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Nomad Foods

Third Quarter 2018 Earnings Conference Call

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PRESENTATION

Operator:

Good day, everyone, and welcome to the Nomad Foods Third Quarter 2018 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, Operator, and thank you all for joining us to review our third quarter 2018 earnings results. With me on the call today are Chief Executive Officer Stéfan Descheemaeker, and Chief Financial Officer, Samy Zekhout.

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

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

Finally, please note that certain financial information within this presentation represents figures for 2017 and 2018, and that all adjusted figures have been adjusted for exceptional acquisition-related and share-based payment and related expenses, and that all comments from hereon will refer to those adjusted numbers.

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

Stéfan Descheemaeker:

Thank you, Taposh, and thank you everyone for joining us on the call today. Early this morning we reported third quarter financial results which reflect another quarter of solid progress against our strategy.

Highlights from the third quarter include organic revenue growth of 1.9%, adjusted gross margins of 28.4%, reflecting 50 basis points of improvement before the adverse effects from an unfavorable pea harvest and acquisition mix; Adjusted EBITDA was €84 million, representing an increase of 7% year-on-year; and finally adjusted EPS growth of 8% year-on-year to €0.26 per share. Based on our year-to-date results and visibility into the remainder of the year, we are raising our full-year guidance to the upper-end of the prior range.

Turning to Slide 4, I would like to provide some more detail behind our third quarter performance. Third quarter organic revenue growth was 1.9%, representing a seventh consecutive quarter of organic growth for Nomad Foods. Through the first nine months of 2018, organic revenue growth was 2.1% with balanced contribution between volume and price. We experienced strong performance in many of our largest markets during the third quarter, notably the U.K., which was once again the standout performer with organic revenue growth of 5.8%.

U.K. growth was broad-based and led by fish and poultry. The U.K. has benefited from strong marketing campaigns all year, including our new Captain campaign, which I'm proud to say was recently recognized as Brand Relaunch of the Year by the U.K.'s Food and Drink Federation. Strong execution of the U.K. is leading to increase in market share, higher household penetration, and a significantly healthier dialogue with our trade partners. Overall, we're very encouraged to see the U.K. hitting its stride with strong year-to-date results, providing a solid foundation for the Birds Eye Team to integrate our recent acquisitions, Aunt Bessie's and Goodfella's.

Turning to other country highlights during the third quarter, Italy and Germany grew 3% and 1% respectively, on top of very healthy growth rates a year ago. Other notable highlights include Austria, which grew double digits, and the Netherlands which grew mid-single digits. Sweden, which remains in turnaround, was effectively flat in Q3 after declining in the first half.

We successfully navigated through unseasonably warm temperatures in Q3, which as in the second quarter, held back consumption of frozen food and resulted in a category which was effectively flat.

As Samy will describe in more detail, weather also had an adverse impact on our pea harvest which negatively impacted gross margin during the third quarter. Importantly, harvest uncertainty was factored into our prior guidance with Q3 capturing the last majority of the cost impact. Overall, we are pleased with our results and the way the team has managed through the challenging external conditions. More importantly, we are happy to see the harvest issues behind us.

We continue to upgrade our portfolio through a combination of renovation and innovation. On the renovation front, we brought our new Captain campaign to Germany in the third quarter and the results have been outstanding. Similar to what we have seen earlier this year in other markets, IPSOS tracking results for this new campaign are well above normal. Indeed, German consumers are making both a strong connection to the Iglo brand and recognizing our message around the fact that our fish is real food, simply made.

Q3 also marked the launch of several new innovations as we began to more closely align our portfolio with emerging consumer trends, such as plant protein, convenience and health and wellness. We've been quite pleased with the trade's response to our new products, which are attracting Millennials to our brands and to the category. While still very early, we are happy with the progress and look forward to updating you in the coming months.

Moving on to M&A, we're seeing strong performance from our recent two acquisitions, which are growing nicely on the top-line. Gross profit and EBITDA are consistent with our expectations. Since closing on Aunt Bessie's and Goodfella's earlier this summer, we've been working hard to develop the optimal organizational structure for these brands to be managed under one roof, along with Birds Eye. Last month, we finalized and announced these plans, which will become fully in place in the New Year.

With the team now finalized, we have already started to apply our growth model and strategic framework in both Aunt Bessie's and Goodfella's. In fact, our existing strong trade relationships have also opened up new business for the Aunt Bessie's brand, earlier than we had originally planned.

Turning to Slide 5, we are also making good progress on the commercial integration. At Aunt Bessie's, we recently launched a brand new marketing campaign designed to increase midweek consumption of the roast dinner occasion. The new campaign, titled "Bring out the Bessie in you", marks a new and exciting era for this beloved brand. We expect to build on the momentum of this new campaign in the coming months.

We are also working on the full relaunch of the Goodfella's pizza brand, which we expect to go live in the Spring of 2019. As part of the relaunch, we will be making noticeable enhancements across all the dimensions of the marketing mix, including advertising, packaging, and product quality.

Overall, both businesses are performing well this year and are expected to begin their transformations in the coming quarters which will drive top-line performance and enable the realization of synergies and, consequently, higher gross margins.

To summarize, we are pleased with our third quarter and year-to-date financial performance, which were achieved against more difficult year ago comparisons and particularly the challenging weather conditions this summer.

With two months remaining in the year, we're now tracking towards the upper-end of our prior guidance range, which represents another year of solid organic revenue and Adjusted EBITDA growth. As we look out to 2019 and beyond, we're excited by the opportunities ahead for our business and the category. European frozen food remains a dynamic growth category, and our market-leading brands are well-positioned to continue to gain market share.

We have good momentum across our markets, a proven toolkit of capabilities, and the right playbook to grow, both, organically and through acquisitions. Most importantly, we have the right team in place along with a winning culture. This will prove fundamental for 2019 and beyond as we actively manage raw material inflation, notably in fish, and gain more clarity around Brexit. In net, we look forward to reinforcing the sustainably of our growth model and delivering against our long-term growth algorithm for years to come.

With that, I will hand the call over to Samy to discuss our financial results in more detail. Samy?

Samy Zekhout:

Thank you, Stéfan, and thank you all for your participation on the call today. Turning to Slide 6, I will provide more detail on our key third quarter operating metrics, beginning with revenues which increased 15.6% to €531 million, driven by 1.9% organic revenue growth and 14.7 percentage points from the recent acquisition of Aunt Bessie's and Goodfella's. Foreign exchange translation offset revenue growth by one percentage point during the third quarter.

Moving on to adjusted gross margin, which were 28.4% in the third quarter and declined 190 basis points year-on-year; however, gross margin increased 50 basis points when excluding two transient factors. First, 90 basis points related to an unfavorable harvest, mainly in peas; and second, 150 basis points of mix related to the inclusion of Goodfella's and Aunt Bessie's revenue, which carried lower gross margins than the base business.

I'd like to discuss each of these factors in more detail, beginning with the base business which experienced 50 basis points of underlying gross margin improvement during Q3. The improvement was once again driven by volume mix and price and promotions. We are pleased with this outcome which reflects the investments we're making in our core portfolio and net revenue management capabilities.

Turning to the harvest, which had a negative gross margin impact of 90 basis points during the third quarter but only 20 basis points when taken in the context of the first nine months of the year. As was widely discussed in the press, 2018 was one of the hottest and driest summers on record across most of Europe. As a result, many vegetable producers experienced crop shortages and higher expenses.

For our business, this effect was most noticeable in peas, which have a particularly short harvest window and with great sensitivity to weather. The P&L impact from other crops is expected to be relatively minimal. From a P&L perspective, the large majority of the harvest related impact on gross margin has been captured in Q3. In addition, the team has successfully secured alternate sources of pea supply for 2019. And when factoring in price, promo, and PPA levers, the financial impact of the harvest on EBITDA should be negligible in 2019.

The other factor impacting Q3 gross margins was a 150 basis points year-on-year dilutive impact from the inclusion of revenues from Goodfella's and Aunt Bessie's, which, for now, carry a lower gross margin than our base business. This impact was slightly below our expectations, mainly due to the fact that the acquisitions are outpacing the prior revenue predictions and, to some extent, skewing slightly to our lower gross margin channels.

Overall, we are pleased with the performance of the acquisitions, whose gross profit and EBITDA performance are tracking very much to plan. We are eager to activate our commercial plan at both brands in the coming months, which will enable us to drive synergies and gross margin expansion in the years to come.

Looking out to Q4, we expect to see the sequential improvement in our consolidated gross margin rate as we move past the harvest.

Moving down to the rest of the P&L, adjusted operating expenses increased 12% year-over-year, primarily due to the inclusion of acquisitions. Within operating expense, A&P increased 18% due primarily to acquisitions and phasing as we rebalanced our A&P spend more towards Q3 than in prior years. Indirect expenses increased 8%, again driven by acquisitions.

Adjusted EBITDA was €84 million, representing 7% growth versus the prior year. Adjusted EBITDA margin of 15.8% compared to 17.1% in the year ago period due to the aforementioned factors. Adjusted EPS was €0.26 for the quarter, an increase of 8%.

Turning to cash flow on Slide 7, we generated €100 million of adjusted free cash flow throughout the first nine months of the year, which equates to operating cash flow conversion of 51%. Factors contributing to the free cash flow through the first nine months of 2018 are as follows: Adjusted EBITDA of €276 million, which grew 12% year-on-year; working capital was €116 million offset due to the seasonal effect of harvest, phasing and acquisitions; capex was €18 million, below last year due to the anniversary of machinery and equipment purchases related to the Findus integration; cash taxes were €11 million; and finally, cash interest and other were €31 million.

Notwithstanding a number of transitory factors during Q3 and throughout 2018, we remain committed to generating strong free cash flow and continue to expect cash flow conversion to be approximately 90% by year end, once working capital seasonality are reversed in our favor.

Turning to Slide 8 on 2018 guidance, which is based on foreign exchange rates as of November 8, 2018. Based on year-to-date performance and visibility into the rest of the year, we are raising our full-year 2018 guidance to the upper-end of the range. We now expect 2018 Adjusted EBITDA at the upper-end of €365 million to €370 million and adjusted EPS at the upper-end of €1.14 to €1.17 per share.

When translated into U.S. dollars, the currency in which our shares trade, adjusted EPS guidance equates to a range of USD$1.30 to USD$1.33 per share. Full-year guidance continues to be based on an underlying assumption of low single-digit organic revenue growth.

Based on current exchange rates, we expect FX translation to represent approximately 30 basis points of drag on reported revenues in the fourth quarter, and 90 basis points for the full year. Full-year guidance continues to include approximately €20 million of expected EBITDA contribution from the combination of Goodfella's and Aunt Bessie's. As a reminder, this contribution will reflect eight months of ownership of Goodfella's and six months of ownership of Aunt Bessie's in 2018.

Looking out to Q4, we expect to report another quarter of low single-digit organic revenue growth. In addition, we continue to expect stronger year-on-year EBITDA growth in Q4 versus Q3, reflecting contribution from acquisitions and sequential improvement in our gross margin rates.

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

Operator:

Thank you, Sir. If you'd 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, that is star, one to ask a question.

We will hear first from Steve Strycula of UBS.

Steven Strycula:

Hi. Good morning. Samy, a quick question on the pea harvest, just wanted to walk through the treatment of the accounting a little bit. Can you help us understand do you really record the raw material inflation upfront in third quarter and it's largely contained there and we should receive a little bit of a benefit from pricing as it pushes through the retail system in Q4 and beyond? Can you walk us through those mechanics? Then I have a quick follow-up. Thanks.

Samy Zekhout:

Sure. Thank you, Steve. Yes. Actually, the mechanics is pretty simple. When you have effectively a poor harvest as the one we have experienced, you get lower volume and therefore when you buy the product, which we do upfront because we freeze and store the product, actually recognizing our inflation upfront. That was exactly the impact that we incurred over Q3. Then once it is in our inventory, then the sellout happens in the following quarters, so it allows us to incur the cost in Q3 and after that you reflect intervention in the following quarters as you mitigate the exposure driven by the higher costs, either through pricing or order effect.

Steven Strycula:

Okay. Great. Then a question for, I guess, both you and Stéfan. From a revenue piece perspective, Stéfan, how should we think about the customer orders coming in for Aunt Bessie's and for Goodfellas; are they coming in line with plan, a little bit better? Then from a cost perspective, as you think about the integration, when should we start to expect the synergies start of flow through; is that a Q4 event or is it really not until the beginning of 2019? Thanks.

Stéfan Descheemaeker:

Okay. Starting with your first question, actually, sales are getting better than expected, I would put it that way compared to our business plan. Topline synergies are starting to come in; for example, access to our network, access to some of our trade relationships, for example, definitely have helped Aunt Bessie's. At the same time, that's exactly not as we mentioned. Obviously, to some extent, this is partly also lower mix in terms of trade, so that has an impact on gross margin. But, very pleased with what we've seen.

In terms of synergies, the majority of the synergies will come next year, so first half of '19. We're seeing already, obviously, some early signals of the synergies, but most of them will come in '19 and in '20.

Does that answer your question, Steve?

Steven Strycula:

Yes. Thanks. I'll pass it along.

Stéfan Descheemaeker:

Okay.

Operator:

We'll move to our next question from Rob Dickerson of Deutsche Bank.

Rob Dickerson:

Great. Thank you. Stéfan and Samy, more of a kind of bigger picture question with respect to '19. I know historically you've shown this slide, right, that shows kind of your net revenue management capabilities inclusive of your capabilities, promos, price, price pack architecture and trade terms. It's kind of always showed the 2019 as really when essentially all the stars align. When we look at Q3, which is a good thing, right, we're not really seeing much pricing yet; we're seeing strong volume growth on top of a very tough year ago compare, which signals that hopefully consumer response and retail response and the new innovation in the base business remains strong.

As we think out to 2019, are we thinking there might be a bit more price or there might improve price pack architecture benefits such that you could hopefully keep the volume momentum, but we start to see a little bit more price so there could even be an acceleration on the top-line, or not? Thanks.

Stéfan Descheemaeker:

Okay. Thanks, Rob. Let me start first with Q2, Q3 because just a little correction. There was obviously a bit of phasing between Q2 and Q3, so promotions were much more—were re-phased from Q2, Q3, though, that's one of the reasons obviously you see that the 10 basis point from price and promotion. That's one thing. Second point, you're absolutely right. We've worked very hard and we see the results in terms of net revenue management, which is really something that is one of our strong points. It's about promotion efficiency, but also price. Then as we said, we're working very hard right now in terms of preparation of these plans. As we know, the environment is more inflationary, especially in fish, and so that's definitely the kind of things we are working on right now. U.K., for example, which always comes ahead of the other countries, is really working hard right now with the trade, but very, let's say, in a very positive way how to obviously make sure that things are going to be reflected in 2019. So, that's that.

So too early to say, premature to say, but net revenue management and a combination with very strong brands obviously will help to pass the pricing increases in '19 as a result of obviously a more inflationary environment in commodities. At the same time, the momentum is very strong, which always helps, when you have a conversation with the trade.

Rob Dickerson:

I'm sure it does. Then quickly, Samy, just some perspective on SG&A for the quarter and kind of go-forward expectations; the Company did better than expected; decent amount, I think, relative to where a lot of people were forecasting for the quarter at SG&A, but it's not due to a pullback in advertising or brand support. Just wondering were there more efficiencies than you had thought in the quarter or is it just general, s Stéfan said, could there be a bit more synergistic benefits coming through a little bit earlier, and therefore, as we look into Q4 and go-forward that maybe the SG&A is a bit more efficient than we had thought? That's it. Thank you.

Samy Zekhout:

Yes. No problem. Thank you. Thank you for the question, Rob. We have only seen actually an end-year shift of about €2 million to €3 million from the Q3 to Q4, primarily together with our business plans, but as indirect are concerned there's no change with the plan, I mean, for the total year. So it's primarily phasing. We definitely are determined to continue to invest in our brand and continue to leverage our expense discipline, but versus the plan, we are exactly on par versus the full-year plan.

Rob Dickerson:

Perfect. Thank you.

Operator:

We will go to our next question from John Baumgartner of Wells Fargo.

John Baumgartner:

Good morning. Thanks for the question. Samy, just in terms of the M&A, on the margin front, I think you—excessive trade promotion has been an issue for I guess both of these businesses. Where do you stand right now in terms of adjusting those programs? How far along are you at Goodfella's? Then I guess given Aunt Bessie's only closed in July, is it too soon to think that we can see a material benefit in merchandising already in Q4? I mean, how should we think about the phasing there?

Stéfan Descheemaeker:

I think you're right. I would advise you go back to our growth model and the Must-Win Battles where we really worked very hard for each and every Must-Win Battle, which also has to be ready with obviously the right packaging with the right quality with the right advertising and all these things. Then from that moment, when you're ready, one after the other, then you can really go through the full growth model, including obviously how to reduce promotion, how to be more efficient in terms of promotion, I would put it that way. Just consider these businesses as Must-Win Battles, exactly the same way. We're not going to change. It takes a bit of time, but more than ever we've come to the conclusion you first need to have all of the components of your fly wheel ready, so then as come with the full story.

Aunt Bessie's is going start a bit earlier. As you can see, we already started with a new advertising campaign. Goodfellas is coming in Q1. As we said, we first need to make sure that we have the right quality, the right packaging and the right advertising, and so that's exactly what we're going to do. We're not going to deviate. That's the only way for us to demonstrate the best efficiency in terms of promotion efficiency. So, that's that.

Bottom line, we're not changing the model. The model works and we don't see any reason it wouldn't work for the new acquisitions.

John Baumgartner:

Okay. Then, Stéfan, I also wanted to touch on your approach to Brexit. We've already heard some reports of food companies stockpiling some inventories in the event that it does take a hard turn. Can you update us on your thoughts and preparations there should negotiations kind of go south and you see a worst case scenario? I mean, how much of a risk could it be?

Stéfan Descheemaeker:

Yes. Let me first start with a bit of background. Business in the U.K. is around 30%, but a good portion of this is also internal because we have a big plant in the northwest of the country, in Lowestoft to be very specific, and we're very pleased with that. From there, obviously you're working from difference scenaros, I would say, the worst case being the terminology—sorry for the terminology, John—but it's a "no deal Brexit"—I'm becoming a specialist—to something which might be a Canada approach which basically wouldn't have a big impact on us, number one, because short-term there will be a long transition; and, second, the tariff will be very low, if any. So we're looking on the different solutions.

Short-term, anyway, to your point, if there is, for example, no deal, we're working on short-term solutions in terms of how to make sure we have the right level of inventory, which, by the way, is better in frozen food. That helps us, obviously, compared to fresh or chilled, so that's a big difference. Then if there is no deal, obviously we will be investigating different solutions between the P&L and cap ex. But part is too early to say. That's going to take more time, but we are monitoring the situation very closely, I'll put it that way.

John Baumgartner:

Okay. Then just one last one if I could, Stéfan. In terms of the innovation in vegetables and the PEASE product, how are you seeing the trade and consumer response to that? I guess going forward, how do you think about your capabilities in the meat-alternative segment; do you need lean more M&A for better capabilities and resources, are there JV partners out there? I guess how fast can you really develop that category relative to any internal constraints?

Stéfan Descheemaeker:

Okay. Let me start with the short term. Overall, I'm just taking even a broader view in terms of innovation, not necessarily limited to plant protein obviously, but plant protein included. The trend acceptance has been very good. Obviously it's with the exception of Portugal, you'll remember, that started earlier. It's too early to say from the consumer standpoint because the first thing is obviously we're loading first and then we see how the impact is. But that said, the very first step, which is very good, the trade likes of products, they're very much in line with the new trends and the rest of it, and it's obviously same thing in terms of PEASE. So, that's very good. But more to come, obviously, in Q1 2019.

Back to the second question, which is should we do this. It's the classical question of buy or build, if I understand your question well. I think it's going to be a combination. We definitely believe we have a lot of expertise internally to build these products, but at the same time you also have to be very open-minded because a lot of things are happening right now in the market, and so, definitely, we have to be open to any new innovations, any new partners. I think more and more things will be more in terms of partnership than anything else, so we're ready for this as well. But, definitely, the starting point is a very strong expertise internally.

John Baumgartner:

Great. Thanks for your comments, Stéfan.

Stéfan Descheemaeker:

You're welcome.

Operator:

Our next question comes from Robert Moskow of Credit Suisse.

Robert Moskow:

Hi. Thank you. Just a couple of small questions. The guidance, can I assume that the guidance for fourth quarter gross margin is that it would still be down year-over-year because of the acquisition dilution, or maybe you gave something more specific that I didn't catch? Then, second, Stéfan, I've got to imagine that private label is raising prices as well in response to the weak crop, so, in your view, is this a pretty logical conversation to have with retailers about private label and brands raising price at the same time? Thanks.

Samy Zekhout:

I'll start first. On your question I would say, yes, it will be down versus last year, but it will be up versus Quarter 3.

Stéfan Descheemaeker:

Back to your second question, Rob. I would put it slightly differently. We are the category leader, so in most of the cases it's our job to start with the price increase. I wouldn't say that we have a dialogue with the trades but definitely we're monitoring afterwards what they're doing with their own private label. I think that's the way it works more than, let's say, an explicit dialogue with them.

Robert Moskow:

Okay. Maybe the follow-up then is, is it pretty logical to assume that the private label pricing will have to move higher and do you have any kind of history to look back on to indicate what private label pricing tends to do in situations like this?

Stéfan Descheemaeker:

The answer is, yes, and as you're starting with the producer, most of the time it's some sort of cost plus, so they're going to be very clinical with how to pass the price increases. It's going to be very much COGS-related. Then obviously how then is it going to be absorbed by the trade; same thing, most of the time you can see the past two years in the U.K. it's been very, I would almost say, mathematical.

Robert Moskow:

Got it. Very good. Thank you.

Stéfan Descheemaeker:

You're welcome.

Operator:

As a reminder, it is star one if you do have a question at this time. We'll go next to Bill Chappelle of SunTrust.

Grant O'Brien:

Hi. This is actually Grant on for Bill. Actually, just had a question following up on that last line; wondering if there's any regions, maybe in particular, where the retailer dynamics are maybe more competitive that it may be more difficult to have those conversations, those pricing conversations, or if, kind of as the category leader, you still feel like you have confidence that it kind of doesn't matter the retailer dynamic, you'll be able to work that pricing through.

Samy Zekhout:

No. A trade is a trade at the end of the day, whether they're coming from Italy or from the U.K. or Germany or France. They are dealing with the same kind of constraints. I think what matters more is overall whether you have the right brands through these guys, and when you see our network and our geography, that's exactly what we have. I would say definitely, not necessarily, by the way, geography-related, but there will be some easier conversations, some others will be a bit more difficult. Fine. But, overall, the fact that we have the right brands, we have the right momentum—we're going to be disciplined as well, by the way, so it's important obviously to pass the price increases because it's also—I mean, it has an impact on the long-term, so it could happen at some stage that the relations will be a bit tense, but it's for the right reason.

Graham:

Got it. Thank you.

Operator:

Moving on, we have a question from Jon Tanwanteng of CJS Securities.

Jonathan Tanwanteng:

Good morning, guys. Thanks for taking my questions and very nice quarter. Any update on the M&A pipeline, what you're seeing there? Does your ability to keep outgrowing a flattish market put pressure on any of your peers who are losing share to perhaps help you?

Stéfan Descheemaeker:

Well, by definition, in M&A you need to be focused and you need to be, at the same time flexible, so we're always looking at new targets, old targets. We're monitoring all the situations. The only thing is by definition, we're never going to comment on what's available and what's not available at this stage, or are we working on this or that. That's exactly what's happened with both, by the way, with Aunt Bessie's and Goodfella's. These are the kind of the situations we have been monitoring for months and sometimes for years. Then the moment it's happening because for whatever reasons the shareholders want to sell, you have to be well-positioned.

The good news is also in terms of frozen food in Europe. We are the leader, which makes obviously the whole situation much easier because, unavoidably, people will come to us, so that's a big plus for us.

Jonathan Tanwanteng:

Great. Thanks. Then just a little more color on the new product development and innovation products you have in the pipeline. Is there a target for what percentage of your portfolio you want to be kind of new innovative products, and just a little bit of color and update on the performance of the newer stuff in Q3 and as you head into Q4 and Q1 what's rolling out?

Stéfan Descheemaeker:

Yes. Well, overall, at this stage we're in the region of 5% and the objective is to go to 10%. We don't want to be dogmatic, but at least it's a good discipline to get there, and we've started really from a low base line. Remember, the priority was first renovation and then move little by little to innovation, especially new trends while respecting the Must-Win Battle"; that was absolutely key for us.

Now, what we can see is, as I said, is that we started probably a bit ahead of time in Portugal, so in Portugal we have both, we have the trade acceptance, which was very good, and that's being reinforced by very, very positive acceptance, but more than acceptance, by the consumers, so to the point that there is really new category of consumers coming to a product with Veggie Power. So that's very positive for us.

Other countries are a bit later, so we have only the step one, which is trade acceptance, which, as I said, it's very much in line with what we've seen in Portugal, so it's a very good acceptance. Time obviously—let's wait until the moment has been fully loaded—Q1 '19—to see what the real consumer acceptance is, but we believe that what we've seen in Portugal should also happen in other countries.

Jonathan Tanwanteng:

Got it. Thank you very much.

Operator:

With no other questions in the queue, I would now like to turn the call back to CEO Stéfan Descheemaeker for any additional or closing remarks.

Stéfan Descheemaeker:

Thank you very much and thank you for joining us on the call today to review our third quarter results. We're on pace to deliver another strong year of top- and bottom-line financial performance and our brands have good momentum in their respective markets. We're making good progress on the integration of our two recent acquisitions and look forward to their transformations in 2019 under the Nomad growth model. Thank you and I look forward to updating you on our fourth quarter and full-year results in early 2019.

Operator:

Thank you, everyone. That does conclude the call. We would like to thank you for your participation and you may now disconnect.