Nomad Foods Ltd

Third Quarter 2022 Earnings Call

November 9, 2022

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Cody Ross, *UBS*

John Baumgartner, *Mizuho Securities*

Peter Saleh, *BTIG*

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PRESENTATION

Operator

Ladies and gentlemen, good morning and welcome to the Nomad Foods Q3 Earnings Call.

Please note this event is being recorded.

I would now like to turn the conference over to Anthony Bucalo. Please go ahead.

Anthony Bucalo

Hello and welcome to the Nomad Foods Third Quarter 2022 Earnings Call.

I am Anthony Bucalo, Head of Investor Relations, and I am joined on the call by Stéfan Descheemaeker, our CEO, and Samy Zekhout, our CFO.

Before we begin, I would like to draw your attention to the disclaimer on Slide 2 of our presentation. This conference call may include forward-looking statements that are based on our view of the Company's prospects, expectations, and intentions 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 our 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.

Please note that certain financial information within this presentation represent adjusted figures for 2021 and 2022. All adjusted figures have been adjusted for exceptional items, acquisition-related, share-based payment, and related expenses, as well as non-cash FX gains or losses. Unless otherwise noted, all comments from hereon will refer to those adjusted numbers.

With that, I will hand you over to Stéfan.

Stéfan Descheemaeker

Thank you, Tony. Good afternoon everyone, and thank you for joining us on the call today.

We are pleased to review our results for the quarter. Nomad had a very strong performance in the first quarter. We were boosted by solid commercial and supply chain execution as well as price increases across the business. I'm especially pleased with the performance of the great people across Nomad for their leadership, focus, hard work, and creativity.

In Q3, our reported revenues grew 27%. Our organic sales increased 7.2%, driven by double-digit net price increases, which offset much of the cost inflation we experienced in the first half. There is still work to do, and we remain committed to a journey of growth acceleration and value creation.

The Adriatic region posted another very good performance, boosted by strong sales of our ice cream brands. Our leading plant protein brand, Green Cuisine, is winning in the market, and they had another good quarter. Green Cuisine is growing sales high single-digits and reached its highest ever four-week market share at 16.8%. This was a 140-basis point improvement versus the same period last year across Europe. This further fortifies our number two position in the plant protein category.

Overall, Nomad lost a small degree of value share. However, we believe this is temporary in nature. We will regain share over the medium and long term, driven by consistent innovation in our core portfolio. We know that our consumers are under pressure, and we are preparing positive (phon) initiatives to help keep them with Nomad brands in partnership with our retailers.

Within the portfolio, we are developing value innovations to offer tasty, healthy, and sustainable means solutions at lower price points. We believe we are well-positioned within our supply chain structure to drive growth through effective cost management, winning innovation, and strong service execution.

In the first nine months of the year, we improved our service level by 90 basis points, rising to 96.7%. Additionally, we have fully covered our cost of goods sold for 2022, and we have made great progress in securing supply at competitive cost for 2023. We are also on the path to extending our debt maturity profile into 2028 and 2029 through a refinancing of our $916 million principal Term Loan B due in 2024, with approximately $830 million in Term Loan B due 2029.

Looking ahead to the fourth quarter, we are still working to adjust our prices to recover our input cost inflation. This will enable us to maintain a proper level of investment in our business, as well as the frozen food category on the whole. We've made great progress in this area, and as we are heading to 2023, we expect our business performance to continue improving. We expect full-year net pricing to offset volume and mix declines, leading to low single-digit organic sales growth for the year. As we further offset input costs increases, we expect gross margins to improve over time.

Nomad is navigating a challenging consumer environment, which includes high energy prices, rising inflation, and political disruption. However, we are executing well through this period of uncertainty. We believe the steps we've taken should allow us to enter 2023 in a position of strength.

With that, I'd like to recap our third quarter key financial metrics, beginning with reported revenues of €760 million, which increased 27% year-on-year. The increase in reported sales was driven by the inclusion of our recent acquisition and good growth in our organic revenues. Organic revenue grew by 7.2%, driven primarily by double-digit net price increase in the quarter. Q3 represented a sequential quarter of improvement and our best performance since the fourth quarter of 2020.

Our volumes and mix were down 3.4% driven by elasticity impacts but offset by positive mix. We delivered an adjusted gross margin of 29.1%, 110 basis points higher year-on-year, reflecting the benefits of new pricing and the inclusion of the Adriatic region, which has peak margins during the summer.

Adjusted EBITDA of €153 million represents a 35% increase compared to last year, as higher input costs were more than offset by higher pricing, energy, and SG&A phasing. Finally, adjusted EPS was €0.52 per share, up nearly 50% year-on-year.

Turning to Slide 4, our revenues benefited from a return to organic growth in our base business. We have successfully landed our pricing initiatives throughout the year, realizing the 10.6% net price increase in the third quarter. This price increase offset a 3.4% decline in volume and mix. In October, we maintained our sales momentum with mid-single-digit sales growth. We remain on track for low single-digit organic sales performance for the full year.

In the first quarter, we substantially narrowed the gap between input cost and price, which has opened in the second quarter. There is always a time lag between linear cost increases and our staggered price increases to retailers. We have nearly caught up to that lag. Additionally, our dialogue remains active with retailers regarding the further change to our pricing, allowing more adjustments over time as we rebuild our gross margins.

We have good visibility on costs, as we're effectively covered for the balance of 2022, and we are on schedule for covering costs for 2023. In a dynamic pricing environment, our (inaudible) value share was down slightly for the entire business in our Must Win Battles in Q3. Year-to-date our overage share is down only slightly and is flat in our Must Win Battles. We believe this market share loss is short-term in nature.

We're making significant progress in extending our debt maturity profile. This will be through a refinancing of our $960 million Term Loan B due mid-2024 with approximately $830 million Term Loan B due 2029. With this extension, our entire debt portfolio would be fully covered until 2028 and 2029 at an attractive interest cost. The deal has been priced and will close this Thursday. This will enable us to focus our attention on accelerating growth and winning with the consumer in a highly volatile environment.

With the successful execution of our pricing strategy and coverage on costs for this year, we are affirming our adjusted EPS guidance range for 2022 at €1.65 to €1.71. This represents a high single-digit growth versus a year ago. Longer term, we are pleased with our business trajectory and remain confident that we will deliver our 2025 adjusted EPS target of €2.30.

Turning to Slide 5, Nomad has successfully adapted to difficult challenges many times throughout our history, and this year is no different. The war in Ukraine has required us to react quickly to change the market. We can report progress on three focus areas which have all strengthened our business.

First, we fully executed our planned price increase in the quarter. We see this as a testament to the strength of our brands and strategies. We believe we will be in good shape to enter 2023 with the margins and cash flow needed to invest in our brands.

Second, our fish diversification strategy has moved into a new stage. We have good news on our growing investment in high-quality farmed fish. We are happy to announce that we secured supply in October with major producers, all of whom are ASC-compliant. Currently, 98% of our fish comes from sustainable fishing or responsible farming. We believe we are on track for that to be 100% by 2025.

This new source not only diversifies our species and geographical sources but is also an additional driver of our sustainability goals. We expect to see the initial benefits of new supply early in 2023, with the potential for rapid growth in capacity expected over the next three years. This investment in farmed fish also provides us with an additional platform for innovation. We have plans in place for new high-quality fish products in the coming years across many key Nomad markets.

Finally, we are proud to report that our successful integration into the Adriatic region is ahead of schedule and ahead of our expectations. We had a strong summer selling season as tourists returned to the seaside, helped by good weather during most of the summer. We saw a strong recovery in the on-trade channel and gained market share as well. The region is ahead of our plan on sales and EBITDA year-to-date, and we expect this region will be an important source of growth in the future.

As a note, the Fortenova transaction was finalized at the end of September 2021 and is now fully integrated into our organic numbers going forward.

With that, I will turn the remarks over to Samy. Samy?

Samy Zekhout

Thank you, Stéfan. 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 highlights. We reported revenues of €760 million in the third quarter, a growth of 27% year-on-year, driven primarily by price increases in our base business, as well as our new acquisitions. There was a small benefit from favorable effects as well. Organic revenues were boosted by 10.6% net pricing, which offset a 3.4% decline in volume and mix. Gross margins were 29.1% during the second quarter, reflecting a 110 basis points increase versus last year. Price increases helped to drive margin improvement.

Moving to the rest of the P&L. Third quarter COGS increased 24.7%, an increase of €107 million versus last year. Our adjusted gross profit grew 32% to €221 million. Adjusted operating expenses of €91 million was up 27% year-over-year. This rise in operating expense was due to the first-time inclusion of our new acquisition. However, as a percentage of sales, operating expense was flat at 11.9% versus last year.

Our EBITDA and EPS performances were positively impacted by higher pricing in our core business. Third quarter Adjusted EBITDA of €153 million was up 35% versus last year. Adjusted EBITDA margins landed at 20.2%, an improvement of 130 basis points. Our Adjusted EPS of €0.52 was up 49%.

Turning to cash flow on Slide 7, we generated €24 million of adjusted free cash flow in the first nine months of the year. As you know, raw material markets have been volatile throughout 2022. In response, we successfully protected our business by building raw material inventories to head off any shortages. We believe this was the right step and our customers and consumers received an uninterrupted supply of our product throughout the year. We improved our service levels showing our commitment to serving the market.

As conditions have stabilized, we have begun releasing working capital, and we'll continue doing so into 2023. Capex of €55 million was up slightly versus last year. We flagged in our Q2 earnings report, we do expect slightly higher Capex this year as we support strategic investment decisions and incorporate our recent acquisition into our broader spending plan.

Changes in cash tax has decreased by €90 million to €44 million, while cash interest was up at €69 million due to the comparison with last year's refinancing period and other smaller factors. As mentioned in our prior year release, our free cash flow generation will be weighted towards the final quarter of the year. Stepped-up Capex and higher raw material and packaging inventories will leave us short of our usual 90% to 100% long-term conversion target this year. However, we expect Q4 cash flow to be consistent with our historical performance and expect conversion rates more in line with our long-term targets in 2023.

With that, let's turn to our final slide at Slide 8 to review our 2022 guidance, which we are reiterating from our Q2 earnings report in August. Our guidance on sales and EPS is based on our best projection of cost inflation and other factors for the fourth quarter of 2022. As Stéfan mentioned in his remarks, we expect to recover cost inflation through additional price increases in Q4, and as we expect progress on our gross margin profile for Q4 in the full year.

We expect organic revenue growth in the low single-digit range for the Full Year 2022. This will be bolstered by additional price increases in Q4. As we noted in our Q2 earnings report, we expect a significant spread between price and volume, but we also expect net pricing to fully offset volume declines. We expect the Adriatic region contribution to drive reported revenue guidance of a high single-digit for the full year.

When modeling Q4, please keep in mind that we did see some, albeit minor, forward buying in Q3 ahead of our Q4 price increase, but we are keeping our full year expectations intact. On capital allocation this year so far, it has been our top priority to use our cash to support operations. We did not repurchase shares in either Q2 or Q3 after moderate repurchases in Q1. However, we believe share buyback is central to driving shareholder value. A $500 million share buyback program remains in place until August 2024.

For the balance of 2022, with our pricing strategy taking hold and full visibility on cost, we are holding to our adjusted EPS guidance of €1.65 to €1.71 established in our Q2 earnings report.

Finally, we remain on track to reach our 2025 adjusted EPS target of €2.30.

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

Operator

Thank you very much.

First question comes from Andrew Lazar from Barclays. Please go ahead.

Andrew Lazar

Great. Thanks very much, everybody.

Maybe to start off, you mentioned some of the 4Q pricing actions you're in the process of taking should set Nomad up for a strong start to '23. So I guess two questions on this. First, does this mean that this incremental pricing move has been sort of fully negotiated and agreed upon at this stage with retail customers? Or is there still work to do on that front? Does that suggest that you'd hope to be in a position to start the year, I guess, to continue on with the margin recovery that we started to see in the third quarter? Then I've got a follow-up.

Stéfan Descheemaeker

Thank you, Andrew.

Well, it's very simple. I think we've made a lot of progress already on our wave three, but we still have some negotiations. As you can imagine, these are not necessarily easy negotiations. I think they are very fact-based negotiations. Overall, yes, we've made a lot of progress, but there is still some work to do. The objective, which we definitely believe is achievable, is to really start the year in a very good position for next year and to start in a very good position.

I don't know if you want to add anything else, Samy?

Samy Zekhout

No. I think to the second part of your question, Andrew, is we are effective. This is clearly going to put us to a very good margin recovery path, as we had already mentioned to you, as we execute the price. We see how we are managing inflation across the board with our customers and end consumers.

Stéfan Descheemaeker

It's really a partnership with the retailers, making sure that we're pricing for inflation.

Andrew Lazar

Yes.

Then second, I know that—I think it was last quarter, you talked about, at least at that stage, and maybe even more recently, that private label was sort of yet to move price points on the shelf. Have you seen any movement on that front? If not, you talked a little bit about market share—have price gaps reached a point where that's more concerning, or have you seen any movement on private label price points at this stage? Thank you.

Stéfan Descheemaeker

Well, you can imagine, Andrew, number one, it’s Europe. So, it's a lot of countries. So, you have different positions in different countries. Overall, if you're taking a global view, it's a moving target. So, I think we are price leaders. So far, we've priced around 13% private label. If you take though the aggregate of private label, more in the region and brand competitors have increased their price by around 10%.

So, you see, there is a price gap. At some stage, who knows when the other one will get to say when they have to increase their price? That’s their decision. It's very clear that we all are going through the same kind of competitive, let's say, framework with the same inflation in terms of commodities. So, I would assume at some stage, it’s going to happen. But, in the meantime, yes, we are taking our decisions.

Andrew Lazar

Right. Thank you very much.

Stéfan Descheemaeker

You're welcome. Thank you

Operator

Thank you. The next question comes from Jason English from Goldman Sachs. Please go ahead.

Jason English

Hey, good morning, folks. Thanks for slotting me in. A couple of quick questions.

So, volume mix came in well ahead of what we had initially expected, just tracking the Nielsen data. You guys mentioned you saw some minor pull forward of buying, which it sounds like that doesn't explain all of it. Maybe you could unpack that a little bit more for us. Was there just outsized growth in non-mature channels, on measured countries, something unique with mix? Any incremental color you can provide on that front would be much appreciated.

Stéfan Descheemaeker

Very good.

Jason, overall, effectively, if you recall the conversation we had at the time of the Q2, there was some question mark relating to the effectiveness of our pricing. In Q3, we're clearly demonstrating that the strategies are executed and are delivering what we wanted to see, with a significant contribution from pricing of about 10.6%. What you ended up with from an organic standpoint is 7.2%, and the volume and mix there was minus 3.4%. That breaks down into effectively a negative volume impact coming from the elasticity, very much in line with what we had planned for in the high single-digit level.

At the same time, a positive mix that we have experienced coming across the board from virtually country, category, and products. So overall, effectively, what's really important for us was to see the impact of pricing. At the same time, we got some help of mix, and the volume negative impact was exactly about in line with our expectation.

Jason English

Got it. So, all big mix benefit there. That's good to know.

Turning quickly to your recent acquisition, and the results so far have been really impressive this year. One, is there anything—you mentioned weather. Can you comp the comp next year? Can we expect this business to grow is part one of the question?

Part two, you mentioned this is like the fifth in a row that's come in ahead of your expectations. How do you balance your comments on like wanting to buy back more stock with the success you've had with M&A and what I imagine is probably an ambition to kind of keep that going?

Stéfan Descheemaeker

Well, thanks for the comment, by the way, Jason. Yes, we're quite proud of our results right now in terms of acquisitions. We've been through five and six, including Findus. I think it's been a very good track record. I think we've been very consistent. We've been very rigorous. I think the integration—I think every time we're improving the playbook in terms of integration. I think this year, this time, for example, with the Adriatics, we've really invested heavily in terms of people, in terms of tools to make it work the right way, and it's paying off.

So, I think, over time, we're getting better and better with that, which means that we are in a very good position obviously, when opportunities arise, also to make the right decision, there will be buyback. There will be acquisitions, and obviously, with the same objective, which is to increase shareholders' value, I will put it that way.

What's really fundamental also—and you may remember Jason, back in 2015, 2016, we didn't do anything because we were really focused on turning around the Company. Quite frankly, it would have been a distraction. This year, for example, 2022, well, we had some few things to do first, and now I think we are in the right position with our core business to resume the situation. In the meantime, you will agree with me that, anyway, the (inaudible) market has not been very active.

Jason English

Thanks a lot, guys. I'll pass it on.

Stéfan Descheemaeker

Thank you.

Operator

Thank you.

The next question comes from Cody Ross from UBS. Please go ahead.

Cody Ross

Good morning, folks. Thank you for taking our question.

Looking at your 2022 outlook based on what you've just reported, it seems like your fourth quarter is a bit conservative. So, I'm just curious what would cause Nomad to come in at the high end of your range for the full year, and then what would need to happen to hit the low end of your range?

Samy Zekhout

Cody, thanks for the question.

I think, as you recall, last quarter, when we reported earnings, we effectively recognized the fact that there was a level of uncertainty, which led us to effectively adjust our outlook. At this stage, we have made tremendous progress on the pricing. That's very key as Stéfan was highlighting, but there are still some elements of uncertainty there. This is why, effectively, we're maintaining the guidance, despite the very good performance that we had over Q3. Just a matter of, frankly, maintaining the fact that we are well along on some of the negotiations in some of the markets, but we have not yet still closed a few markets. That's the prime reason.

Cody Ross

Thank you for that.

Then one of the biggest concerns we hear from investors right now is just on potentially your retail partners carrying less inventory this winter, just given the rise in inflation and costs that they're seeing. What are you seeing from an inventory perspective with the retailers? Have they given you any indication that they might pull back as we go into the winter? Any color here would be appreciated. Thank you.

Stéfan Descheemaeker

Yes. At this stage, to be fair, we haven't heard any of this. I think there has been more conversation around frankly primary pricing at this stage. If anything, we benefited from prioritization at their end as we have seen exactly how we clearly behaved in the third quarter, and then we see the fourth quarter moving forward. There is a clear trend there towards frozen food, which really becomes a gain if you want a category of focus in a context where the inflation is hitting many people there. So far, we heard the same thing, but I have to say nothing may change in the future, but I have to say at this very stage, we haven't heard any of these even from our retailers.

Cody Ross

Thank you. I'll pass it on.

Stéfan Descheemaeker

Thank you.

Operator

Thank you.

The next question comes from John Baumgartner from Mizuho. Please go ahead.

John Baumgartner

Good morning. Thanks for the question.

Samy Zekhout

Good morning, John.

Stéfan Descheemaeker

Morning, John.

John Baumgartner

Maybe first off for Samy, wondering if you could discuss the enterprise-wide transformation program. There was a pretty big step up in Q3 in those related expenses, and I think you're now somewhere around €45 million expense since early 2021. Can you just talk a little bit to what you've accomplished with that program thus far, and the next steps in the evolution there? Then just given the magnitude of expenses, I imagine you don't want to quantify savings benefits, but can you comment qualitatively at least in terms of the benefit structurally and when we can expect those benefits to sort of ramp from here?

Samy Zekhout

Morning, John.

Yes, we have started this transformation program now about roughly nine months ago, gradually stepping up the teams, and so the intent is really to take the Company to a different stage from a digitalization standpoint and really leveraging our scale and to enable us primarily, frankly, to enable us to make better and faster decisions with higher quality information on all fronts, whether it's supply chain, whether it is customer, whether it's about the consumer and our commercial operations and so on. So, where we're getting right now is really moving phase by phase on the project. We've completed a significant phase right now, which is called the design phase, before we move into a more if you want production mode in terms of executing the plan.

So, the savings are really going to be twofold there. One is purely cost efficiencies, as we really create scale by standardizing and simplifying our operations. The second element of savings will be effectively an acceleration of revenues through, if you want, at the same time, revenue growth acceleration by identifying better sources of growth or potentially, frankly, winning stronger with the retailer by effectively getting much more granular on where we can make the difference in store on the different product lines and so on.

We are in the middle of the start of the execution of the implementation. The impact of the saving will be at a much later stage, probably, if you want, in the next two years—I mean, 2025 onwards. At this very stage, it is really within the implementation of the entire project that you're seeing this expense being incurred.

John Baumgartner

Okay. Great.

Then just a follow-up. As we think about 2025, you're maintaining an EPS target of €2.30. I guess, going back to Jason's question on M&A, considering the rising hurdle rates, the political risks across Europe, if the M&A opportunities don't materialize in a meaningful way, how confident are you in achieving €2.30 from organic means, organic growth, organic share buybacks? What's the confidence level there?

Stéfan Descheemaeker

The confidence level remains the same. I think we have a very strong business model as such as being the leader in a great category. I think with this year, for example, we've learned a lot in terms of pricing. I can tell you that the Company is very different from where it was. I think we also have made a lot of progress in terms of supply chain. Think about the situation where we were in terms of fish, for example, and the kind of progress we've made. So, we've been doing all these things. I can tell you, in 2023, we're still going to learn.

It's a very good—it's a very, very strong learning Company, and that we can see that every time we're bringing something new out of all these challenges. So organically, with the category, with our leadership, with our brand and our people, quite frankly, I believe we have what it takes. Buyback will definitely be part of it. To your point, M&A, we're going to keep the same discipline. We're not going to change. M&A is not an ego game. That's very clear. It's all about value creation. What we believe is also what we have, and we have what it takes in that category to be the preferred, let's say, acquirer. Things will happen because it's a time of dislocation.

What I have learned in my life in M&A is during dislocation, things happen. We just have to be present and to be available to do the right thing. So, I really believe that the algorithm is the same. It might change between the core business, buyback, and M&A, but all these ingredients will play a big role between now and 2025. Very clear. That's what makes me confident for the €2.30 EPS guidance.

Samy Zekhout

John, if I may add to Stéfan's point, the name of the game is going to be cash flow. On that one, the focus has not changed at all. You've seen the step up. If you want improvement, you will see that in the fourth quarter as we go.

It is going to be through that, that we will have the flexibility to frankly allocate our resource in the best way in order to get to that number. If you ask me why confidence, it is because the cash machine is fully intact. We continue to focus on generating cash flow. Even if we had to make some priority calls this year rightfully to support the operation, as we go, we will also continue to generate the amount of cash that we have generated in the past.

Stéfan Descheemaeker

Our maturities, by the way, have been extended to 2028, now 2029, which I really believe is a big plus during these very volatile times.

John Baumgartner

Okay. Thanks very much.

Stéfan Descheemaeker

Welcome.

Operator

Thank you.

The next question comes from Peter Saleh from BTIG. Please go ahead.

Peter Saleh

Great. Thanks for taking the question.

I just wanted to come back to the conversation around costs. You guys mentioned you're fully covered for 2022, and you made some good progress in 2023. Just can you give us a sense on your progress on covering costs for ‘23? In a typical year, are you—for this year, are you in line with that? Are you a little bit behind? Are you ahead? Just trying to understand your thought process on your contracts you’re covering for 2023 at this point.

Samy Zekhout

Yes, we are well ahead, actually, versus the prior years. Clearly, the intent for us was twofold. One is to secure supply, the best we can. The second one was to give the best possible visibility to our let's say, sales organization, but equally important, to the retailers to make sure that we have clearly a part, a significant part of the year well covered next year.

So, there are some elements where we are well ahead for the next year. They are fish or energy, and there are others that are clearly more difficult if you want to cover from an availability standpoint, along the year because usually there are no longer-term contracts in such as dairy, or poultry, and so on.

All-in-all, if you benchmark us versus a year ago or the prior years, we are well ahead versus where we are. The intent is frankly to clearly go beyond the 50% coverage by the end of the year so that we have an effective significant portion of the year covered. I think we should be well ahead of that as we enter into 2023.

Peter Saleh

Okay. Thank you. That's very helpful.

Then just lastly, is there any signs that inflation is moderating or just topping out? Anything you guys can see from what you're looking at this point that suggests we could see some more moderate inflation or going into '23?

Samy Zekhout

We see moderation, actually softer increases in many ingredients, primarily, if not on commodity. Our portfolio of product is quite complex. We have some commodity, but we have effective living protein. We have fish. We have poultry. We have dairy. We have edible oil and so on, which are clearly varying in a different element there.

So all-in-all, we see effectively an overall softening of the inflation, but still, inflation is there with some category continuing to be strong. I mean energy, of course, but some others are clearly softening down as we see, which is a good sign. Now, at this very stage, it's too early to tell you to give you a number. Effectively, at least, there are some moderating signs on some parts of the portfolio, which is quite encouraging.

Peter Saleh

Thank you very much.

Samy Zekhout

You’re welcome.

Operator

Thank you.

The next question comes from Robert Moskow from Crédit Suisse. Please go ahead.

Robert Moskow

Hi. Thank you.

I just want to make sure I get my modeling right for pricing for fourth quarter. My understanding is that you'll have another increase maybe of 10% to 15% in the quarter. Then also, there's probably some pricing actions from third that are not fully in the market yet. So, I have you over 20% for pricing in our model. Is that in the right ballpark? Then a quick follow-up.

Stéfan Descheemaeker

A bit lower because, actually, what we've done is—as we discussed, one of the things we have done in order to reflect the element of uncertainty of realization of the pricing was to apply a judgment call on timing of execution—some of the markets are on time, some others are a bit later—and as well on the depth of the execution when we need some time to execute some of the pricing with an increased promotional support to stay competitive during transition time. So, it's going to be a bit lower than the number that you have.

Robert Moskow

Okay.

Then maybe I could also understand what that means for gross margin. Compared to last year, your gross margin was 26.5% last year, and you had, I think, the full impact of the acquisition, which—maybe you could tell me. Is the acquisition dilutive to gross margin in fourth quarter just because of seasonality? Now, if you look at your gross margin for fourth quarter this year, do you think you can do better than last year? Understanding also I think the acquisition is probably ahead of your expectations.

Samy Zekhout

Well, the reality in the fourth quarter, effectively, that's—the business is cyclical, with the Q2 and Q3 very strong in the Adriatics and the Q1 and Q4 a bit lower. So, I think at Q4, I think, is probably the lowest of the quarter in the historical cycle. So, there is an element of dilution. But if your question is versus a year ago, actually, there has been improvement if you want on the gross margin overall, from the Adriatics business.

Now it's going to be part of the total, as you know, when we get into Q4 because it's going to be part of the organic forecast as we look forward, but there is effectively an improvement that we will see overall.

Robert Moskow

Overall, for the overall company, do you think you'll improve versus a year ago?

Samy Zekhout

Yes. Because don't forget that by Q4, the Adriatics will be part of the base. I mean, will be included now. We have completed the fourth quarter, and it will be included in the base, over there. So, year-over-year, in total, if you want, from a margin standpoint, given the fact that there is a good trend in front on the base and the positive trend as well on the Adriatics overall, which is improving.

Robert Moskow

Great. Okay. Thanks.

Operator

Thank you.

The next question comes from Jon Tanwanteng from CJS Securities. Please go ahead.

Jonathan Tanwanteng

Hi, good morning, and thanks for taking my question. Great quarter.

Stéfan, you brought up the prospect of regaining share, but I think you mentioned that with the price increases, your value share has been flat to down. I was wondering, when does that trend bottom out? What are the catalysts for that to happen? Does that depend really on competition, raising the prices to catch up? Or is something else going on there?

Stéfan Descheemaeker

No, I don't think at this stage there is anything else. I think it's very clear. You heard me saying 10% for competition, 13% for us. So, I think that's a big impact in terms of—and it's normal. I think we need to keep the same discipline, and we're not going to change. I think we're pricing for inflation, we are price leaders, and well, at some stage, people, they're under the same terms as us. Then obviously, the pricing, they should have the same kind of pricing. So, they will come. When? I don't know. That by definition, I don't know, but it's small. It's temporary by nature.

The second piece is elasticity and everything being equal, what we've seen is it's less negative than what we thought, probably because it's across the board in the food industry where everything is increasing.

The final piece, and it's going to take more time, but it's normal kind of business, it's our own action above and beyond pricing. We are developing a very strong toolkit in terms of revenue growth management with things like price points, and we're coming with new SKUs with the right price points for the consumers, and we're also developing a new range of, let's say, value SKUs in terms of which could be partly fish, partly other things, with obviously a high quality, but obviously, at the same time, potentially more affordable, so that we can obviously keep make sure that the people that are, let's say, impacted the most by the crisis will stay with us.

So, it's a combination of short-term, partly other people, but also obviously definitely, so it's in our hands in the future, and that's very much in the playbook for a leader. That's our job, and that's what we're going to do.

Jonathan Tanwanteng

Okay. Great. Thank you.

Samy, a question for you. What are your interest expense expectations heading to 2023 with the new term loan and assuming rates continue to climb? With that backdrop, are you expecting debt paydown to take more of a priority here, or how should we think about that?

Samy Zekhout

Yes. We'll be closing, Jon, tomorrow the loans, so we'll give all of the details by then. Directionally, effectively, we will see a slight increase overall, on an average basis year-on-year, but clearly manageable within the overall performance that we have and the commitment we have to decrease our leverage over time. The very important thing for us was really around securing the financing.

Then from an interest standpoint, effectively, we will see a slight increase, but we have other levers within our cash management that will enable us to continue on the way to deliver the cash flow performance we want.

Jonathan Tanwanteng

Got it. Thank you.

If I could slip another one in there. Just you mentioned release of working capital and conversion rates of EBITDA closer to historical norms. Wouldn't that raise the prospect you could do better than that if you're releasing working capital? Or is there something else that's taking that cash?

Samy Zekhout

No. I think the same strategies if you want are being applied. They've been very successful in the past focusing on different elements. We have had a number of, let's say, decisions to be made this year, to and some extent, even the decision was to support the operations, which has translated into effective some cash take, as you have seen over the past.

At the same time, we had some change in, let's say, government directive relating to the management of our payables, which is called the UTPD, as we talk in the earnings. All of that is getting gradually behind us. The Q4 performance from a cash flow in Q4 will be consistent with what we have seen in the past. So, with all of the, let's say, levers fully in operation there to get us back on to the performance that we want from the cash flow performance.

Jonathan Tanwanteng

Understood. Thank you.

Samy Zekhout

You’re welcome.

Operator

Thank you. The next question comes from Adi Arya from HPS. Please go ahead.

Adi Arya

Hi, good morning. Thank you for the presentation. I just have a few questions. I'll take them maybe one by one in turn if that's okay.

In terms of the refinancing, just in terms of having kind of everything in euros, would I be correct to assume that kind of €130 million is the additional tranche, and then the USD will be the kind of $860 million you're saying less the €130 million, and that would be the remaining euro—well, the $860 million converted. Is that the two components to get to the euro amount for the dollar term?

Samy Zekhout

Yes, the idea was effectively to leverage the market condition in order for us to clearly optimize the overall let's say cost with the intent effectively to realize the refinancing. I suggest that, frankly, you wait until tomorrow when we're going to be clearly closing the deal, and we will announce effectively all of the detail of the term of the refinancing, and then we can effectively answer your question in more detail then.

Adi Arya

Okay. Perfect. Then will you also share any detail tomorrow around hedging on the floating rates as well?

Samy Zekhout

Yes, we will effectively mention some elements relating to—I mean, on the one hand, we'll be having definitely on how we've been managing let's say the overall variation of the loans, the new term loans versus the old term loans.

Adi Arya

Okay. Perfect. Okay. I'll wait on that then and see what's shared. Thank you.

Then in terms of the organic growth, I was wondering would you be able to split out kind of revenue contribution between Nomad and FFG, and then also kind of the relative organic growth split? Clearly, the 7% is a blended between the two.

Stéfan Descheemaeker

We are managing the business as a whole, if you want, from an organic standpoint. So frankly, this is part of the way—we don't disclose that information because clearly we are running Nomad, leveraging different regions, different categories, different type of product. So, at this early stage, we delivered a good performance, we have delivered. We have given you the breakdown between pricing, more volume, and mix together. I think there has been a contribution for broadly most of the categories.

Adi Arya

Okay. At least, would you directly say whether Nomad grew more than—which one grew more and contributed more to the revenue growth? Was it Nomad or FFG ice cream or kind of...

Stéfan Descheemaeker

We don't disclose category information.

Adi Arya

Okay. Thank you.

Then would you be able to just clarify? Did I hear you correctly when you said 98% of fish is sourced responsibly, and the goal is to have this 100%?

Stéfan Descheemaeker

Yes.

Adi Arya

Okay. But when you say responsible sourcing, does that include kind of the kind of procurement from Russia? I'm guessing even fish you're sourcing from Russia, that's still obtained responsibly, albeit you're trying to divest away for different reasons.

Stéfan Descheemaeker

Well, the fish sourced from Russian waters, number one, to date is compliant with MSC, which is important. That's one thing. The reason to diversify away from wild fish, and not limited to fish from Russian waters, but from wild fish is more fundamental, which is basically, there is a high demand for fish. The demand is increasing. It's not limited to Europe, by the way. The supply remains stable, which is normal, by the way. If you want to keep something sustainable, you have to make sure that your biomass remains stable, which is exactly what happens.

So, from that standpoint, we already had decided, that was ahead of the Ukraine war, to diversify away from wild fish. The only thing that we have done is to accelerate the movement, and that's exactly what happened now. We've been able—it takes a bit of time. People think that it's going to—it can happen in two weeks. In real terms, in the business, it takes a bit more time. We've been able to really let's say contract long term with fisheries—farm fish in Vietnam, high-quality (inaudible) and pangasius. Now, which is great, is we have the ability to ramp it up a bit like the way we want over the next three years, which is really great.

So that's why I can tell you confidently, yes, moving from 98% to 100% makes sense, whether it's coming from farmed fish or from wild fish. Definitely, there is an intent to increase the part of farmed fish, aside from geopolitical considerations.

Operator

Thank you.

This concludes our question-and-answer session. I would like to turn the conference back over to Stéfan Descheemaeker for any closing remarks.

Stéfan Descheemaeker

Okay. So, the record inflation and the Ukraine war have presented us with difficult hurdles, but we are encouraged by our great people, our full partnership with the retail customers and suppliers, and our loyal consumers. We have refinanced our debt, addressed fish supply, covered our costs for this year, priced for inflation, and we are ahead of schedule in our successful integration of our latest acquisition. We expect a strong end of this year on revenues based on strong pricing and easing COVID-related comparisons.

With that, I'm thanking you for your time, your attention. Back to you, Operator.

Operator

Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.