EBITDA growth. Clearly, in hindsight, guiding a little bit conservatively on '17 served you well and I think it makes sense to guide appropriately, use appropriate conservatism as you guide going forward. But, if I'm just asking, within the context of that mid-single-digit EBITDA growth, because if I think about '16 to '17 you obviously reinstated the bonus scheme in '17, so that was a drag. So, if we just back out Goodfellas, is there anything else kind of important that would—because I think you still have a lot of a low-hanging fruit to attack here, whether that's the last of the Findus synergies, whether that's your network management initiatives, revenue management, etc. Is there anything in '18 that would weigh on the margin on an organic basis that we should be thinking of that would maybe be mid-single-digits organic instead of high-single-digits?

Stéfan Descheemaeker:

No. I think you're right. But let me, again, pause and come back to what we said one month ago, less than one month ago in (inaudible). We said the model in frozen food, which is a great category, the model for us as the country data, the frozen food industry in Europe is very simple. It's starting with low- single-digit organic revenue growth, which is based on something like 1% plus natural trajectory of the category as such, plus market share increase. That's one piece.

From there, obviously we're going to make the non-provisional (phon) leverage work and that should lead us to the mid-single-digit EBITDA growth. Then obviously on top of that, for things like, for example, obviously starting in 2019 obviously, because that's (inaudible) when the synergy are going to start to kick in, things like Goodfellas should improve the whole thing.

But let's say the algorithm, which is low-single-digits growth, organic revenue growth translated into something like the mid-single digits organic revenue growth, I think there is nothing conservative. It's just pragmatic and practical and realistic. Again, back to our guidance, as we said, off to a good start, but also very early in the year.

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Brian Holland:

Last one for me. Forgive me if you addressed this in your prepared remarks and I missed it, but is there any guidance for '18 free cash flow generation and then the extent to which restructuring and nonrecurring winds down, if there's a way to think about that? Thank you.

Jason Ashton:

Yes. Sure. As you can see, we didn't give free cash flow guidance. I guess just stepping back, our guidance practice is evolving to conform without (inaudible) you can see that for the first time we are guiding to EPS. That said, we are expecting another strong year of free cash flow in 2018 with parameters that are very consistent with what we saw in 2017, starting with the goal of our strategic goal of free cash flow conversion of 90%. Also, as you pointed out, we're expecting a meaningful decline in nonrecurring cash charges in 2018 and we're expecting in the region of $65 million of nonrecurring costs, which includes integration from Goodfellas and remaining Findus integration costs.

Does that answer your question, Brian?

Brian Holland:

Yes. That's helpful. Thank you.

Operator:

We'll now take a question from Bill Chappell of SunTrust. Please go ahead.

William Chappell:

Thanks. Good morning.

Stéfan Descheemaeker:

Morning.

Jason Ashton:

Good morning.

William Chappell:

Just wanted to follow up on Goodfellas and kind of the commentary. Do you expect both on the gross margin and EBITDA margin to get closer to Company averages as we move this year, or is that really more of a '19? Then longer term, is it to believe, I think you said the gross margins were below, but EBITDA margins weren't that different. Is it a thought that the Pizza category and Goodfellas in particular can be higher than corporate average or do you need to spend more money back in kind of marketing advertising to kind of keep it going?

Jason Ashton:

First of all, Goodfellas has a lower gross margin profile, as we said in the remarks. Goodfellas is a strong brand but has had a high level of promotional intensity over the last two years. We very much believe

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applying the Iglo, the Nomad growth model, and investment in the media that we can drive gross margins more to the legacy business and is in fact what we did in the U.K. with the margin profile there. It's also fair to say there is a percentage of that business which is a very efficient private label business which has a lower gross margin profile and lower SG&A. The difference of EBITDA is much lower than the legacy business because of the lower SG&A costs. It's a fraction of the EBITDA margin than it is of the gross margin.

Stéfan Descheemaeker:

But back to your point, we're going to do exactly what we did with the rest of the business. We're going to apply our playbook; we're going to reinvest behind the brands, and then obviously we'll be in the position to clear really the network management program that we have in place, based obviously on the stronger brand. That's the playbook we played, I think quite successfully in other countries and we believe that Goodfellas has what it takes to go the same way.

William Chappell:

Got it. But I guess the last playbook took us about three years. I assume that this is more of a 12-month type playbook?

Stéfan Descheemaeker:

We said two years.

Jason Ashton:

Two years.

Stéfan Descheemaeker:

Two years, starting from closing. Yes, two years.

William Chappell:

Got it. So, we should be expecting…

Stéfan Descheemaeker:

The first part is the reinvestment, which is normal, and the second part is really then preparation, it's obviously networking management, and gross margin expansion. Though obviously we first need to make sure that the brand is strong enough, and that's what we're doing. But it's not three years, it's two years.

William Chappell:

Okay. Then just in terms of commodity outlook as we start the year and kind of where you stand and what type of headwind or tailwind that plays into your numbers?

Stéfan Descheemaeker:

Well, at this stage we are reasonably confident. You mean overall in commodities, we're reasonably confident, yes, absolutely. Obviously, there are some headwinds and tailwinds, but overall, we have a pretty good view of where we stand.

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William Chappell:

So, nothing on Fish and Vegetables that we should worry about at this point?

Stéfan Descheemaeker:

No. No. It's part of our program. That's our job.

William Chappell:

Got it. All right. Thanks so much.

Stéfan Descheemaeker:

You're welcome.

Operator:

We will now come to a question from Rob Dickerson of Deutsche Bank.

Robert Dickerson:

Great. Thank you. Back to the free cash flow for the year, I know, like you said, you're not giving official guidance, but at the same time there's a meaningful decline in restructuring costs. I know you had (inaudible) legacy tax, cash contribution this year here. You had the refi, right. Kind of part of the larger story has kind of been the ability for that cash flow to kind of uptick in '18. While I understand there may be some upfront investment requirements in Goodfellas, I'm also just curious, in '19 could there be other events such that you would allocate incremental cash that you have or excess cash not only just M&A but to potential share repurchase activity as we saw in '18? Thanks.

Stéfan Descheemaeker:

Let me just—you're right; (inaudible) Goodfellas. I think we also can improve our supply chain, so that's the one thing. Then in terms of—obviously, we've proven in 2017 that we are doing the right things in terms of value creation, can be a share repurchase—that's fine—and at the same time we're also contemplating, we're considering the different options to improve our footprint M&A wise. So, it's going to be, as usual, the right balance between both. We've proven in 2017 that we can do it and obviously we're going to be very mindful of value of shareholders value creation between both share repurchase of, obviously, M&A.

Robert Dickerson:

Okay. Great. Then in terms of Goodfellas, I think everyone who follows the Company understands that Frozen Pizza is an incremental category for you; there seems to be this good opportunity for you to prove the overall profitability of the business with revenue management; and incremental upfront investments. But just kind of more generally, do you see this very clear path to share opportunity and, let's just say, just in the U.K. and Ireland, because you don't see innovation coming from competition? I think you've spoken before about these larger frozen pizza companies in Western Europe who maybe haven't allocated the right amount of attention or capital of A&P, what have you to the category. I guess, first, assuming you can deploy your revenue management capability and skills you've built up over all the years, is there this other part that you really think leads to this great opportunity and share gain, and then also category

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growth kind of in line with what you're seeing in the rest of your portfolio? That's it and I'm going to pass it on. Thanks.

Stéfan Descheemaeker:

Yes. Let me start with the last part of your question. Pizza actually is growing even faster than the rest of frozen food, so that's pretty good. It's obviously a very good category from that standpoint. Back to your first part of the question, I would summarize by saying one thing: today, we have frozen foods and we definitely believe that this Company is going to be better served, I mean Goodfellas being part of Nomad Foods because we live, and we think in terms of frozen foods. Then on top of that, Goodfellas is going to obviously be further leveraged with obviously the footprint of Birds Eye, so the combination is really great and that's the kind of thing that you need to have in mind, on top of, obviously, things like networking management and the rest of it.

So, think of, number one, it's a great category that is growing faster than the others; that's one thing. Second, where, let's say, Goodfellas was part of a larger organization and not necessarily strategic and core, definitely its core for us. That's the second piece. The third piece is now it's going to benefit of the larger infrastructure of Birds Eye; and, number four, yes, we have demonstrated during the last two years with programs like networking management and brand building that we can obviously, I mean, accelerate the top line. I think that's the key things you have to keep in mind when you think about Goodfellas and the rest of the organization.

Robert Dickerson:

Thank you, Stéfan.

Operator:

Our next question today comes from Adam Mizrahi of Berenberg. Please go ahead.

Adam Mizrahi:

Hi, guys. Quick question firstly. What's part of the delay in expected closing date for the Goodfellas acquisition?

Stéfan Descheemaeker:

Okay. It's very simple. Number one, it's a carve-out, so as usual with a carve-out, it's obviously a bit more complex. In the meantime, the business is doing pretty well, so, for us it doesn't make any difference. We're actively working with the sellers to make sure that the carve-out is going to be fine and that we're going to be (inaudible) original from the sale (phon) of good company. So, nothing to worry about, to make it simple.

Jason Ashton:

Both teams are working very hard to finish that carve-out.

Adam Mizrahi:

Great. Then you've talked already about Germany and Italy performance at the start of 2018, but I'd be interested to hear how you see the drivers of gross margin expansion differing this year relative to last year as a geographic mix tailwind to gross margin from growth of these two countries eases in 2018.

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Jason Ashton:

Yes. As you quite rightly said, parts of the shareholder value algorithm is gross margin expansion and we expect gross margin expansion in 2018. But below 2017, and as you know in 2017 mix was a big tailwind, so we have the three legacy Iglo markets growing very strongly and the activation of the must-win battles, and that growth will not be as strong in 2018 as we more normalize to low single digits.

Adam Mizrahi:

Okay. Then if I can finish with a more thematic question; are there any improvements that you can make to your own business to accelerate top line growth beyond low single digits, or do you see that level of growth as conditional and then across-the-board improvement in the underlying savory frozen foods market?

Stéfan Descheemaeker:

When you think about the current algorithm, to your point, Adam, if you're starting from—low single digit revenue growth, starting from a 1% plus category as such, there is obviously so much you can do. There's a lot you can do in terms of market share improvements in terms of mix, but, overall, long-term, yes, definitely we believe that there is something more that we can do with the category. But as I said, and we haven't changed our message, starting with (inaudible) before, that's the kind of thing that's going to take a bit more time because you have to change the consumer perception, but that's our job. You can imagine that so far that's exactly our algorithm and at some stage, with the brand development, with the category development, and by CSR, and we're going to spend quite some—we're going to invest behind these things, we're going to be serious about it, and it's not going to be serious but for one quarter or two quarters. Once you decide to do this, to improve the perception of the category you have to do that seriously, quarter after quarter after quarter. But definitely we believe that over time it's going to really help the category to move to a higher level and then we will talk, Adam, we will talk.

At this stage it's low single digits organic revenue growth, and if we do the job correctly in the future, nothing is excluded.

Adam Mizrahi:

Great. That's it for me. Thank you.

Operator:

Ladies and gentlemen, we have time for one more question. That question will come from John Tanwanteng of CJS Securities.

Stéfan Descheemaeker:

Hi, John.

John Tanwanteng:

Good morning, gentlemen. How are you doing?

Jason Ashton:

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Hi, John.

John Tanwanteng:

How should we think of Goodfellas from a strategic viewpoint? It sounds like it only has modest synergies with the existing seafood business. Should we expect it to be the first step of a bigger push into the pizza category either on an organic or inorganic basis, just thoughts on that?

Stéfan Descheemaeker:

Let's put it that way. When you think about Goodfellas, the first thing in a pragmatic way that you have to make it work is it's a very strong number two player in the U.K., the strongest number-one player in Ireland, and we're going to improve that part of the equation. That's the first thing we have in mind and that's part of our business plan.

Then, obviously—and obviously you have noticed—that we mentioned that overall in Europe it's a very interesting category. It's the number-two category after seafood and so we're going to learn. We're going to learn a lot. I think there is a natural proximity between pizza and the other frozen savory categories, like seafood, like vegetable, and then we will examine other things. But the first thing is obviously let's make it work, let's learn a lot, and then, obviously, there is a natural progression. I would put it that way.

John Tanwanteng:

Okay. Great. Just a broader M&A question; while you are closing Goodfellas, have you paused looking at other acquisitions, and if you haven't, what does the landscape look like out there from a valuation number of opportunities standpoint?

Stéfan Descheemaeker:

Okay. The answer is we haven't paused, and the second part of the answer is obviously we're not going to mention what it is by definition. But it's very much in line with our criteria and obviously combined with our role as category leader.

John Tanwanteng:

Got it. Would you view something in pizza more attractive relatively at this point or something more in your core seafood categories?

Stéfan Descheemaeker:

Everything is core, right? No. Let's say frozen food is core.

John Tanwanteng:

Great. Thank you very much.

Stéfan Descheemaeker:

You're welcome.

Operator:

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That will conclude today's question-and-answer session. I would now like to turn the call back to Mr. Stéfan Descheemaeker for any additional or closing remarks.

Stéfan Descheemaeker:

Thank you, Operator. Yes, we're very pleased to have delivered, as I said, a stellar year of performance in 2017 capped by a very strong fourth quarter. We're growing our top and bottom line with a focus on profitability and cash flow and look forward to building on the strong foundation with another year of growth in 2018. We're off to a strong start in Q1 and look forward to updating you on our progress on our next call in May.

Operator:

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

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