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Nomad Foods Limited

Fourth Quarter 2019 Earnings Conference Call

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Steve Strycula, *UBS*

Rob Dickerson, *Jefferies*

John Baumgartner, *Wells Fargo*

Jon Tanwanteng, *CJS Securities, Inc.*

Bill Chappell, *SunTrust Robinson Humphrey*

Jake Nivasch, *Credit Suisse*

PRESENTATION

Operator

Good day, and welcome to the Nomad Foods Fourth Quarter 2019 Earnings Conference Call.

Today's conference is being recorded.

At this time, I'd like to turn the call over to Taposh Bari, Head of Investor Relations. Please go ahead.

Taposh Bari

Thanks, Matt, and thank you all for joining us to review our fourth quarter 2019 earnings results.

With me on the call today are Chief Executive Officer, Stéfan Descheemaeker, and Chief Financial Officer, Samy Zekhout.

Before we begin, I would like to draw your attention to the disclaimer here on Slide 2 of our presentation. This conference call may make forward-looking statements which are based, in our view, on 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 be discussing non-IFRS financial measures during the call today. These non-IFRS financial measures should not be considered a replacement for and should be read together with IFRS results. Users can find the IFRS to non-IFRS reconciliations within our earnings release and in the appendices at the end of the slide presentation, available on our website.

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, share-based payment and related expenses, as well as non-cash foreign exchange gains or losses, and 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, which is 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 fourth quarter and full year 2019 earnings results, which exceeded the high end of our prior guidance range. These results are consistent with the commentary that we provided at CAGNY last week, and reinforce the strength and sustainability of our business model.

Financial highlights from the fourth quarter include: organic revenue growth of 1.7%, driven by a 3.2% increase from price, offset by a 1.5% decline in volume and mix; adjusted gross margin of 29.9%, which was unchanged versus last year; Adjusted EBITDA of €116 million, representing growth of 15%; and adjusted EPS of €0.32 per share.

Overall, we're pleased to have delivered a 12th consecutive quarter of organic revenue growth, while laying the groundwork for our pan-European expansion of Green Cuisine and maintaining our gross margins despite elevated raw material inflation.

Turning to the details of the fourth quarter, organic revenue growth of 1.7% was broad-based, with nine of our 13 core markets growing during the fourth quarter. Growth was led by Germany, Italy and France, while the U.K. and Sweden declined. Our strategy continues to generate low-single-digit organic revenue growth, with growth in our core, which represents 70% of our sales, outperforming the average. The remaining 30% continues to decline in a controlled manner, with the objective of managing this segment of our portfolio for margin and cash flow.

Taking a closer look at our country performance, we experienced a few variations that I would like to comment further on.

Starting with Germany, which achieved organic revenue growth of 9% in the fourth quarter and 8% for the year. This robust performance was driven by solid execution in our core categories and the strategic expansion of our Iglo product into Aldi.

Moving on to the U.K., where organic revenues declined 1% in the quarter and increased 2% for the year. The decline was driven by our decision to prioritize gross margin, which led to some tactical volume loss, which we consider to be transient in nature. The impact of this decision was most acute within our Aunt Bessie's brand, which has a strong seasonal bias towards Q4 and, to a lesser extent, Q1. Looking out, we expect the U.K. to decline again in the first quarter before resuming its growth trajectory in Q2 once we begin to recover lost volumes at Aunt Bessie's and begin to activate our exciting plans for the coming year, including the expansion of the Green Cuisine range.

Finally, Sweden, which declined 15% during the fourth quarter and 7% for the year, this is our most challenging market and one where I firmly believe our issues are executional in nature. Sweden has not only the highest per capita consumption of frozen food in Europe, but is also one of the fastest growing frozen food markets. Our Findus brand has number one market share despite the challenges and is very much aligned with the consumer movement towards high-quality food which is great tasting, convenient and sustainable.

Going back to execution, this is a market where we, frankly, lacked focus and discipline, and as a result have yet to successfully replicate the Nomad Food growth model that has served us very well in many of our other European countries. With that said, we have an action plan in place and believe the future for Sweden is full of promise. I have appointed a new Management Team at the beginning of this year and have a series of actions to not only stabilize the business, but to return it to profitable growth year in and year out. This will start with a rigorous focus on our retail partners and our consumers, as well as leveraging our strong heritage of distinctive assets and our capabilities within the broader Nomad Foods organization. We believe that the turnaround in Sweden will require hard work and, as a result, take more time. With that being said, the EBITDA implications are likely to be relatively contained given the low margin profile of this country today.

Turning to gross margins, we're happy to have maintained our Q4 gross margins versus the prior year, which were somewhat ahead of our latest expectations. We successfully navigated raw material inflation in 2019, delivering in both low-single-digit organic revenue growth and slight gross margin expansion before the effect of M&A. I'm proud of the way our entire organization took on the challenge of inflation in 2019.

As anticipated, our cash generation was stronger in the fourth quarter. We generated over €200 million of free cash flow during the year, bringing our net leverage down to the mid-twos and our cash on hand to over €800 million.

We enter 2020 in a position of financial strength and remain on the offensive on acquisitions. We remain actively engaged and look forward to sharing news at the appropriate time. As you heard us describe at the CAGNY Conference last week, our near-term approach and focus on mid-sized European frozen food assets where we believe we can create value for our shareholders. Our balance sheet and cash flow outlook provide us ample capacity to pursue these types of deals.

And finally, we further developed Green Cuisine, our plant protein sub-brand, with strong in-market performance in the U.K., and preparations to launch the range across continental Europe in 2020. In less than 12 months on shelf, Green Cuisine has already become the number three selling frozen plant protein brand in the U.K., putting us ahead of some very notable brands. Our products and advertising campaign have been very well received by consumers and retailers, paving the way for an even broader assortment and shelf space for this range in 2020.

We mentioned at CAGNY that we plan to expand Green Cuisine beyond the U.K. and Ireland, which first launched the range in spring 2019. We have an ambitious launch calendar for the coming year, including the expansion to at least six new countries in the first half of 2020. I'm pleased to share that Green

Cuisine went live in Germany in January and is scheduled to enter France next week. We are excited to have created a uniquely positioned brand built on the principles taste, convenience and sustainability, which we believe will translate across the frozen food aisle in Europe. We know we have a strong right to win in this dynamic sub-category of frozen and look forward to watching this exciting business develop over the coming year. To repeat what we said at CAGNY last week, we expect Green Cuisine to generate over €100 million in revenues by 2022.

Before turning the call over to Samy, I would like to provide you with some high level thoughts on our plans for 2020, which call for a fourth consecutive year of organic revenue growth and an Adjusted EBITDA of €400 million to €445 million.

We have a strong pipeline of new product launches, media activations and promotion plans to support our top line plans. Revenue growth is expected to be more balanced between price and volume versus what we experienced in 2019.

I mentioned Green Cuisine as a growth engine. We also expect our existing base business to grow, as we will look for our flywheel to spin a even faster. Green Cuisine is a gross margin accretive business for us and one with significant headroom for growth longer term. Given our ambition to build a sustainable business here, you will see us reinvesting nearly all of our gross profit from Green Cuisine into SG&A in year one and, to a lesser extent, in year two.

We expect to face a second year of above average inflation in 2020, due to a combination of some continued raw material inflation and Forex. With that said, we're seeing signs of stabilization on the inflationary front, particularly on fish prices. In sum, we expect that our gross margin will be relatively unchanged versus last year and that our Adjusted EBITDA will grow 2% to 3% in 2020. This is somewhat below our long-term algorithm of mid-single-digit EBITDA growth, but an outcome, that will result in profitable growth and will enable momentum to continue into 2021, and beyond. As we stated last week, we remain confident in our ability to deliver against our algorithm and view this year as an outlier.

In summary, we are pleased with our results and excited for the year ahead. We have a full slate of strategic initiatives in place which will fuel another year of organic revenue and EBITDA growth. Our balance sheet remains a strong competitive advantage, which we expect, in due course, will translate into a strong source of earnings and cash flow to complement our base business.

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 fourth quarter operating metrics, beginning with revenues, which increased 2% to €628 million, driven by 1.7% organic revenue growth. Growth was led by Germany, France and Italy, and partly benefited from early deliveries related to January promotional activity.

Fourth quarter adjusted gross margin was 29.9%, slightly ahead of plans, and unchanged versus the prior year. Gross margins benefited from pricing and promotional activity, which offset cost of goods inflation.

Moving down to the rest of the P&L, adjusted operating expenses decreased 6% year-over-year, reflecting phasing shifts which we have planned for. Within operating expenses, A&P declined 11% and indirect declined 3%.

Adjusted EBITDA was €116 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 11% versus the prior year.

Adjusted EPS was €0.32 for the quarter, increasing 10%. IFRS 16 did not have a material impact on EPS during the fourth quarter.

Turning to Slide 7, I would like to review the P&L highlights for the full year 2019 results.

Revenue increased 7%, driven by 2.1% organic revenue growth and 4.9 percentage points from acquisitions. We are very pleased to have delivered the third consecutive year of organic revenue growth, in line with our long-term growth algorithm in the low-single-digit range.

Adjusted gross margin was 30% in 2019, down 30 basis points, as to the prior year. The negative effect from M&A mix had a 50-basis-point impact, resulting in like-for-like gross margin improvement of 20 basis points.

Rounding out the rest of the P&L, operating expenses increased 2% for the year, driven by a 3% increase in indirect, while A&P down marginally year-on-year.

Adjusted EBITDA increased 15% to €432 million, with IFRS 16 representing an €8 million benefit. Excluding this benefit, Adjusted EBITDA grew 10% versus the prior year.

Adjusted EPS was €1.23 for the year, increasing 3%. IFRS 16 did not have a material impact on full year EPS.

Turning to cash flow, on Slide 8, we generated €228 million of adjusted free cash flow in 2019, compared to €286 million in 2018. Factors contributing to adjusted free cash flow performance included: Adjusted EBITDA of €432 million, a 15% year-on-year increase; a working capital outflow of €44 million; capex of €47 million, representing 2% of sales; cash taxes of €46 million, representing a cash tax rate of 15%; and interest and others of €67 million, due primarily to the reallocation of lease payments from operating cash flow to financing cash flow as a result of IFRS 16. We converted 97% of our Adjusted EBITDA into adjusted free cash flow, marking a significant improvement versus where we were as of quarter three.

With that, let's turn to Slide 9 to review our 2020 guidance, which is based on foreign exchange rates as of February 25, 2020.

For the full year 2020, we expect to achieve Adjusted EBITDA of approximately €440 million to €445 million and adjusted EPS of €1.19 to €1.21. Full year guidance assumes organic revenue growth at the low-single-digit percentage rate and a share count of 204 million. The guidance does not reflect the potential accretion from any acquisition that we announced in 2020. As a reminder, we have over €800 million cash on our balance sheet and are actively engaged on a number of prospective deals.

A few other modeling points for you to consider:

In terms of phasing, we expect Adjusted EBITDA to decline double-digit percent year-on-year in Q1, stabilize in Q2, and grow in Q3 and Q4. This is due to both gross margin phasing and the timing of A&P which will be frontloaded in 2020 in advance of our Green Cuisine launch across continental Europe.

Aside from expenses, Q1 is also expected to be impacted by relatively flat organic sales, due to a combination of some shipment timing from Q4 and our expectations for the U.K. and Sweden to decline.

However, given our plans for the U.K. to soon return to growth, we do expect stronger organic revenue performance for the remaining three quarters of the year, beginning in Q2.

Finally, gross margins are expected to be roughly flat versus 2019, with year-on-year performance expected to improve throughout the year.

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

Operator

Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is star one if you'd like to ask a question.

Our first question will come from Andrew Lazar with Barclays.

Andrew Lazar

Good morning, everybody.

Stéfan Descheemaeker

Good morning, Andrew.

Andrew Lazar

Hi there. Two questions from me. I guess, first, at CAGNY last week, and then again this morning, you discussed the expected cadence for the year on both organic sales and EBITDA. On the top line, it sounds as though the softness is more specific to 1Q; EBITDA, as you said, a little more second half weighted. I was hoping you could provide a bit more color, maybe, with whatever specifics you have that sort of add to your visibility to the drivers for each of these, and I've got a follow-up? Thank you.

Stéfan Descheemaeker

Okay. So, let me start with the sales side and then Samy will go with the EBITDA more specifically. It's a series of elements that makes us confident for Q2, Andrew.

The first thing is in the start, you're always starting with the trade negotiations, and the trade negotiations have gone well, and so we do expect to repair some of the key relationships this year, and you know we had some disruption last year. The negotiations are complete in some of our larger countries, so that's why it makes us obviously more confident.

The second piece is something which was already known last week, actually, at CAGNY, is Green Cuisine. We will enter at least six new countries in H1, probably more, with the bulk of that activity really starting in Q2. That will coincide with the multi-channel market campaign that we will launch around the spring timeframe. So, that's the second piece.

The third piece, which is more factual even, is that Q1, the big overhang was really during the month of January, where we saw an expected decline. The business has returned to growth in February and we expect that trend to continue for the reasons I mentioned. So, this is a bit, you know, the trajectory between Q1 and Q2 in terms of sales.

Andrew Lazar

The third one was what again, I just want to make sure—I misheard you. The third one, the factual one.

Stéfan Descheemaeker

Just January was as expected for us, it went into decline, and then what we've seen is February has returned to growth, and we expect that trend will continue in March. That's more factual in the numbers we see.

Andrew Lazar

Got it.

Samy Zekhout

Andrew, maybe I'll just give one let's say short sentence on the EBITDA perspective, because, I mean, the point is, effectively, this imbalance, and we'd say the reality is that the SG&A is planned to be frontloaded, in particular, in Q1, ahead of our launch in Green Cuisine, as we establish the brand ahead of the commercial exploitation in-store. Gross margins in 2020 will show a steady progress throughout the year, based on the timing of inflation, as we discussed last week, mix benefit, as well, from Green Cuisine, and supply chain savings are going to come gradually stronger towards the end of the year.

Andrew Lazar

Got it, okay, thank you for that. Then, I know Nomad's first priority for cash on the balance sheet is acquisitions. That being said, I guess, with the equity trading at below sort of 10 times EV to EBITDA, why not use, I guess, a portion maybe to buy back some of your own shares? Because, I would think the Company certainly has the flexibility to do both buybacks and deals, particularly, if it seems the sorts of deals being considered are likely more bolt-on or medium-size in nature. So, I guess I'm just asking you if the two need to be mutually exclusive. Thanks very much.

Stéfan Descheemaeker

As you know, Andrew, nothing is taboo about what we did in the past. It's obviously something that we are always evaluating at the Board level. In the meantime, we are firmly engaged in the M&A process, and we think that in the near term, you know, things that we see ahead of us are obviously the kind of targets that will add more value than the buyback at this stage.

Andrew Lazar

Thank you.

Stéfan Descheemaeker

You're welcome.

Operator
Our next question will come from Steve Strycula with UBS.

Steve Strycula

Hi, good morning.

Stéfan Descheemaeker

Hi, Steve.

Steve Strycula

Stéfan, I'd like to ask an operational question about, you know, digging into Sweden and the U.K. a little bit more. It sounds like we're dragging along the bottom and maybe there's some opportunity to improve each of these businesses, given some of the leadership changes that are underway. Can you spend a little bit more time explaining to us what exactly happened with Aunt Bessie's in the U.K., what was the strategic decision that was made, and then ultimately how it corrects by, call it Q2, and the same exercise through Sweden, I think would be helpful, just so we understand what's really kind of going on here, and what is– you know Samy the profitability implications if these two businesses are fixed, does it move the needle? Thank you, and then I have a follow-up.

Stéfan Descheemaeker

Okay. Let me, before starting, go into the specifics, Steve. Let me clearly make a difference between U.K. and Sweden.

U.K., overall, the business is doing well. We had a more difficult year last year, probably, partly because we had to integrate three businesses into one, and that took a lot of energy, but, overall, the business is doing well. What happened with Aunt Bessie's, at some stage we were confronted with a very high level of promotion from some of our competitors and we decided, in terms of gross profit, that we needed to pass at this stage. We are confident that for what is really strategic for us in terms of Aunt Bessie's we will be back at some stage in the course of the year, as for all the categories in the U.K. When we're talking about U.K. coming back to growth in Q2, that's exactly what we mean, and we're very confident with the team, the team is doing an excellent job in terms of sales and in terms of gross profit and in terms of EBITDA. It is one of our biggest, obviously, operations, and an operation that we like. Can we always do better? Absolutely. Definitely, after the one or two disruptions we had, obviously, the Company and the team obviously went through some sort of what can we do better, what can we improve, and I think what I've seen, is I'm very pleased with the plans we have ahead of us in 2020.

Sweden is a bit different, Steve, and let me first quantify what Sweden is all about. In terms of sales, is one thing, it's not negligible. In terms of EBITDA, it's today around 2%. So, that's what it is. Definitely, we need to turn that around. As I said, it's very much operational in nature. I think we lost a bit of focus and I think—starting with me, by the way. I think, as you know, I could have done better from that standpoint. We have reacted in the meantime very, I will say in a very hands-on way. We've changed the team. The team that we now have in place is very strong. It is now overseen by Wayne Hudson, who is now in charge of the U.K. and the Nordics, and I'm very confident that, with that very hands-on approach, it will make a big difference.

The thing is, the difference between the U.K. and Sweden is where we have a very clear plan to go back to growth in the course of Q2 with the U.K.; a staggered way, however, because it's going to take some time and retailer by retailer, and we know what it is. I think it's going to take more time in Sweden. One big learning is they need to be—Sweden, they need to be closer to the strategic approach we have taken with Nomad since the beginning, which has paid off very well. We also need to make sure that they have access to all, let's say, the learnings and the skill developed by the central team here in the U.K., and obviously that the people are ready to go for it.

We've been through a turnaround in the past. Let me give you now two examples. One is a big one. That's the one, obviously, of Nomad in 2015, 2016, and earlier in something like last year, for example, we were going nowhere in Spain. We've changed a lot of things, including, by the way, some of the key players, and I can tell you I'm very pleased with what Spain is doing.

So, we're expecting the same kind of, let's say, action in Sweden, and in terms of portfolio, in terms of pricing, trade relationship is absolutely key, it's one of the key things that we're missing at this stage, and innovation, as well. At the same time, it's only 2% of our EBITDA, but it could be much more. That's really what the opportunity is for us, because the market, as such, volume-wide and sales-wise, is a good market. So, again, I think we have no excuse not to succeed.

Steve Strycula

Okay, and then a very quick question for Samy. You had €235 million of free cash flow this year. How should we think about that turning directionally as you get a little bit better in 2020, any kind of puts and takes, and then I'll pass it along?

Samy Zekhout

Thank you. We've committed to deliver about 100% of free cash flow productivity, and that's clearly the goal we're putting into action to continue to deliver that kind of cash performance.

Operator

Our next question will come from Rob Dickerson with Jefferies.

Rob Dickerson

Great, thank you so much. Stéfan, just a question around Green Cuisine, and I guess plant-based alternative meat in general, entering six new countries, faster growth, expectations obviously for the brand category. It looks like, even based on your estimates, depending on the cadence of that €100 million over three years, it could, let's say, add even 1% to the top line per year. If we think about that category relative to the core, where frozen is now, do you view the plant-based piece, and the Green Cuisine piece, obviously, as incremental relative to the distribution opportunity with the retailers, but then also to the top line, and then also just to category growth? Thanks.

Stéfan Descheemaeker

The answer is yes, to make it simple. It's a new category. We expect the cannibalization will be reasonably low. I think it will take, probably, some market share away from—that's the purpose, by the way, one of the purposes is to take market share away from meat, as such, which comes very handy for us. In terms of gross margin, as we mentioned already at CAGNY, the gross margin should be accretive to the average of our business, which is great news. So, yes, I think we can only see good things with Green Cuisine.

It's very important, as well, the kind of things you don't see, obviously, in the numbers, Rob, is the level of intentionality at the country level is really very, very high. People are really excited, they're ready to go for it, and importantly, it's also—it's not like an innovation, one shot and then it's over. I think if you want to be successful with innovation, you have to be ready to invest year in, year out, that's key. Otherwise, it's a nice number in your total sales for one year and then it's going down. We don't expect to go that way, we want to really further invest, and it's—I don't have to refer back to Andrew and what he mentioned about

Green Cuisine, about plant protein, but it's really something where we see a win/win between ourselves, the retailer and the consumer.

Rob Dickerson

Okay, perfect, and then just quickly, in terms of acquisition focus, I've heard you and Mr. Franklin, and others, discuss different areas you could go over time. I've heard looking at different countries, broadening the scope. I've now also heard you, let's say, more specifically, in the past six months or so, you're definitely saying, "We're focused more on that kind of mid-sized frozen core within Western Europe, or within Europe." I'm just curious, kind of given some detail, or more detail than you've given in the past, if there's any more color that you can provide with respect to category focus? Is it still like, "Yes, we would love to be in frozen pizza, ice cream would be interesting," or is it more broadly, "Hey, we're just looking for opportunities."? Thanks

Stéfan Descheemaeker

I think you'd have to see that in layers. The short- to mid-term priority is definitely to competitive game in frozen food in Europe, we are the undisputed leader, and then we have to see, country by country, category by category, and channel by channel, where we can go. I think we have not changed our plans. In other words, we are going to invest and acquire where we think we can make a difference, where we can lead, and that's definitely—the good starting point is our current position in frozen food in Europe. So, that's why I think it's very consistent with what we said.

Rob Dickerson

Okay, perfect. Thank you so much.

Stéfan Descheemaeker

You're welcome, Rob.

Operator

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

John Baumgartner

Good morning, and thanks for the question.

Stéfan Descheemaeker

Hi, John.

John Baumgartner

As we kind of think about the evolution towards that long-term EBIDTA margin target, in terms of net revenue management, in 2019, I think four of the five levers that drive improvement there attained advanced status, by your definition. I'm assuming that product just doesn't get a lull thereafter. So, is there a way to think about how even these advanced levers continue to improve in a second generation or a third generation, and so on, and of those five NRM levers, which do you think will prove most impactful for that program going forward?

Samy Zekhout

I think this is a process that needs constant reinvention. John, I think you're hitting on a very important point on that one, because at the end of day it's an ongoing program, and the advanced elements that you see there in the classification that we have on the different levers really correspond to the capability we have been building and the impact on the business. We have to reinvent ourselves in many ways in terms of the competitor changing, and, effectively, we have to apply judgment when it comes to pricing. PPA, in some situations, becomes, effectively, another opportunity for driving increment sales one way or the other. We have to remaster the different elements, I think, relative to what the consumer can bear with and what the retailer can bear with. The big opportunity for us remains, effectively, on the whole trade termsside. So, at this stage, it's not an element which about less, but it's about clearly investing more to get a better return on that, and that's the skill set, probably, that we need to further grow in, let's say, managing overall NRM, but view that as an opportunity for us to constantly reinvent ourselves, reflecting the learnings from the past. If we optimize promotions one year, we will have to optimize them the next year because we'll get new learnings, given the fact that competition doesn't stand still on that. So, we still view that as a big lever for accelerating our growth, overall. However, as you have heard from us, I mean, 2020 marks, as well, a point where we want to balance the growth between, effectively, the pricing side and volume in many ways. So, I think that's the thing which we will be taking into account as we move forward.

John Baumgartner

Great, thanks for that, and then just to follow up in terms of Green Cuisine. I'm wondering if you could provide a bit more context there in terms of how the plant-based ramp comes together, because it sounds like there's not going to be a lot of capex on your end. Look at Nestlé, they've jumped in pretty quickly with some partnerships, with operators, you know, further up the supply chain. So, how do you assess the role of third parties here, whether it's R&D or manufacturing, as you kind of build this up? How much do you lean on outsiders going forward, do you think?

Stéfan Descheemaeker

You're right. In terms of capex at this stage, it's reasonably limited. We have very strong partnerships with suppliers. These are very strategic partnerships and we're very pleased with what we have at this stage with these guys, which is fine. That is one thing.

The second thing is we also have a strong R&D Department that's really going from, obviously, what is provided by the suppliers, how can we make sure that we find this sweet spot between let's say, taste, health and sustainability, and that's basically—that's where we spend most of our time and energy, to find exactly the sweet spot. It's not capex that I can tell you. So, it's time, it's P&L as such. It's not easy. I think the initial products, quite frankly, between us, John, were great from the sustainability standpoint, were great from the health standpoint, and were terribly boring, and we were not pleased with that, and so we have improved over time and we found something which we believe is really going in speed. I would never say spot on, because we can always improve, but it's really a nice sweet spot between all these things. So, that's that at this stage.

Should we at some stage grow through further verticals, maybe, but at this stage we don't think it makes a lot of sense, because what you see is we have all the fundamentals already and the product is great. Frozen food, it's really our category. We have the go-to-market, so we don't need to invest in go-to-market, that's also fundamental, and we're coming with something which will add value in terms of gross margin and further. So, that's that at this stage. So, at this stage, quite frankly, there is no real need to further invest capex. We have the capacity, we know what we can do, and if it really goes way, way, way beyond our expectations, I can tell you we will be very, very pleased to spend the capex that is necessary, and you know that our balance sheet is ready for that.

John Baumgartner

Okay, thanks for your time, I appreciate it.

Operator

The next question will come from Jon Tanwanteng with CJS Securities.

Jon Tanwanteng

Good morning, gentlemen, and thank you for taking my questions.

Stéfan Descheemaeker

Hi, Jon.

Jon Tanwanteng

My first one is for Samy. How much revenue did you pull into Q4 and how much expense did you push out into Q1 or beyond? I just want to get those numbers, if you could.

Samy Zekhout

About 1%.

Jon Tanwanteng

One percent of sales?

Samy Zekhout

One percent of sales, yes.

Jon Tanwanteng

Okay, and then on the expense side?

Samy Zekhout

No change, nothing.

Jon Tanwanteng

Okay, got it. Second, just because someone has to ask it, how are you positioning for potential coronavirus impacts? Maybe start with Italy and your exposure there, but also across the continent. Then, further, do you guys actually benefit from people staying home, you know, buying frozen food, or does it go the other way for you?

Stéfan Descheemaeker

Well, it's a good question, Jon. Let me handle that. First, about the numbers, you're right, Italy is a big market for us, it's around 17% of our business. So, it's big, and, quite frankly, a nice margin, so it's an important one. That's a bit of context today, but, to your point, it could go beyond. Obviously, what we're doing right now, we're preparing ourselves in Italy. Whether we like it or not, it's an interesting test-and-learn for the rest of the organization, if that happens.

But, priority number one, we don't talk enough about it, but priority number one is to ensure the safety of our employees. We have plans. We have, let's say, a Global Incident Management Team which is ready, it's centralized, it's starting from different countries, and obviously we follow very, very carefully all the WHO guidelines. As you know, it is a very much a very fluid process, changing sometimes by the hour. So, that's one thing, and that's our priority number one.

From the commercial standpoint, it's interesting to see that in Italy, which is to be expected, you have a lot of consumers doing, obviously, over expanding, you know, spending a lot behind frozen food. Frozen food, from that standpoint, is, I would say, from my experience in the U.S., it's like a bit of a storm, you know, when people are rushing into the stores before the storm. So, there is a bit of that. By the way, that, to some extent, I think it was yesterday and the day before, created some options for us in terms of coping with demand. Not limited to Italy, by the way, not our products in Italy, but in other countries. So, we're making sure that we have the appropriate inventory safely stocked. If needed, obviously, we will push the production even further, which is something we're doing already to some extent.

Beyond that, if it's further into the supply chain, we have a reasonably small supply exposure to China, mostly in fish, and, again, we have strong contingency plans in place to work through the situation. We have already formed some alternatives in other countries, which is fine. So, we feel safe.

We're planning, obviously, as all of us, you know, we're planning for the worst. It's a very fluid situation and we're hoping for the best. But, at this stage, even in Italy, the situation is really under control.

I forgot to mention, as well, we have a local plant in Italy that's a competitive advantage.

Jon Tanwanteng

Okay, great, thanks for that color. Finally, just on the meat-free and Green Cuisine side, is that €100 million in revenue a run rate exiting 2020, or is it realized, and also does getting to that €100 million require more investment than you usually make, maybe, outside of your standard MBD or promotion budget?

Stéfan Descheemaeker

It's realized, that's one thing. Second, in terms of investment, and to your point, you're right not to mention necessary capex. In terms of SG&A, in terms of A&P, it will require a lot. As you know, that's something we mentioned last week in CAGNY, that we're going to reinvest most of our gross profit for year one, obviously, year one, behind A&P. That's an important investment. We're not going to limit it to year one, don't get me wrong. I think it's going to go down as, obviously, the sales will go up, the proportion will go down, but definitely it's an important investment year after year. The worst mistake in innovation is to come with a big push year one and then not to have the patience year two, because you have another round of innovations that seem to be more exciting and all the other things. So, that's not what we want to do. We know it is strategic for us. It's innovation, it's strategic, it's a white space, and we have what it takes to win.

By the way, I forgot to mention, as well, that the gross margin, on average, is very nice. So, it's accretive for us in terms of gross margin, and gives us space, obviously, to further invest.

Jon Tanwanteng

Great, thanks. Can't wait for you guys to send some over here so we can try it.

Stéfan Descheemaeker

We will, we will. A series of new products are coming. I don't think it's sensitive information, but it's never-ending, so it's good.

Jon Tanwanteng

Great, thanks for the color.

Operator

The next question will come from Bill Chappell with SunTrust Robinson Humphrey.

Bill Chappell

Thanks. Good morning.

Stéfan Descheemaeker

Hi, Bill.

Bill Chappell

Just going back to the U.K., and particularly Aunt Bessie's and Goodfella's, one, on Aunt Bessie's, I was not aware that there was that much competition for frozen Yorkshire puddings around the world, so maybe you can help me understand how you're seeing promotional efforts there; and then, two, with regards to that, how is what you're seeing now, with kind of organic sales declines with Aunt Bessie's, and it sounds like Goodfella's is doing fine, I mean, how does that change your outlook as you're looking at these mid-sized acquisitions?

Stéfan Descheemaeker

Well, I'd say, just to clarify on Aunt Bessie's, there is no real strong competition in Yorkshire Puddings, as such, which is the bulk of our Must Win Battles, by the way. That's one thing. But, Aunt Bessie's is not limited to Yorkshire Pudding. There is also potatoes, and in potatoes, you have—to make it simple, you have two big pieces. One is roast potatoes, which is also part of our Must Win Battles, together, by the way, with the Yorkshire pudding—I mean, I'm getting into the technicalities here—and you have chips. Chips is not a Must Win Battle for us. It's really, today, dominated by McCain, and so that's where the competition is, and that's where, to some extent, we lost in terms of distribution at this stage, and that's where, definitely, in the potato arena, that we want to get back in. That's the objective.

The learning, I would put it that way again, overall, with both, we're pleased with Goodfella's and with Aunt Bessie's. Some are better, some are worse. But, again, I think the top line is—I don't have any reason to believe that the top line is not going to go the right way, so that should go back. But probably something we've slightly underestimated in learnings is, obviously, the level of reaction of some of the competitors once they see the number one in frozen coming in, if you have, obviously, a big competitor. That's a learning and is something that we're going to include in our future acquisitions.

Bill Chappell

Got it. Then, again, on that same line, what are you expecting for Green Cuisine in terms of competition, because I think you're the only—certainly, the largest player kind of pushing it out at your price points, most of the rest of the competition is at higher price points, so are you expecting a competitor response; and when we're modeling, are we assuming that most of the investment is coming in advertising and marketing, or is there going to be some trade promotions to try to have even more of a price gap to drive trial?

Stéfan Descheemaeker

I think you need to make a difference between U.K., which is already a market that is reasonably well penetrated. As you know, we mentioned that we are the number three player, which means that you have a number one and number two. Number one is strong, so it's a big competitor, and it's a traditional competitor that is going to work and compete with the same kind of weapons we do have today, a combination of innovation, A&P, distribution, you know, the normal FMCG tools. In other countries, it is much, much more fragmented, it's much smaller, small players, and then the game is different for us, and we think we're obviously going to gain faster, probably, a very strong position. That's how we're going to compete. So, U.K. one thing, and the others another way.

This being said, what we've seen in the U.K. is the customers, and the consumers, by the way, are very pleased with our products. We plan to expand further the range. Very much like the Germans, they're not limiting themselves to three SKUs, they're going much further, which is probably going to be the approach for most of the countries.

Bill Chappell

Got it. Thanks for the color.

Operator

Once again, we'll hear from Steve Strycula with UBS.

Steve Strycula

Hi, just one quick follow-up question. On Italy, I appreciate the context of how much sales exposure it is, but, Stéfan, could you just clarify have there been any supply chain disruption issues to date, that would be part one; and then part two, have there been any commercial sales disruptions within Italy, meaning has consumer takeaway in the stores been positively impacted from pantry loading, negatively impacted? Any type of clarification on would be appreciated. Thank you.

Stéfan Descheemaeker

The answer is no at this stage, we haven't seen any supply disruption—all the way through, by the way, so, obviously, from us being supplied in terms of commodities and raw material to us supplying the retailers. What we've seen, as I told you, is we've seen in some cities, we have seen some—especially in the traditional trade—and I'm going very micro here—in the traditional trade, small mom-and-pops, we've seen some people going out of stock at this stage, and we're working together with them to find some solution, obviously, to the supply. That's not that easy in these "11" cities that we mentioned, because you have—it's going fine—quarantine, sorry, so that's a little bit more complicated. But, we are ready, and with all the other big guys, you know, the Esselunga), the culinards of the world, the capital of the world, in Italy, it's normal, it's a normal supply process at this stage, and as I said, sales are strong.

Steve Strycula

All right, thanks.

Operator

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

Jake Nivasch

Hi, thanks. This is Jake Nivasch on for Rob. Thanks for the question. Just a quick one here. Just to clarify what happened with price negotiations with retailers, at CAGNY, it sounded like you were saying that you couldn't fully raise price to offset the fish inflation. Have you fully offset that? Have you fully raised price to offset the cost?

Samy Zekhout

The point on that is we—I don't think we necessarily said what you said. I think what we said is that we're in the middle of the negotiations, I mean, ending in some countries and others, and at that stage we have a pretty good return on the conversation we had on executing our price increase, but we did say that we made some strategic choices on pricing wherever there was a change in the competitive environment. The one thing that we're focused on is making sure that we don't let share go away and that we have to defend our business, and, therefore, wherever that makes sense, we arrange the totality of the mix in the portfolio in order to execute the pricing in totality and not necessarily to applying category by category the pricing required to cover inflation.

Jake Nivasch

Got it, thank you, and just one follow-up here. You might have mentioned it, but just another clarification. Did supply chain productivity fall below your expectations in 2019, and if not, are you building off this momentum heading into 2020?

Stéfan Descheemaeker

The answer is no. You may remember that I was not pleased with the performance in 2018, but I also said that we made a lot of progress in 2019, and I can tell you what I see is it's going to continue. So, they keep raising the bar.

Samy Zekhout

We are planting the seed for a strong program, as we had mentioned, of, let's say, year-on-year productivity, that will be a substantial contributor to our growth, and that goes through a very well-structured plan, plant by plant and product by product, to make sure that we generate this productivity to enable us to grow the business bottom line, and as well reinvest in the categories that are delivering great returns.

Jake Nivasch

Got it. Thank you.

Stéfan Descheemaeker

You're welcome.

Operator

We will now hear from Donald McLee with Berenberg.

Stéfan Descheemaeker

Hey, Donald.

Samy Zekhout

Operator, why don't we try the next question, please?

Operator

We have no further questions at this time. I will turn the call back over to Stéfan Descheemaeker with any additional or closing remarks.

Stéfan Descheemaeker

Okay, thank you very much. So, thank you for participating on our fourth quarter earnings call.

We're pleased to have delivered a third consecutive year of profitable organic revenue growth and have an exciting set of plans in 2020, including the pan-European launch of our meat-free range, Green Cuisine. Our balance sheet is strong, providing us significant capacity to consider acquisitions in the coming months, quarters and years.

Thank you for your time, and we look forward to updating you on our progress when we report Q1 earnings in early May.

Operator:

That does conclude our call for today. Thank you for your participation. You may now disconnect.