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Nomad Foods Limited

Second Quarter 2019 Earnings Conference Call

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John Baumgartner, *Wells Fargo*

Jake Nivasch, *Credit Suisse*

Donald McLee, *Berenberg*

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William Chappell, *SunTrust Robinson Humphrey, Inc.*

Jonathan Tanwanteng, *CJS Securities, Inc.*

PRESENTATION

Operator:

Good day and welcome to the Nomad Foods Second Quarter 2019 Earnings Conference Call. Today's conference is being recorded.

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

Taposh Bari:

Great. Thanks, Shannon, and thank you all for joining us to review our second quarter 2019 earnings results. With me on the call today are Chief Executive Officer, Stéfan Descheemaeker, and Chief Financial Officer, Samy Zekhout.

Before beginning**,** 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 includes cautionary language.

We will also discuss non-IFRS financial measures during the call today. These non-IFRS financial measures should not be considered a replacement for, and should be read together with, IFRS results. Users can find the IFRS-to-non-IFRS reconciliations within our earnings release and in the appendices at the end of the slide presentation, which is available on our website.

Please note that certain financial information within this presentation represents adjusted figures for 2018 and 2019. All adjusted figures have been adjusted for exceptional acquisition-related and share based payments and related expenses, as well as non-cash FX gains or losses. All comments from hereon will refer to those adjusted figures.

Finally, users should be aware that 2019 figures have been presented in accordance with IFRS 16, the new standard for lease accounting. As such, certain financial metrics may not be directly comparable to 2018 figures. However, we have disclosed the impact of this change in the press release, or where the impact on comparability has been deemed material.

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

Stéfan Descheemaeker:

Thank you, Taposh, and thank you all for joining us on the call today. Earlier today we reported second quarter 2019 earnings results, and we reiterated our full-year guidance.

Highlights from the second quarter include; Organic revenue growth of 3.5%, driven by 4% growth from price offset by a 0.5% decline in volume and mix; Adjusted gross margins of 29.8%, reflecting a 70 basis point decline in the base business and 90 basis points decline due to the inclusion of acquisitions; Adjusted EBITDA of €98 million, representing growth of 10% and Adjusted EPS of €0.27 per share.

We're pleased with our performance during the second quarter which represents the 10th consecutive quarter of organic revenue growth for our Company. This trajectory of sustained growth has been fueled by the investments we've been making in our brands, our people, and our capabilities while also strengthening the long-term potential of our portfolio.

Growth during the second quarter was again led by our branded business, which grew 4.5%. Within our branded portfolio, our core, also known as our "Must Win Battles", grew 7%. We achieved growth in nearly every major core category including Fish Fingers, Coated Fish, Recipe Fish, Spinach and Local "Must Win Battles".

We experienced particularly strong growth within our vegetables portfolio, which grew 6% during the quarter. This growth was driven by strong execution of spinach products combined with a favorable response to prepared vegetable products such as our recently launched Veggie Power innovation.

Geographic performance during the second quarter was once again relatively broad based with most of our countries achieving growth. Growth was particularly strong in Germany, Austria and the Netherlands, with each achieving organic revenue growth above 10%.

The UK, our largest country, delivered organic growth near 5% with strength in Fish Fingers, Poultry, Vegetables and private label Pizza. The UK also benefited from the launch of Green Cuisine, our new plant protein range, which began shipping in late March.

Within the UK, we rebooted the Goodfella's Pizza brand during the second quarter by launching a new advertising campaign along-side enhanced product and packaging features. As you may have seen in the Nielsen reports, we experienced some temporary revenue declines in the branded pizza business early in Q2 based on our decision to under-promote and to build capacity ahead of the brand re-boot. We are happy to see this strategy play out as expected, with the branded pizza business returning to growth in for the month of June.

Staying on the topic of pizza, we recently began to test the Goodfella's model outside of the UK and Ireland. We are currently piloting the concept in Portugal under the Iglo brand, which actually sold pizza many years ago. We look forward to seeing the results of this test later this year.

That was a summary of our second quarter highlights. Let's now turn our attention to our outlook, both near and long term.

Through the priority of our core, we are developing a strong foundation from which we can build on for years to come. Notwithstanding our performance to-date, we continue to see significant headroom for growth within our core Fish and Vegetable categories. Our core categories are margin-accretive, have market-leading positioning and opportunity for even greater penetration.

The food industry is undergoing a significant paradigm shift as consumers seek out brands which deliver not only on taste, but also on nutrition and on sustainability. We are fortunate to have a portfolio which plays directly into these themes. Our power brands, Findus, Iglo and BirdsEye, are known for providing families with high quality and great tasting meal solutions which are convenient, nutritious and accessible. These brands have incredible awareness built over decades with the potential to be even larger in size.

As we prepare ourselves for the future, we are increasingly focused on evolving our core, which includes Fish Fingers, Coated Fish, Peas and Spinach as well as developing new platforms which play into the growing flexitarian movement. To do this, we will look to leverage the credibility of our brands and the pan-European scale of our operations.

Turning to slide 5, plant protein is one of many exciting innovations in our pipeline. We are developing a differentiated range of meat-free products through our Green Cuisine sub-brand, using pea protein and leveraging our brands' heritage in this protein rich crop.

Green Cuisine was launched in the UK earlier this year and is offering burgers, sausages and meatballs. Early feedback has been positive with excitement building further since our new "Whoops, I'm a Bit Veggie" campaign, which began in late July and will run through early October.

Another innovation success story is Veggie Power, a modern blend of vegetables boosted with healthy grains. This range launched in Portugal last year and has since been expanded to a total of five countries across our portfolio with each market having its own local variation. Results have been very encouraging thus far, reinforcing the potential that we have in vegetable side-dishes beyond Peas and Spinach.

Green Cuisine and Veggie Power are two great examples of our innovation pipeline at work and how we will look to build around our core. They illustrate the number of dimensions that our portfolio has in helping consumers maintain a more sustainable and nutritious diet while still offering superior quality and taste. Green Cuisine provides families with a meat-free product which is healthier than most of our competitors, while Veggie Power provides an innovative way of increasing vegetable consumption.

In summary, we are pleased with our second quarter results, which have us on track to deliver a third year of growth, in-line with our long-term algorithm. Our portfolio is well aligned with the future of food and we look forward to playing a pivotal role in driving growth in both our business and our category. This will be through a combination of organic growth, where we are demonstrating a sustainable model at work. M&A will also play an important role, in due time. We have a strong pan-European infrastructure, integration capabilities and capital to pursue acquisitions which will be accretive to both earnings and shareholder value.

With that, I will hand the call over to Samy to discuss the financials and guidance in more detail. Samy?

Samy Zekhout:

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

Turning to slide 6, I will provide more detail on our key second quarter operating metrics beginning with revenues, which increased 10% to €538 million driven by 3.5% organic revenue growth and 7 percentage points from acquisitions.

Adjusted gross margin was 29.8%, declining 170 basis points year-on-year. Base business gross margins declined 70 basis points as improvement in volume/mix and price & promotions were more than offset by COGS inflation. Acquisition mix negatively impacted gross margins by 90 basis points, and FX a further 10 basis points. These results were largely in-line with our guidance and reflect the shift of Easter promotions from Q1 into Q2, as well as a more normal level of promotions this year versus the prior year.

Moving down to the rest of the P&L; adjusted operating expenses increased 4% year-over-year, primarily due to the inclusion of acquisitions. As a percentage of revenues, adjusted operating expenses improved to 14.7% from 15.5% in the prior year, reflecting acquisition synergies, expense discipline, and phasing.

Second quarter adjusted operating expenses were slightly below our expectations due to phasing. Our spending plans for the year remain unchanged. Within operating expenses, A&P increased 1% and Indirect expenses increased 5%.

Adjusted EBITDA was €98 million and, as expected, included a €4 million benefit related to IFRS 16, the new standard on lease accounting effective this year. Excluding this benefit, Adjusted EBITDA grew 6% versus the prior year. Adjusted EPS was €0.27 for the quarter, declining 4%, reflecting the offering of 20 million shares in March 2019. IFRS 16 did not have a material impact on EPS during the second quarter.

Turning to cash flow on Slide 7, we generated €87 million adjusted free cash flow during the first half of the year as compared to €102 million generated in the same period last year. Factors contributing to adjusted free cash flow performance include; Adjusted EBITDA of €220 million, a 15% year-on-year increase; a working capital outflow of €68 million; capex and cash taxes were both €17 million; and cash interest and other of €31 million due primarily to the reallocation of the lease payments from operating cash flow to financing cash flow as a result of IFRS 16.

We achieved free cash flow conversion of 71% through the first six months of the year, below our long-term annual target of 100%. This performance is partly a function of seasonality given the time of year. With that said, we know we can do better on cash generation and have a series of actions in place to drive stronger cash performance in the back half. However, given the seasonal nature of our cash flows, we do expect working capital to again represent a cash outflow in Q3 as is typically the case due to the timing of the harvest.

We ended the second quarter with leverage in the high 2's which provides us adequate capacity to pursue our M&A agenda. As Stéfan mentioned, we remain active on the M&A front and look forward in updating you in due course.

With that, let's turn to Slide 8 to review our 2019 guidance, which is based on foreign exchange rates as of August 6, 2019.

For the full-year 2019, we are reiterating Adjusted EBITDA guidance of approximately €420 million to €430 million and Adjusted EPS guidance of €1.18 to €1.22. Full-year guidance continues to assume organic revenue growth as a low-single digit percentage rate. Based on current exchange rates, we expect FX translation to represent approximately 70 basis points of drag on reported revenue in the third quarter and 60 basis points for the full year. We expect Adjusted EBITDA growth in both Q3 and Q4 with relatively comparable year-on-year growth rates in each quarter.

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

Operator:

Thank you. Ladies and gentlemen, if you'd like to signal for a question, please do so by pressing the star key followed by the digit one on your touchtone telephone. If you're using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Once again, that is star, one to signal for a question.

We'll take our first question from Steven Strycula of UBS.

Steven Strycula:

Hi. Good morning.

Stéfan Descheemaeker:

Good morning, Steven.

Steven Strycula:

Quick question on revenue and I have a quick margin follow-up question. Stéfan, you mentioned that the core is doing quite strong, up 7% in your organic sales. Just was curious as to what are some happenings in some other pockets of the portfolio right now to have further room for improvement, whether it's pizza or some of what you would call that are not "Must Win Battles"?

Stéfan Descheemaeker:

Good point, Steve. Let me again reiterate the starting point for us. Obviously "Must Win Battles" is critical for us. You may remember that all in together, even including the decline of peas because we didn't have enough peas due to the bad harvest last year, we delivered +7% with "Must Win Battles" for a total of 3.5%, it means that obviously we think some other things that less well. But, again, part of that is a deliberate choice which is let's focus on obviously our key categories where we have leading positions where obviously our gross margin is the highest, and that's exactly what "Must Win Battles" are.

Others - obviously, the nonbranded side is one thing, obviously food service is another. But even within the Brand side, we also have made some deliberate choices. For example, in Norway we have a very low gross margin product, like with red fish, and we just have decided that it was time to delist it because it was just not good. So it has an impact in terms of sales, but, quite frankly, it's really something that we are—it's a deliberate choice that we are making.

Does it mean that we are perfect and that there are other things that we can do better? Absolutely. You're right. In terms of secondary battles there are some areas of growth and pockets of improvements and in food service where we think we can do a better job. That's specifically is going to be a focus for the coming quarters without losing—I can only repeat this 10 times—without losing our focus behind the "Must Win Battles"

Steven Strycula:

Okay. Perfect. Then a question on the margin leverage. As we think about the longer-term goals getting to a 20% EBITDA margin rate, can you help us understand where we are in the journey of, call it, raising the profitability of the legacy Findus business, particularly in the Nordic region which I think has lagged, and then some of the other opportunities of where are we in the process of kind of improving the profitability run rate of Goodfella's and Aunt Bessie's knowing that 2019 was more of a reinvestment year for both of those brands? That would be helpful. Thank you.

Stéfan Descheemaeker:

Let me start and obviously, Samy, please complement if I'm missing something. I'm sure that I'll miss something. But, conceptually, first, I mean, we know that our Fly Wheel is really based on a series of let's say specific tools. The "Must Win Battle" is one; it's really part of our DNA. Obviously the more we are treating for size and the proportion of "Must Win Battles", by definition of your mix, you then increase naturally your gross margin; that's one thing.

The second piece, which has been vital for us throughout the last three years and it's still very important, is net revenue management - plays a significant role. You'll remember that this year we are digest so far an unprecedented level of price increase, so I think we've been quite bold. Obviously, we are not afraid of losing some volumes here and there. Obviously, it has to do with profitability of growth, we're pleased with that.

The third piece is productivity. We still believe that we have more to do in terms of our supply chain, improving the relationship between in-sourcing and out-sourcing, that's one thing; and really, working hard in reinitiating a program this year in ways of raising our standards across the 13 plants we have right now, creating the standard, making sure that, little by little, every plant has reached a status based on the best-in-class KPIs we have. So, a lot of things and obviously we also have the synergies coming from Aunt Bessie's and Goodfella's.

But now back to your more specific question, for example about Goodfella's, I think it's been a very interesting journey. It's been an interesting journey because, let's say, let me put it that way - 50% brand and 50% of private label. We know the journey with brands and we just applied our toolkit, which is we've taken the time just making sure that we have the right packaging, the right quality, we are increasing quality, we have the right copy, the right advertising and then the right price by the way, we've increased price as well. That's one thing.

We are quite pleased with the early results obviously. It's only one month, so it's still too early to say, but it looks good and we will report later, obviously, in the coming quarters.

The second piece, which is private label, that's also interesting because what we've discovered—you have a whole lot of things, very low margin and then very decent margins. I think it's been interesting situation because then we can afford to stop some very, very low margins because you know that your brand, if everything goes right, it's going to take the capacity. That's what we're doing with Goodfella's and then little by little we're going to increase the overall gross margin.

Back to your question about when are you going to reach 20%. As you know, we haven't committed to a deadline. We know that obviously with everything being equal, like for like, we're increasing it. Obviously we never have the mercy of the big spike in terms of inflation is something we did this year. If we would not have come up with price increase this year, our margins would have done very much lower so we're making progress. So that's a journey more than anything else.

Sorry. That was very long.

Steven Strycula:

No. That was very helpful. Thank you.

Samy Zekhout:

The only point that I would add is, on top of what Stéfan said, as you recall, we had made a statement that we would increase as well our innovation space and the share of innovation in our total sales. As you know, we pride ourselves to bring to the market higher margin innovation. That is, as well, part of the help amongst all of the things that Stéfan has mentioned as well.

Steven Strycula:

Great. Thank you.

Operator:

Our next question will come from John Baumgartner of Wells Fargo.

John Baumgartner:

Good morning. Thanks for the question.

Stéfan Descheemaeker:

Good morning, John.

John Baumgartner:

Stéfan, obviously some moving parts with the Easter shift, but even looking at numbers on a first half basis, the volume and elasticity was really fairly resilient given the price increases. I'd just like to get a sense as to your confidence in that elasticity, what you're learning about the pricing power of the portfolio. Then maybe thinking about any cross elasticities, what are you seeing from competing categories; is pricing fairly rational there as well?

Stéfan Descheemaeker:

Let me start with a global statement. I think overall, I think the price elasticity is in line with what we had expected. Obviously, by definition, with variations country by country because to your point at the end of the day most of the time the competition is becoming rational. It is always taking a bit of time to adjust. We've seen some countries doing better than expected, some others it's a bit, it takes a bit more time. But overall we're pleased with the price elasticity and we're pleased with the pricing power of our brand.

John Baumgartner:

Okay. Then just for Samy. Anything worth noting in terms of expectations for pea cost inflation for next year; any comments on the harvest outcome this year? Then on fish, are there any views at this point in terms of the catch rates and any prospects for moderation of the inflation in the fish? Thank you.

Samy Zekhout:

Yes. On the harvest, John, clearly the situation is definitely better than last year. Clearly, the summer has started this year as we've seen some heatwaves, but not to the proportion of last year, and the early reads that we are seeing on the harvest is quite encouraging so far. We're going to know by the end of the August, as you know, because probably on peas that's probably where we have the highest sensitivity given the fact that we get one shot. But I would say so far so good. We should have yields that are better than last year, definitely.

On the fish, what we're seeing is still some increase, some inflation coming up, but definitely not in the same magnitude of what we have seen this year, probably going to be more modest. That's our expectation at this stage.

John Baumgartner:

Okay. Thank you, Samy.

Operator:

Our next question will come from Robert Moskow of Credit Suisse.

Jake Nivasch:

Hi. Thank you. This is Jake Nivasch on for Rob. Just a couple of quick questions. For EBITDA guidance for the back half, it looks like there's going to be some modest growth in the back half, if at all. We're just wondering, is this largely because of the phasing of your ad spending or just slower growth altogether? Just any color there would be helpful. Then I have a follow-up.

Samy Zekhout:

Yes. As you know we are maintaining the guidance, between €420 million and €430 million, and what we can tell you at this stage is when you factor in the actuals that we have at the end of June and the prospect on the basis of our total year outlook we're expecting in each quarter roughly between 8% and 14% per quarter of growth. The spending shift is creating that effect.

Jake Nivasch:

Got it. Thank you. Then the Garden Cuisine brand—I think you guys kind of mentioned this but I missed it—I guess, what's the strategy for scaling this up; is it country by country or is it more of a narrow expansion focusing on just a couple of countries?

Stéfan Descheemaeker:

We've just started with the U.K. The objective is obviously to not limit it to three SKUs, so it's definitely a starting point. Things are going to be much bigger because it's really, I mean, it's very much in line with the flexitarian trend that we can see. We also believe that we have an amazing, let's say, number of SKUs or product that can work in that category today, so even us expanding. More should come in the next months let's say country by country. It's not necessarily going to be called the Green Cuisine in each country because you know that we also have this concept of global / local. The product might be a bit different. Sometimes we have the same chassis but you have to adapt to the local tastes and the local tastes are different and that's something that we believe will be part of our success is to be able to deal with the global, local thing.

I think very, very important, and that's a factor of difference compared to many other, let's say, plant-protein products, we are very much focused on healthy food, so it has to be tasty, definitely very much in line with the CSR concept, but probably, I mean, the differentiating factor with our products is how healthy it is—that in terms of saturated fat and in terms of calories, by the way, calories is also important.

Jake Nivasch:

Perfect. Thank you very much for the help.

Stéfan Descheemaeker:

You're welcome.

Operator:

Our next question will come from Donald McLee of Berenberg.

Donald McLee:

Good afternoon. Two ask questions. The first is on acquisitions. There continues to be a significant driver of top line growth. Could you provide any more color on what's happening with your organic EBITDA excluding Aunt Bessie's and Goodfella's? It seems like that number might be flat year-over-year; is that correct?

Stéfan Descheemaeker:

Can you repeat the question? I'm not sure that I could understand it.

Donald McLee:

Sure. If you can give us any color on organic EBITDA excluding Aunt Bessie's and Goodfella's and how that number has grown or moved year-over-year would be helpful.

Samy Zekhout:

Okay. I had heard something else. Okay. Good. The point here is we don't disclose the EBITDA between the base and acquisition activity.

Donald McLee:

Okay.

Samy Zekhout:

Just a point, I mean, maybe just to give some additional points there, the fundamental, I mean, the message we want to give you is that the fundamentals on the base are strong and we're clearly riding our acquisitions in line with our expectation as well. That's saying that for your own modeling, I think that can be helpful, but we don't break down.

Donald McLee:

Okay. That's fine. I'll follow up after the call.

Stéfan Descheemaeker:

Likewise we are on track and we are on track in terms of synergies.

Donald McLee:

All right. Then the second question is on cash conversion. Could you provide more color on—there's a line item in your cash flow statement, cash paid related to factored receivables. It would be great if you could provide any color on the amount of that actual facility and how it might impact your cash conversion.

Samy Zekhout:

You're speaking about what exactly within the cash conversion. I'm sorry?

Donald McLee:

Yes. There's a $3.1 million payment for cash paid related to factor receivables. I think that's the first time that line has shown up in your statements. If you can give an idea of what's actually happening to drive that cash outflow and then how that impacts your cash conversion.

Samy Zekhout:

We have used factoring based on frankly our needs and the market situation and actually it's not the first time that we're using it; we've been using it historically as well. In December we had about roughly $50 million of factoring and at this stage the exact number is about $33 million, so gradually phasing out depending on the market condition and our needs as well.

Donald McLee:

Okay. Perfect. That's helpful. Thank you for taking my questions.

Operator:

Ladies and gentlemen, once again, if you'd like to signal for a question or if you do have a follow-up question, please press star, one at this time.

We will take our next question from Cornell Burnett of Citi Research.

Cornell Burnette:

Okay. Thank you guys and congratulations on the quarter. Just wanted to make myself clear about some lines with advertising and promotion. I know that the original 2Q guidance called for flattish EBITDA but yet EBITDA improved by about 10%. Just wondering how much of that was due to maybe a shift in advertising and promotion. I know there was about $5 million that was supposed to shift out of 1Q primarily into Q2, but it seems a lot of that has moved back later in the year. So, wondering if that's really the main driver of the upside in EBITDA in the quarter; and, if not, kind of what prevents you from taking up the EBITDA range for the full year if it's really kind of beating numbers as we speak.

Samy Zekhout:

Yes. As we have mentioned in the communication, we are maintaining guidance and what we have seen on the shift is fully driven by the business. We're trying to build our plans on a quarterly basis and sometimes we do see shifts and, for instance from the Green Cuisine launch. The point at which advertising makes sense that we have to achieve a certain set of distribution before we start our advertising and that point of distribution is effectively going to be achieved more in Q3 than it was in Q2, so it made no sense to, frankly, advertise Green Cuisine in Q2 and so we decided to shift there. This is not a cut. I want to be very clear, this is just a shift on the A&P side.

We manage our plan over the year, as well, on the indirect side, so there are moments where some projects are shifting, some resource allocation are shifting as well. At that stage we are fully maintaining our guidance and we are planning effectively to deliver between €420 and €430 million for the year.

Cornell Burnette:

Okay. Very good. Then adjusting, I guess, for the Easter shift, it looks like volumes are running at about a 2% decline, which is really good in light of the four points of pricing that you've been getting. But just wondering, digging deeper into those declines, kind of are they broadly spread maybe across your categories or are they more pronounced in a category like peas where you're dealing with kind of some pea supply issues. Then kind of once these supply issues are out of the way, perhaps in Q4, how do you see that category progressing for you?

Samy Zekhout:

On the volume, as you have noted, we see we can achieve effectively the plan. I mean, what you see on the volume, which is important, is the sensitivity is not just of the pricing, but the PPA has an effect that will affect the price pack architecture in the short-term. I mean, instead of a pack of 12, it's just a pack of 14 because people buy usually things in packs. It does have an impact and all the time people re-enter the consumption based on what they consume. So there's a bit of time always on that front, so that element of volume has an impact coming out there.

What we have seen is effectively that, as Stéfan was saying, the elasticity has responded in line with expectations, proving the fact that our brands are strong and, frankly, can handle pricing. The other piece is the market conditions were clearly, let's say, set to confirm the fact that all of the pricing was justified by inflation. To be fair very well substantiated because not only us but our competitors in the market had moved there because of the raw material inflation that we had seen overall.

Last but not least, on the Easter impact, just a reminder, I mean, we were talking about very roughly a 1.5% shift from one quarter to the other. That was the prime impact that we have seen between both quarters.

Cornell Burnette:

Okay. Then the last one for me is just if you can provide us with an update on how you're planning to position the business heading into, as the October 31 Brexit deadline draws near. Just wondering what contingencies you have in place in case that there's hard Brexit scenario.

Stéfan Descheemaeker:

Okay. But to your point, I think we are preparing ourselves for a hard Brexit or no deal-Brexit, whatever name you want to use. So all in we are ready for this we have all the administrative infrastructure in place, which is absolutely fundamental. To give you a description, in that event, which we believe is likely to happen. By definition, you know that our guidance assumes business as usual until we're notified otherwise. But, I think what's important is in the event of a no deal, we have three mitigation strategies that we will use to offset the P&L impact. One is it comes naturally, which is the U.K. obviously elected a Government that's offering some import subsidies, which is not insignificant to say the least, quite frankly. For how long - one year, maybe more, nobody knows. What I've learned in this situation, the reality of today is not the reality of tomorrow, maybe the day after tomorrow we will see. That's one thing.

Second, and you covered a lot of different things is, supply change reorganization, so it really covers many different things. It can be, for example, moving from a U.K. co-packer or maybe even all capacity to a co-packer in another country by doing so you avoid obviously the tariffs moving from UK to export; or you can imagine, which will take more long-term, is some capex reorganization that obviously will modify in the U.K. and the rest of Europe or supply chain.

One other thing, which is also short-term, is we basically have some conversations with some of our suppliers in terms of who is going to take the remaining, the net impact after subsidies.

Last, but not least, after all these things is pricing. There will be definitely in the UK expected in the rest of Europe, definitely in the U.K. depending on the category. We have some pricing power and obviously it's something that even, let's say, is acknowledged by the trade. When they say that there will be price increases, that's a public statement that has been made and that is going to come from people like us. That's the whole thing. It's something obviously we're taking, as you can imagine, very seriously.

I think what's also important to understand is, and it's not our first consideration, but beyond October 31, assuming there is no deal, both parties, Europe and the U.K., will have to come back to the negotiation table at some stage. Because, definitely they cannot live long-term with the highest tariffs possible that are WTO. But that's not part of our plan, so we're obviously planning for the worst and we need to present how resilient we will be with this and have all the variables and are ready for this.

Cornell Burnette:

Okay. Very helpful. Thank you.

Stéfan Descheemaeker:

You're welcome.

Operator:

We'll take our next question from Bill Chappell of SunTrust.

William Chappell:

Thanks. Good morning.

Stéfan Descheemaeker:

Good morning. How are you doing?

Samy Zekhout:

Good morning.

William Chappell:

Good. Could you just go back a little bit to Goodfella’s and even Aunt Bessie’s and just maybe kind of an update on how those are progressing since you bought them and maybe some things you’ve done to them? I mean, you talked a little bit about the reboot on Goodfella’s and so I'm just kind of understanding was that always in the plan or was there a thought that really to get it where you needed to, you needed a full reboot; and same just Aunt Bessie’s I know was more of a product-specific category, but just trying to understand what you can and what you have done with that business.

Stéfan Descheemaeker:

Yes. Let me start with the synergy plan. I think synergies are really very much in line, sometimes even slightly better. Overall, on a standard basis some are better, some are probably at least temporarily a bit less than expected. In other words, I would say, Goodfella’s is really doing really well, qualitatively—but they both are doing well. But I would say Goodfella’s is doing even better. I think what we’re doing is increasing the quality of the private label portfolio and we’re increasing the quality and the price, by the way, of both brands and we’re really building the brand, which is a great brand. So that’s doing well on top of obviously the synergies.

I would say Aunt Bessie’s is a bit off right now but it’s highly seasonal and I think, overall, we’re pleased with what we have. We know that we can—obviously, we have still some distribution, let’s say, possibilities that we need to further expand. Let’s not forget, obviously, that it’s a highly seasonal product and an important part for Aunt Bessie’s is at the end of the year. But, overall, very pleased.

William Chappell:

In terms of the reboot for Goodfella’s, just kind of the understanding behind that?

Stéfan Descheemaeker:

Back to what we said is we took our time, as we did for all our Must Win Battles by the way, which is, one, let’s make sure that we have a product that is superior and obviously it’s superior to competition; that’s one thing. Second, is let’s make sure that we have a packaging that really encompasses the same kind of message; that’s the second piece. The third piece is let’s make sure that price-wise and promotion wise we have the right model and in line with what the trade is expecting from us. All of this we have by a very good advertising campaign that has just started, as I said. So far very good.

It’s too early to say because it’s a few weeks. The first few weeks are very, very encouraging. I think it’s very much in line with our playbook, which is reassuring by the way, because it means that this playbook can really travel not only to the existing portfolio but can travel to other M&A targets in the future. Obviously, we’re always trying to improve the playbook, but at least the way it is right now, it’s working very well.

William Chappell:

Got it. Last one for me, maybe too early—go ahead.

Stéfan Descheemaeker:

I forgot to mention by the way—and I mentioned it during the prepared remarks—that Portugal was not part of the business plan, so we bought the business based solely on Ireland and the U.K. and we see that, okay, too early to say, but at least the early signals from Portugal are encouraging. But, again, it's a small pilot but these guys they like to do these kinds of things; and Iglo as a brand has the right distribution and we have the distribution muscle.

William Chappell:

Great. Thanks for the color.

Stéfan Descheemaeker:

You're welcome.

Operator:

Our next question will come from Jon Tanwanteng of CJS Securities.

Jon Tawanteng:

Good morning, gentlemen, and nice quarter again. I'm not sure if you addressed this yet, I jumped on a little bit late, but can you talk about the impact of a hot summer on your sales and potential supply and the harvest?

Stéfan Descheemaeker:

Yes. Actually, this summer, as I had mentioned, has been better than last year. So far, frankly, we can't comment on the sales because we're in the middle of the summer and we look at our plan really on a three month basis. What I can comment more is probably on the supply side and on the harvest. What we're seeing today is so far so good. It's definitely better than last year and the harvest itself has given some encouraging signs, so we'll definitely end up with better yields than last year, providing the weather continues to remain on that basis.

Jon Tawanteng:

Great. Thanks for that color. Then, Stéfan, just an update on what you're seeing on the M&A pipeline and maybe a little bit more on, I guess, the attractiveness of these very healthy options that consumers are gravitating towards. Are you planning on shifting your focus towards those types of entities? I know you're doing it organically with the Green Cuisine, but from an acquisition standpoint, are you looking more at those or are you still trying to go down the fairway with the frozen food and your core types of businesses?

Stéfan Descheemaeker:

It's a very good question, but to your point, first, we want to accelerate. Organically we want to accelerate that part of the business, so plant protein, as we said, is a very important point for us. We're even going to reorganize ourselves so as to be even more dedicated to plant protein; so that's coming which I think is fundamental we face some competitors that are pretty dedicated to Plant Protein and so should we. That's one thing.

Then back to acquisitions or external growth in terms of the healthy option. Definitely, when we see our portfolio, 80% of our portfolio is, from this nutritious standpoint, is labeled - 80% is considered as good food. That's unique. By the way, we that's something that probably we undersell. We're not very good at that, so we need to do a better job on that internally, externally, everything.

So back to the healthy options, definitely in frozen and potentially non-frozen, if we see some assets that are in line with our criteria in terms of obviously strong brand, capacity to be integrated, distribution, strong moat, and obviously growth potential, definitely is something we can consider, no doubt about it.

Back to your M&A question, we are active, definitely. At the same time, we are very disciplined. And let me repeat it again: I would never commit to a timeline and to a deadline in M&A. That's the best way to destroy value.

Jon Tawanteng:

Great. Thanks again.

Operator:

We'll take a follow-up question from Donald McLee of Berenberg.

Donald McLee:

Hey, guys. Quick follow-up on Ocean Beauty. It's been about six months since you announced the distribution agreement in the U.S. Could you talk a bit about the progress you're seeing there with your product or in the U.S.?

Stéfan Descheemaeker:

Yes. Thanks. It's an interesting question. You remember last time when we talked about Ocean Beauty. I just mentioned it's an interesting first step, but, let's say, it's a very first step and it's tiny. I think what I've seen so far is they're in preparing mode, but don't expect something like a big advertising campaign in the U.S with a lot of money to be invested. So I think we're going to be more granular with those. We think we're going to be maybe start with one stronghold and then go to the other and all these things. It's going to be a long thing. Don't expect something spectacular out of this in the short term; long term, that's something else. We shall see. It's an interesting development. The good news, to your point, is we have a really we believe a world-class fish business in Europe and, yes, we will test how it's going to work in the U.S. We believe the product is superior to what is currently existing in the U.S. and we will see whether the consumer agrees with us.

Donald McLee:

Okay. Thank you. That's helpful.

Operator:

It does appear we have no further questions at this time. I'll turn the conference back over to Stéfan Descheemaeker for any additional or closing remarks.

Stéfan Descheemaeker:

Thank you, Shannon, and thank you for joining us on the call today to review our second quarter results. You see by the progress that we have made for the first half of the year and continue to see further opportunity for growth in both the near- and long-term. Our core portfolio will remain the strong driver of growth with contribution from new innovations like Green Cuisine and acquisitions.

With that, thank you for your participation and I look forward to updating you on our progress when we next report third quarter results in November.

Operator:

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