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Nomad Foods Limited

Third Quarter 2019 Earnings Conference Call

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Samy Zekhout, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Jason English, *Goldman Sachs*

Steven Strycula, *UBS*

William Chappell, *SunTrust Robinson Humphrey*

Brian Holland, *D.A. Davidson*

Matthew, *Credit Suisse*

Jonathan Baumgartner, *Wells Fargo*

Jonathan Tanwanteng, *CJS Securities, Inc.*

PRESENTATION

Operator:

Welcome to the Nomad Foods Third Quarter 2019 Earnings Conference Call. As a reminder, all participants are in listen-only mode, and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, and zero.

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

Taposh Bari:

Great. Thanks, Carl, and thank you all for joining us to review our third 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 on 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, and that all adjusted figures have been adjusted for exceptional, acquisition-related, share-based payment and related expenses, as well as non-cash FX gains or losses. All comments from here on will refer to those adjusted numbers.

Finally, users should be aware that 2019 figures have been presented in accordance with IFRS 16, the new standard for leases. 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, 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 third quarter 2019 earnings results and narrowed our full-year EBITDA and EPS guidance.

Highlights from the third quarter include: organic revenue growth of 2.5%, driven by a 4% increase from price, offset by a 1.5% decline in volume and mix; adjusted gross margin expansion of 110 basis points to 29.5%; Adjusted EBITDA of €96 million, representing growth of 14%; and adjusted EPS of €0.25 per share.

We're pleased with our third quarter results, which demonstrated the healthy balance between top line growth, gross margin expansion, expense discipline and cost generation. Overall, I'm proud to see that our business has now delivered 11 consecutive quarters of organic revenue growth, reinforcing the strength of our brands, the focus of our people, and the sustainability of our business model.

Turning to the details of the quarters, we continue to see strong momentum in our core portfolio, which grew 5% in Q3 and represents 68% of year-to-date revenues. Within our core, fish fingers, spinach and local market categories performed particularly well. Importantly, we continue to effectively manage the rest of our portfolio, part of which is being replaced by core SKUs. In aggregate, the non-core business posted a decline in low single-digits, an improvement versus the mid-single-digit decline during the first half of the year.

Most of our countries grew during the third quarter, including U.K., Italy and France, which each achieved organic revenue growth of 4%. Performance was strongest in Germany, Spain and the Netherlands, which each grew more than 5% during the quarter. As we anticipated, the Nordics experienced organic revenue decline as with less low-margin and non-core products, with a long-term objective of strengthening our business model and profitability in this strategically important region.

As you know, execution of our model requires us to make strategic choices, which in turn allows us to invest behind the highest-returning areas of our business. This portfolio strategy has been fundamental to our success since day one, and will continue to govern where and how we invest. By nature of this approach, we result in positive and negative outliers, but with a very clear objective: to drive sustained organic revenue growth and market share expansion.

Third quarter organic revenue growth reflected growing contribution from innovation, where our strategy is now more targeted and intentional as we invest behind a limited number of big bets, with the objective of building sustainable platforms. This year, big bets included Artisan, a new line of fish product with innovative and on-trend coatings; Veggie Power, a modern blend of veggie mixes, which launched in 2018 and has since been expanded across the network; and Green Cuisine, a plant protein range which recently launched in the U.K. and will be rolled out across Europe.

We're pleased with what we have seen across these platforms, which have achieved solid distribution with retailers and encouraging trial with consumers. While each innovation will have its own unique proposition, our strategic intent is to introduce new products which are margin-accretive, complementary to our core, and aligned with macro trends such as convenience, sustainability and nutrition.

Green Cuisine is a great example of the type of innovation that we bring to our consumers. This range, which was launched in the U.K. earlier this year, is made of peas, a crop in which our brand have incredibly heritage. Further, we have formulated these products which are manufactured in-house with a goal of delivering on both taste and nutrition.

As you may know, our Green Cuisine burgers have a fraction of the saturated fat content of many of the competing products in the market. We activated Green Cuisine with a great advertising campaign, which has driven strong velocity across its three SKUs; burgers, meatballs and sausages. It's still very early days, but we anchor it with what we have seen and have plans to further develop our offering in the U.K. and beyond.

Before turning the call to Samy, I'd like to share some updated thoughts on our balance sheet and intended uses of capital. As you know, we raised $400 million of capital earlier this year; as a result, we ended the third quarter with over €700 million of cash on-hand and leverage of 2.8 times.

With that said, acquisitions are a key part of our growth story, and an area where we're intently focused on driving shareholder value. Over the past several months, we've been pursuing acquisitions which meet our strategic and financial criteria. In fact, we currently have a handful of situations which we are keenly evaluating.

Our strong cash balance allows us to operate from a position of strength, and we look forward to updating you when the time is right. In the meantime, it should be clear that we are committed to continuing growing organically and through smart and disciplined M&A.

In summary, we're pleased with our third quarter results, which have us on pace to achieve another year of strong growth and cash generation.

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 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 2% to €540 million, driven by 2.5% organic revenue growth.

Third quarter adjusted gross margin expanded meaningfully by 110 basis points, to 29.5%. This was attributable to three factors. First, an improved pea harvest last year, which helped our margin and really increased our pea supplies for the fall season; second, the improved gross margins with our recent acquisition, Goodfella's and Aunt Bessie's; and third, pricing actions in response to higher fish prices, which we have experienced throughout the year.

We are pleased with our gross margin progression for the first nine months of the year, and remain on track to achieve modest gross margin expansion for the full year, excluding the impacts of M&A mix. The team has done an exceptional job navigating this year's correction in fish prices, mainly in Alaskan pollock. For the first nine months of the year, these actions have resulted in relatively stable gross margin in our base business, combined with a 4% increase in price and a 2% decline in volume.

The relationship between pricing, volume, and gross margin is one that we will continue to closely monitor, along with the evolution of our market share and penetration at the consumer level. It is critical that we as an organization remain strategic in our approach to navigating inflation while maintaining our ability to sustain organic revenue growth and market share expansion over both the medium and long-term. This will require an increased agility on our part, as well as greater contribution from certain areas of the business, namely productivity and innovation.

On productivity, we have made significant progress over the past year, and we lean more on supply chain as an offset to inflation. This will be achieved through a combination of procurement savings and manufacturing efficiencies.

On innovation, as you heard from Stéfan, we have seen strong early signs from the launches that we brought to the market, and we look to further invest in the coming years to ensure that our brands remain at the forefront of evolving consumer trends with convenience, sustainability and nutrition, the three fundamental pillars.

Moving down through the rest of the P&L, adjusted operating expenses increased 1% year-over-year, reflecting the planned shift in media spend from Q2 to Q3. As such, A&P increased 3%, while indirect expenses were flat through last year.

Adjusted EBITDA was €96 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 10% versus the prior year.

Adjusted EPS was €0.25 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 third quarter.

Turning to cash flow on Slide 7, we generated €170 million of adjusted free cash flow for the first nine months of the year, as compared to €97 million generated in the same period last year. Factors contributing to adjusted free cash flow performance include: Adjusted EBITDA of €316 million, a 15% year-over-year increase; a working capital outflow of €96 million; cap ex and cash taxes of €29 million apiece; and cash interest and other of €45 million, due to, primarily, the reallocation of the lease payments from operating cash flow to financing cash flow as a result of IFRS 16.

Free cash flow conversion was 68% of adjusted profits through the first nine months of the year. This reflects the seasonal nature of the working capital cycle, which tends to peak during the third quarter due to the timing of the harvest. With that said, we are pleased to report improved conversion versus a year ago, and are making progress on the actions that we've identified to drive improved cash flow efficiency during the remainder of the year.

With that, let's turn to Slide 8 to review our 2019 guidance, which is based on foreign exchange rates as of November 5, 2019. For the full year 2019, with two months remaining in the year, we are narrowing our guidance to the upper end of our range, and now expect to achieve Adjusted EBITDA of approximately €425 million to €430 million, and adjusted EPS of €1.20 to €1.22.

Full year guidance continues to assume organic revenue growth at the low single-digit percentage rate. Based on current foreign exchange rates, we expect FX translation to represent approximately 30 basis points' help on reported revenue growth in the fourth quarter, and a drag of 20 basis points for the full year.

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

Operator:

Thank you, sir. We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

The first question comes from Jason English of Goldman Sachs. Please go ahead.

Jason English:

Hey, good morning, folks, thanks for slotting me in.

Samy Zekhout:

Hello, good morning.

Jason English:

I wanted to come back to the pricing narrative. You guys have obviously done a phenomenally good job navigating all the cost pressures that you faced for this year, and demonstrated a strong ability to price. I heard in your prepared remarks, the emphasis on the need to maybe lean heavier on productivity, lean heavier on innovation. If we look at some of the Nielsen data, which we know has plenty of imperfections, it does suggest that private label, particularly in the U.K. and categories like fish is finding another leg of momentum, and it begs the question of whether or not you may be reaching some upper limits on the ability to push price even further.

I'd love your thoughts on that, what you're seeing in terms of need to push more pricing; I know it's a moving target, given the pound volatility, and then your ability to push pricing if needed, further in that market.

Stéfan Descheemaeker:

Okay, thanks, Jason. Obviously, it's a long question with different aspects. I would first contextualize the Nielsen numbers. As you know, it barely covers something like a bit more than 50% of our total sales, so it's obviously an interesting KPI, but it's just part of it. That's one thing.

This being said, in terms of pricing, to your point, it's a never-ending story. We always have to find the balance between price, volume, market share and margin, and I don't think it's going to change anytime soon or in the future. At the same time, I think the private label guys do have to do the same thing. I think what's going to be key for us—what has been key and it will be key for us is to remain agile. But definitely, we have demonstrated, overall, obviously here and there some exceptions, but we've demonstrated an interesting pricing power in 2019, which again, it doesn't come by chance. It's a combination of innovation, in investment behind the brands and other things.

I think the key word, Jason, is agility and finding the right balance between these different elements. Long-term, it's—you know the story as much as we do. It's all about the power of our brands. We need to be paranoid we're brand people, and we need to keep investing behind these brands. It's a never-ending story, because obviously private label really forces—which is healthy, by the way - forces us to raise the game.

Jason English:

Okay, all right. Thank you. I'll pass it on.

Operator:

The next question comes from Steve Strycula of UBS. Please go ahead.

Steven Strycula:

Hi, good morning. Just to pick out what Jason was threading on, how do we think about the price gap piece of it, Stéfan, given your background, and where you're a Board member, you're very familiar with the pricing model. We saw that it didn't work out so well for Kraft, which is—I know you're not a part of-but just wanted to understand. Is price gap something you're being very mindful of, and I think the spirit of what people want to know is, should we expect volumes to start improving based off the innovation that you're seeing in the marketplace? Can you help us think about it—I'm not asking about Nielsen, but just more broadly speaking across your business—and then I have a quick follow-up.

Stéfan Descheemaeker:

To your first question, price gap is absolutely—it's a fundamental KPI for us, and we do this definitely first for our "must-win battles", the key SKUs, and we check-in where we stand. Overall, again, country by country, channel by channel, it may differ, but it hasn't widened. That's the key piece. Sometimes it takes a bit more time, because obviously people have different hedging situations so sometimes the commodity prices is impacting them a bit later and they're taking the decision between private consumers and all the rest of it. That's the key piece for us.

To your second question, long-term, we are committed to volume growth, profitable volume growth, obviously. That's a key consideration for us. Obviously, we might have some bumps in the road, but overall, that's definitely something we want to do, and innovation is playing an increasing role with that. We were talking about Green Cuisine; it's a very important point for us. We believe that with these kind of products, these kind of innovations, we have what it takes to win with the consumers.

Steven Strycula:

Thanks, Stéfan. As a quick follow-up, can you give us an update as to what's happening with, call it, the two acquisitions you've done more recently; where are we in the turnaround of those businesses, or I'd call it, the progression of those integrations? Then, to your comment on M&A from earlier, do we think that Brexit complicates how you would look at closing on a deal, given some of the cross-border implications, or would it be safe to say that maybe we're focused on just mainland Europe where you don't have maybe as much cross-U.K. versus EU exposure? Thank you.

Stéfan Descheemaeker:

Let me answer the second question first. The answer is no, Brexit doesn't impact our thinking process and potential acquisition opportunities in continental Europe and elsewhere. That wasn't really a consideration. Beyond obviously, we're not going to comment further in terms of the future.

Back to the past and the present with the two acquisitions, I'll say we are pleased with both. The integration is moving very swiftly. As an example, we have, I think it was three days ago, we now have a fully integrated SAP system for the whole organization, so for Aunt Bessie's, for Goodfella's and for Birds Eye, which is great, by the way, in terms of visibility for us, because then you have exactly the right set of numbers. Obviously, that's overall. In terms of results, we are really—I mean, totally in line with the results. Maybe a bit more cost savings, a bit less of top line, here and there; we had one delisting for example, which is of a temporary nature, we believe, because we have great brands. But overall, no, we're very pleased with both, and they do well.

Oh, I forgot to mention, by the way, something that you never can count in a business plan, as we mentioned, Goodfella's. I remember someone told me, I mean, are you including anything in continental Europe? I remember my answer was, at the time, "Of course not." And you know what? We're doing things now in Portugal, and it's doing well. We now have, after a few months—it's early days, but after a few months, we have a 4% market share in Portugal with Iglo as a brand, and with products that are coming from Ireland.

Operator:

The next question comes from Bill Chappell of SunTrust. Please go ahead.

William Chappell:

Thanks, good morning.

Stéfan Descheemaeker:

Morning, Bill.

William Chappell:

Stéfan, just to go back to—good morning—your commentary on M&A, it's a lot stronger, both in the press release and what you're saying than you've said before. Usually you kind of dismiss, it will come from time to time. Is it fair to say that you were hoping to have something to announce by today, we're that close to the finish line, and then any kind of color you can give us in terms of size of deals you're looking at? Is there one very large deal, or is it more kind of bite-sized deals that you've been doing so far?

Stéfan Descheemaeker:

The answer to your first question is no, we were not expecting to sign anything right now. Obviously, we are quite active in terms of pipeline. A different level, obviously, of how advanced or not advanced we are. In terms of size, I would not necessarily comment on the size. The only thing I would say is if you just, at this stage, focused on frozen food in Europe, basically, we're really looking at, let's say, opportunities on a country basis, category and channel.

William Chappell:

Okay, I'll stay tuned. Then in terms of…just looking back to the kind of question on price, as we look to next year, with volume kind of flattish to down and most of the growth being driven by price, do you expect another round of pricing next year to drive growth, or would you expect volume to start to pick up the slack?

Samy Zekhout:

Bill, Samy on the line, hi. I just want to reiterate the fact that we are very keen on the market situation. There will be inflation, we're planning for that. What we're trying to achieve, let's say, in our strategies, balancing, if you want, the focus on pricing, on inflation, and effectively making sure that our share is progressing the right way and in a profitable way. So there will be pricing, but I'd say we're going to have to make sure that we continue to grow our business and accelerate our growth and create value through that, for sure.

William Chappell:

Got it. Last one for me, just back on Green Cuisine, any kind of sense of where the plant-based meat market stands in Western Europe, and opportunity and what you think, especially going into 2020?

Stéfan Descheemaeker:

By definition, we have goals, but by definition, I would not comment about those goals, they're our internal goals. What is very interesting to see is that there is a lot of enthusiasm, across the countries, for Green Cuisine, enthusiasm behind the quality of the product, enthusiasm behind the quality of the launches, the potential launches. So that's overall very reassuring, I would say that way. The consumer reaction in the countries where we already ahead—like the U.K. for example-it's very, very encouraging. Still, I believe we are very imperfect so we can do much better, but what we've seen is very good.

And quite frankly, congratulations to the R&D team, because they've come up with really, really good products, quite frankly, and it's starting with that. Beyond the consumers, again—and this is not anecdotal. I can tell you that the retailers are very, very excited. Obviously, you're going to have all your negotiations, but they've very excited, and it's a great starting point.

William Chappell:

Great, thank you.

Operator:

The next question comes from Brian Holland of D.A. Davidson. Please go ahead.

Brian Holland:

Thanks, good morning, gentlemen. First question, just to follow-up again on the pricing side of the equation here; it's always been my understanding that, given your sort of stated strategy for profitable share capture, that would always lead me to believe that you'd be a little bit more aggressive in pricing, maybe said another way, earlier to take pricing than some of your competitors. But it's also been my understanding that, especially on the frozen fish side, I believe, you've got some highly levered competitors.

I know you're not interested in being in the business of predicting what your competitors will do, but as you look at the landscape and you kind of have some of historical context at least, would you expect—

and Stéfan, I think I heard this from what you said earlier, but is there an expectation that the price gaps maybe could narrow, not because you'd be pulling back on pricing but because, potentially, some others probably still have some pricing to take? Is that fair?

Samy Zekhout:

To be fair, we're monitoring, effectively, our pricing versus competition, and more importantly, as all, we are monitoring the reaction of the consumer in light with the balance between the value equation of pricing and quality. What we have seen so far in the pricing, we have realized, to focus on your question, is that, effectively, the consumer elasticity is very much in line with what we have predicted and with the market. We're not going to comment as to whether or not this will narrow down or not, because at the end of the day, it depends as well on the competitor.

But what's important for us is focusing on the value equation, and more importantly is to win with them. So in other words, making sure that our share is going to grow, in the context of inflation is going to be important, and that's going to require agility. That means that it may not just be straight-through pricing; it may be as well other elements such as leveraging our mix, leveraging PPA and leveraging all of the elements that we have around net revenue management, which will enable us to leverage the brand and to deliver profitable share growth.

Brian Holland:

Thanks, I appreciate that color. On the volume side, forgive me if you addressed this already, but any sense, just given some of the innovation you're bringing to market or have brought to market, from a cadence standpoint, is that a little bit more Q4 weighted, such that maybe that would help the volume at all? Is that any factor in what we would see, both in Q3, in the softness, and maybe how Q4 plays out? Is there anything worth noting there?

Samy Zekhout:

Not really.

Brian Holland:

Okay. Last question for me then is on the currency, or I guess, just kind of on the overall inflation side. It seems like the level of inflation is moderating, the pea harvest, as you commented, fish. The biggest swing factor, it seems to me, would be kind of on the currency side. Is there any thought at this point about how you would manage that? Obviously, given the uncertainty that still swirls with Brexit, how you might try to mitigate some of that volatility next year?

Samy Zekhout:

Well, on the FX we are indeed monitoring that. It has an effect, and this has been effectively fluctuating here and there. Just to make it simple, we do effectively have a hedging strategy as well to make sure that we mitigate the risk moving forward to allow the business to focus on driving, effectively, the business strategies.

The FX still is, effectively, a dynamic factor. We're just taking this into consideration as we establish and execute our hedging strategy. So to answer your question, yes, it is a factor we are taking into account, and we are taking action against that.

Brian Holland:

Appreciate it, thank you.

Operator:

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

Matthew:

Hi, this is Matt on for Robert. In case of a hard Brexit, can you guys describe the product lines and input costs that will be most impacted? Is it going to be coming from fish costs or the finished fish products that are imported from Germany, and what about U.K. vegetables and U.K. ready-to-eat meals? Thank you.

Stéfan Descheemaeker:

Okay. To make it simple, anyway, even in a hard Brexit, there will be—which obviously is now, we think, off the table,-but obviously we are still well-prepared. But the first thing is to take into consideration, is that there will be subsidies from the U.K. government for quite some time, so that's the biggest thing.

Overall, where we can have an impact is more in terms of supply chain, where to relocate some products, so that kind of things we are getting ready. That's that, but it's not necessarily limited, it's not necessarily fish and other things. But to make it simple, we're really well-prepared. We spend a lot of time, I can tell you, behind the Brexit meetings, and right now we've shelved it a bit but ready to come back if needed.

Matthew:

Great. I mean, is there any individual product that will have more exposure than others?

Stéfan Descheemaeker:

Let's say maybe poultry is a bit more impacted at this stage, but again, we are taking measures. Right now, we're thinking about where could we have the right level. But again, we're not going to do anything right now which is definitive, because, again, things are very fluid. But probably, I would be a bit more optimistic than I was probably a few months ago. But again, even for these products, we are ready.

Matthew:

Great, thank you.

Operator:

The next question comes from John Baumgartner of Wells Fargo. Please go ahead.

Jonathan Baumgartner:

Good morning, thanks for the question.

Samy Zekhout:

Good morning, John.

Stéfan Descheemaeker:

Hi, John.

Jonathan Baumgartner:

Stéfan, I wanted to ask, when we think about private label, maybe taking it in a different direction, it looks like, even though private label's gaining share in frozen fish, it doesn't seem to be on aggressive pricing. I look at most of your markets, and private label pricing is up, at least the category, if not above it. It seems that the losers of share are the secondary brands.

So I'm curious, do you see anything in terms of changes in merchandising in the frozen fish case, where maybe retailers are looking to keep the market leader and Nomad, merchandise more private label and then squeeze out some of the secondary brands? Is there anything there in terms of the shift in merchandising that we should consider going forward?

Stéfan Descheemaeker:

I would say it's really a country-by-country basis. For example, in the U.K., we still have a very strong competitor like Young's, and they're doing, quite frankly, they're doing well, so congratulations to them. I would like to say the other way around, that's fine, that's life.

In other countries, probably you're right. In some other countries, its' —but I don't think you should focus too much on fish. I think it's a global phenomenon, where in the stores, increasingly so, you're going to have the private label, then the A brand, maybe the B brand, and that's it. I think in Europe, we're more advanced than in the U.S. where you still have C and D brands, but I would be a bit more concerned if I were a CEO of D brands in the U.S.

But I don't think I would focus on fish. I think it's a global phenomenon. And it's our job, obviously as an A brand, because we are the A brand, to keep investing. We have no choice. We need to keep the space between us and the private label, so that we can win with the consumers.

Jonathan Baumgartner:

Okay, thanks for that. Then just to follow-up, thinking about net revenue management, I know 2019 is a year where the whole NRM approach seems to be maybe accelerating a bit in terms of capabilities, and that will continue again next year. But it looks like, across your two main categories of the fish and the frozen veggies, it seems like maybe the fish category is a bit more sensitive, in terms of following response to reductions in promo. And I'm curious as to your observations, whether it's learning anything about how to—maybe wean consumers off buying a deal on fish, or maybe it's a positive read across in terms of the resiliency of the veggie category. Just want any kind of high-level thoughts in terms of how the NRM is evolving versus your expectations and how it's going to form the strategy going forward.

Stéfan Descheemaeker:

Overall, again, we're very pleased we started early, by the way, the game, with net revenue management. We started with promo. We did that very sequentially; we started with promo efficiency, and I'm surprised to see that we still have a lot of potential. It's a never-ending story, so you still have a bucket of less-performing promo that you can move, and again, not limited to fish or veg. I think it goes across the categories.

Now, obviously, with net revenue management, we have raised the game, probably a bit out of necessity last year with the cost increase. We worked a lot in terms of price elasticity and again, I think as Samy mentioned, overall—and again, you have exceptions. Sometimes a bit down, sometimes a bit up, but overall, it's worked as expected, I would believe. We're still learning a lot, but the level of price elasticity is overall, as an average, very much in line with our expectations.

Samy Zekhout:

It will continue, I mean, to be a clear contributor to value creation, but as you say, there's an element where the first year is the year where you have a lot of low-hanging fruit, and after that—it's not that the outer years are less, but the point is that you are then more in a maintenance strategy where then it allows you to really balance the equation between volume, pricing and overall share growth in a profitable way. So it will continue to be a key pillar and, to be fair, in 2019 it was a really hard resistant step to really execute on our NRM strategy in the context of higher inflation. Once it proved, effectively, it worked, and as we move forward, we continue to leverage that together with the other activities.

Jonathan Baumgartner:

Okay, thank you very much.

Operator:

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

Jonathan Tanwanteng:

Good morning, gentlemen. Thanks for taking my question.

Stéfan Descheemaeker:

Good morning.

Samy Zekhout:

Morning.

Jonathan Tanwanteng:

Could you start by giving us a little bit more color on the Nordics? What in the past were top and bottom line growth there? Do you focus in the region in favor of higher return opportunities or are you going to come back there and kind of execute on some of the low-hanging fruit?

Stéfan Descheemaeker:

I would be that way. The first thing is, which is very important, it's a strategic region for us. By the way, the frozen food consumption is higher than in most of the other countries, which is great for us. And if we believe that they are the vanguard of the consumption in the future, it's very encouraging.

Then, if you—I think, we're talking about the Nordics, but it would be fair to say that in the Nordics, you have Sweden, which represent around 50% of the business, and the other others, mainly Norway and Finland, which represent another 50%. The others are performing well with good margin recovery. We kept saying that, yes, sales in Norway are declining, but quite frankly, it doesn't wake me up at night at all, I can tell you, because it's really low-margin business that we have decided to stop anyway. It's a bit spectacular in terms of sales.

I can tell you, in terms of gross margin, especially knowing that it's not even produced by ourselves so there is not even fixed cost recovery here, it's much less spectacular in terms of gross profit. It allows these organizations to really focus behind the SKUs that's matter, so it's really a good application of the "must-win battle" concept, to Norway. You see, that in that aspect Norway, is really doing well, from all aspects.

Sweden is more complicated. Last year we had a country like Spain that was not doing as expected. They've been through a recent turnaround, which implies, obviously, a refocus behind the key categories. Also, probably, a renewed level of energy; we now have a new leader there. I'm confident it's going to work pretty much like in Spain, but if we take a bit of time—and so, it's not going to be linear to get there- but if they apply very much the same model, we'll get there.

Jonathan Tanwanteng:

Okay, great, thank you for the color. Then I just wanted to dive a little bit deeper into the traction and momentum you're seeing on the new product side, especially the healthier options. First of all, what percentage of revenue are they right now, and where do you see them going over the next couple years? Maybe from a margin profile, where do they stand versus corporate average, and how are you supporting them from a marketing and investment perspective?

Stéfan Descheemaeker:

The first piece is, as we stand, obviously I'm not going to comment on the 2020 ambition. But it is still small, because it's limited to a bit of the U.K. and a bit more in the Nordics, especially in Sweden, so that's small. Back to the question of margin, good margin, definitely good margin. The thing is, what's important to know is, we're starting the category, so it's important to set the price at the right level.

Where the category's already more established, it's obviously a bit more difficult to come with a price that is too different. In most of the countries, we're just starting, so it's a great opportunity and we're working very hard with the teams to make sure that we're going to price at the right level. What we've seen is our margin ambitions, quite frankly, are pretty good. The fact is, the brands—and we've seen this with Birds Eye, Green Cuisine in the U.K.-all brands have the potential, the credibility to get there, so it should be incremental. We're very bullish with these new, let's say these "must-win battles-to-be".

Jonathan Tanwanteng:

Got it, and how quickly can you roll them out on a regional basis? Are there puts and takes to the different countries and how accepting, or how much it might cost to do that?

Stéfan Descheemaeker:

To your point, I think our model is a very delicate balance between global and local. Every launch is obviously, the product—global comes with the product and platform, and then it's really up to the countries to take the platform, because obviously they're going to make it work. So they need to obviously have the motivation and everything behind it. Again, it is psychology, but it's very important to have that kind of thing.

With that in terms of investment, it's a sizable investment in terms of A&P which is normal, because you have to start, but that's it. The good news, obviously, compared to most of our competitors, is we have the distribution muscle in the frozen area that nobody has.

Jonathan Tanwanteng:

Okay, great. Thank you very much.

Operator:

At this time, we have no more questions, and we'll turn the call back to Stéfan for closing comments.

Stéfan Descheemaeker:

Thank you for joining to review our third quarter results. We had another strong quarter, marking 11 consecutive quarters of organic revenue growth for the Company. Our growth model is demonstrating our ability to generate sustained top line growth, which should see steady contribution from innovation as we introduce new and on-trend products to the market.

Finally, we have a very well-capitalized balance sheet and are actively pursuing several opportunities with the objective of driving additional shareholder value by way of M&A.

Have a great day, and I look forward to updating you on our full-year results early next year.

Operator:

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.