



Nomad Foods Limited

**NOMD Virtual Q&A Session
Hosted by Barclays**

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C O R P O R A T E P A R T I C I P A N T S

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P R E S E N T A T I O N

Operator

Greetings. Welcome to the Virtual Q&A Session, Hosted by Barclays.

At this time, all participants are in a listen-only mode. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. Please note, this conference is being recorded.

During this session, Management may make forward-looking statements within the meaning of the U.S. securities laws. These statements are subject to change and risk, particularly as a result of the uncertainty around the continued impact of COVID-19, and those in our public filings.

I will now turn the call over to your host today, Stefan Descheemaeker, CEO of Nomad Foods. Please proceed, sir.

Stéfan Descheemaeker

Thank you, Operator, and thank you all for joining the call, and, yes, especially, thank you to Andrew Lazar at Barclays for taking the time to host today's Q&A session.

You may have heard many times that these are really unprecedented times for all of us. I'm sure you have a lot of questions around how we've been affected, our business has responded these past few weeks, and I'm sure we will cover many important questions throughout the course of this call.

However, before we begin, I would like to say that I'm extremely proud of the way our entire organization has stepped up to the challenge of ensuring the safety of our employees, which is absolutely fundamental, while also keeping us on top of surging demand in this time of need. We are all on board, obviously. We really wanted to make sure that we could serve—continue to serve our retailers and consumers with our portfolio of frozen food product, which is essential for retailers and consumers, especially in times like this.

As you can imagine, it's been a very fluid situation. Every day, we have to make new decisions. In unprecedented times, we're all discovering this situation, and we're learning a lot. With that said, we should never forget that we're very fortunate of being in the frozen food business retail and we have the privilege of helping all those affected get through this unprecedented health crisis. So, we really—we have a duty as food producer to help our consumers and our citizens to get through this.

With that, I'll turn over to Andrew and we will start the Q&A session.

Andrew Lazar

Great, thanks very much, Stéfán, and thanks also to Co-Chairman and Co-Founders Martin Franklin and Noam Gottesman, CFO Samy Zekhout, and Taposh Bari, who heads up IR, for spending some time with us on this call today, as well.

We hope everyone is staying safe and healthy through all of this, and dealing effectively with a work-from-home setup, that so many of us are employing at the moment.

I've put together a set of questions that, from my conversations with investors the past two weeks, I think should, hopefully, cover many of the key topics that we're all interested in, and with that, why don't we just get started.

Maybe, first, just focusing in a little bit on the consumer demand side of the equation. Stéfán, maybe prior to COVID becoming an issue, Nomad had previously guided to an improving revenue trajectory throughout the course of Q1 and into Q2. Are you able to determine if that's still occurring at sort of an underlying level? I know some of the recent Nielsen data would suggest that that's the case, but wanted to get your perspective on that.

Stéfán Descheemaeker

Overall, it is correct, Andrew. You remember what we said at CAGNY, and during our Q4 earnings call, we knew that we would have a slow start in January. It was due, partly, to the timing of shipments. Also, we also knew that—and it's manifested itself—that we would improve in February, and it really happened, and throughout the spring. So, we have, in fact, seen that trajectory play out, which is great. February was a solid month for us, something that you saw confirmed in the Nielsen, as you mentioned. As of early March, so really before this COVID-19 really started, we were on pace for a strong month and we expected to deliver our Q1 plans.

Obviously, over the past three weeks, what we have experienced is an increased sales trend as a result of COVID-19, so related plants reloading and consumption. We will speak of the specifics of this when we report Q1 in May, but you will start to see some level of context with the next set of Nielsen data, which I believe will be released in a few weeks.

That's, in a nutshell, what we see, so as expected, and then, obviously, the last three weeks, an acceleration with COVID-19.

Andrew Lazar

Perfect, thanks for that, and that was going to lead me into my next question. I'm not sure how much more we can get into on it, but I guess, from what you can tell, even anecdotally maybe, what type of consumer behavior are you seeing sort of in response to COVID-19, at least currently, and how's that impacting your sales? There are certain categories that are more tailor-made for these sorts of situations.

I would think in the frozen space, that's certainly the case, and as you said, it's likely to see some acceleration. Maybe anything anecdotally even that you see sort of currently in response to COVID on your business.

Stéfan Descheemaeker

I'm sure that you also must have seen some comparison by categories. We've not seen the surge like some other categories, like toilet paper, or whatever, but it's still very strong over the past three years—three weeks. It's very similar to what you've seen in the U.S., and obviously it started earlier, especially in countries like Italy. What is also interesting is that it's really going Italy, but then it's spreading to other countries. Also, that's very interesting, as well, as what we've seen in countries, like Italy, that we are gaining market share. We're gaining market share on top of, obviously, of the increased volumes. We think—and obviously we need to take time to understand all these phenomena—but what we think is it's reflective of consumers gravitating towards trusted brands during times of uncertainty, and definitely a brand like Findus in Italy is an iconic brand, and all our brands, like Bird's Eye in the U.K., or Iglo in other countries, like Germany, for example, are in the same range. So, that's what we've seen at this stage, and we will see that little by little, probably, unfortunately, given the situation in the other countries.

Andrew Lazar

Yes, thank you for that. I know this is kind of tough, but are you able to discern maybe how much of the demand surge has been from pantry-loading versus, let's say, actual consumption? This experience is obviously a little different than maybe some previous pantry stock-ups ahead of, let's say, a storm or something, where there may not be actual consumption, but obviously this time around people are kind of ensconced at home and actually going through a lot of what they're buying. I don't know if you have any perspective, or even anecdotal evidence, around some of those trends.

Stéfan Descheemaeker

It's very difficult and I think it will take a few weeks to really get smarter. Actually, probably next week, we will have our first consumption facts and the data, and so we'll see things like, you know, new consumers, repurchase rate, and all these things, but at this stage what we see is definitely at some stage there will be destocking, no doubt. There has been, obviously, a huge peak. Last week was quite impressive. At the same time, it's frozen food, so it's not like any other pantry-loading where you limit—in frozen food, you're limited in size with your freezer, so there is so much you can do. Then, at the same time, what we also know is people, by definition, over the last week, and probably the coming weeks, will eat from home, so it's taking, you know, people, effectively, actually eating. So, that's what we see. It's common sense. More science to be brought in the coming weeks.

Andrew Lazar

Yes, I can certainly speak from personal experience, that I'm wishing I had a larger freezer capacity than I do, and I think we've actually seen, obviously, some ramp-up in the sales of actual freezers, as well, through all this.

Stéfan Descheemaeker

Yes.

Andrew Lazar

How do we think, Stéfán, about—if we think about maybe—it's early, I know, but maybe some of the longer term implications of this situation on your business, if at all, and I ask because so many brands, like yours, are getting this unprecedented and unexpected trial. You've done a lot of work around the product and the branding and the quality over the last couple of years, and this product may be very different than when a potential trialer, maybe last Friday, may come away with a very different experience now than, let's say, five years ago. Time will tell about the stickiness or sustainability of some of this, but maybe you can talk a little bit maybe around what you've done with some of the products, what maybe some of your—maybe sort of your own metrics internally have shown over the last year or so about repeat purchases, or things of that nature.

Stéfán Descheemaeker

I think you're right to bring in the long-term context. The long-term context starts, really, a few years ago, when, really, we started to understand and we started to communicate with how great the category is in terms of nutrition, in terms of waste, and that's the kinds of things that we see the consumers—with our help, but also by themselves—they see that the category has a lot to bring, and the category is growing independently, from obviously what we see with COVID-19. So, that's very good, and we're very, very pleased to, obviously, be a market leader in Europe with this category.

Now, obviously, comes COVID-19, and to your point, it's very important to make the difference between the short term and the long term. Short term, what we need to do is to make sure that we will be able to supply the best we can, and Samy will come back on that later how to do this. It's not the easiest thing to do, as you can imagine. But, at the same time, we need to think long term, as people not only are buying the product, but now they have to consume the product, and they need to understand the quality is what we've said, what we've communicated over the last few years. So, it's going to be absolutely critical to ensure that some of these new consumers will stay with us, and I think, obviously, what's going to happen in the next coming weeks is going to be critical from that standpoint. So, it's an opportunity. I know it's a difficult time, but at the same time it's a great opportunity for the category to demonstrate what we can do, and we need to demonstrate this to the consumers. We definitely believe we can do that with the category and definitely with our brand.

So, in a nutshell, Andrew, it's been a short-term benefit the past three weeks, and probably it will last a bit longer, that's one thing, but I think, more importantly, it's also an opportunity to create something in the long term. That's exactly where we are as category leader, that's exactly what we want to do for, obviously, beyond this crisis. Once the dust has settled for us, as food producer, it's absolutely fundamental to demonstrate what we can bring to the consumers, and we hope that—and we will do the best we can to help the consumers during this time now.

Andrew Lazar

Thank you for that, and that's a good segue on to the supply side of the equation here, and maybe for Samy. I guess sort of more simply put, how have you been able to keep up with the demand spike thus far that you've been seeing, and how has that process gone?

Samy Zekhout

Andrew, thank you. The short answer is, yes, our supply chain and organization has stepped up to the challenge. Our 13 factories are operational, and given the fact that we are selling food, which is essentials, our workers are able to come to work. As Stéfán mentioned, I think, of utmost importance is that we've been able to maintain the safety of our factory workers. As you can imagine, we have strict protocols to ensure the health and safety of our people in our food production and we've put in place a number of, let's say, processes and protocols, so that affected people would be really well taken care of. I

mean, this includes thermographic cameras at the entrance of our factories, social distancing protocols, and also the way shifts are being changed in between lines.

Andrew Lazar

Thanks for that. If we think about—I guess, just looking at the situation in Italy and how that's unfolding, regarding your single factory there. How has that gone and your ability to supply product? It sounds like that's gone very much, I guess, consistent with many of the other factories across Europe, but anything in Italy that is unique, just given the situation and the intensity there? I know that's your second largest market, obviously.

Samy Zekhout

Sure. Actually, the situation in Italy is in many ways similar to what you are seeing across the rest of Europe, and what you're seeing in the U.S., as well. People are at home, grocery stores are open. Our factory in Cisterna is operational, and we are fulfilling demand, which is strong. We are really fortunate to have our factory located near Rome, not in Northern Italy, indeed, where the COVID issues are more pronounced.

Andrew Lazar

Thanks for that. How do we think about how much flexibility you have in the network to keep up with demand? In other words, I guess, what are the key bottlenecks, how do you manage them? Is it actual manufacturing? How much can you flex the actual manufacturing, versus, let's say, the distribution, the warehousing, the logistics, and things of that nature?

Samy Zekhout

Yes, as I mentioned, we've been so far, I mean, fairly successful at keeping up with demand. There's been a surge and we've been there to meet that demand. There are a number of risks, however, that we are managing; for instance, access to raw material, storage space, freight and logistics, and also some worker absenteeism. We're also spacing out our production crews to create appropriate social distancing, as it's really something critical, indeed, for people's safety, and we are making some real-time choices around SKU prioritization. I mean, Stéfan was telling you earlier that we are making, effectively, almost daily and hourly decisions in that respect. Operating the business, as you would imagine, we are focusing our attention on the very high volume SKUs to serve our consumers.

Andrew Lazar

Let's talk a little bit about the margin implications of running at greater—you know, sort of a greater scale, and perhaps some of the increased pressure on the supply chain. I guess, on the one hand, I could see that there would be some significantly higher operating costs associated with this, but on the other hand, as you mentioned, you're running, I'm assuming, longer run lanes of just the sort of key—the largest sort of SKUs, the fastest turning SKUs, which make, I would assume, some of the throughput and some of the fixed costs absorption even that much more powerful on the upside. So, those two things kind of offset each other a little bit. Can you maybe talk a little bit about each side of that equation and give us a sense of how maybe they sort of balance out?

Samy Zekhout

Yes, you're spot on, I mean, on your observation, Andrew, I think that's exactly the point. There are clear puts and takes. What we're seeing is a surge in volume, as you have seen, which is resulting in higher

fixed cost leverage, that's very obvious, and that's across the board, and even more exacerbated by the fact that we—as I had mentioned earlier, we are, effectively, focusing on, let's say, higher volume SKUs, a longer run, and so we're getting clearly some leverage there. Conversely, we are increasing the hiring of part-time labor, because we do have some absenteeism and we need to make sure that the plants are well being run, which is a partial offset. So, there's, effectively, puts and calls at this stage.

Andrew Lazar

Got it. Switching gears a little bit to sort of the marketing and promotional side of things, Stéfan, how does Nomad think about promotional activity during a time like this, because of, partially, not necessarily needing to incentivize a consumer that's already in stock-up mode? How do you think about the promotional activity, and then re-evaluating more the A&P plans given the presumed surge in demand?

Stéfan Descheemaeker

Well, actually, some of the promotion, it's something that we're doing together with our retailers, with our partners. We're trying to reduce the promotions as much as we can, but this again in full partnership with the retailers, which is common sense.

In terms of A&P, it's a great question, Andrew, because, actually, at this stage, it's not so much what you need to sell. You just need to make sure that you're going to encourage people to consume, which is one thing, which is probably another format. It's also how you're going to phase your A&P, because at some stage there will be some destocking activity and then you need to make sure that you have the right level. So, there is a lot of phasing of A&P, with all the consequences, you can imagine, with negotiations and all those things, which is normal.

Andrew Lazar

Yes. How does this affect, if at all, your strategy around the roll-out of Green Cuisine, because this is obviously a product that was launched in the U.K., and I know that you're now in the process of launching it through a lot of countries, really, across Europe, in the second quarter?

Stéfan Descheemaeker

Let me start by saying that the first—what we've seen during the end of last year and early this year, it's been very good, so we're very pleased. We've launched already in many countries, which is great. So, there are no significant changes in our approach. At the same time, it's very clear that people prefer to—the retailers prefer to focus on the euro SKUs, but nothing is really changing. It's just a question of sequencing more than anything else. More than ever, it's a key strategy for us.

Andrew Lazar

Got it. In the event COVID leads to, let's say, European or global recession, how do we think about how frozen food tends to perform maybe during weaker economic periods? What have we seen maybe in previous experience with these sorts of things?

Stéfan Descheemaeker

Let's look back to what we all have seen in 2008, 2009, and what we've seen is actually a significant increase in the home food consumption and relatively resilient performance in the frozen food category. It's a very stable category throughout the economic cycle, which is good, so it makes it very defensive, and, again, as I said, with, I really believe, a positive long-term strength on top.

Andrew Lazar

Yes, right.

Stéfan Descheemaeker

I think it's going to repeat. I don't see why it wouldn't repeat itself in the future.

Andrew Lazar

Great, thank you. Maybe we'll shift gears a little bit now towards capital allocation. Maybe, Samy, if you could just kind of update us a little bit on Nomad's sort of current liquidity situation, just to sort of get that cleared up and out of the way.

Samy Zekhout

Yes, indeed. We had €850 million of cash and short-term investments as of the fourth quarter. When considering other undrawn lines of credit, including our revolving lines, we have at the present time nearly about €1 billion of accessible liquidity.

Andrew Lazar

Great, and then can you talk a little bit about your current leverage level and your expectations for free cash flow?

Samy Zekhout

Our balance sheet, actually, is in a very strong place, as you have seen in the various publication and gathering we had. The leverage as of Q4 was in the mid-2s. Our guidance is to convert nearly all of our adjusted profit into free cash flow. Based on the guidance we have given so far for the year, that would equate to free cash flow generation of about €250 million for the year, give or take.

Andrew Lazar

Great, and how do we think about Nomad's tolerance and appetite for leverage in an environment like this?

Samy Zekhout

We continue, actually, to evaluate M&A options, indeed, and believe that, because of the strength of our business and our balance sheet, we are very well positioned. That said, as you can imagine, it's a very difficult time at the present time to meet with companies and evaluate businesses, and that will likely delay things a bit on our end, which is perfectly fine.

But, to answer your question, what we know today is that our leverage is in the mid-twos entering 2020. We announced a buyback of approximately 300 million, which effectively offsets the free cash flow that we expect to achieve this year. Beyond that, we believe we have the flexibility to pursue acquisitions if and when the right opportunity presents itself.

Andrew Lazar

Are there any debt covenants that we should be aware of?

Samy Zekhout

No. I mean, the only one is for our revolving credit facility, which at the moment is undrawn.

Andrew Lazar

Great. Noam, perhaps this one to you. Perhaps you can explain a little bit further Nomad's decision to repurchase shares and why the Company announced it and why now, and how does this affect the Company's M&A strategy moving forward?

Noam Gottesman

Thanks, Andrew. When it comes to evaluating capital structure and the best use of the excess cash, our business has generated a significant amount of cash over the past year, it continues to, and given the dislocation in our share price, which contrasts with the underlying direction of our business, we saw a unique opportunity to deploy some of that excess cash towards buybacks. Ultimately, this is a Management Team that we obviously know very well, an incredible business, and a dislocated valuation.

Just finally, I hope I was very clear in the press release that we issued at the end of the quarter, that this does not preclude us from pursuing or engaging actively on our M&A agenda. We continue to see long-term value creation opportunities and are focused on that. With that said, we're approaching M&A aware of the macro-environment and what's in the best interest of our shareholders.

Andrew Lazar

Great. Martin, do you think that macro events can dislodge some interesting food assets in the coming months?

We may have lost Martin.

Noam Gottesman

Maybe I'll answer—

Martin Franklin

You didn't lose me. Sorry.

Andrew Lazar

Oh, sure. I was wondering if you think that macro events can dislodge, potentially, some interesting food assets in the coming months.

Martin Franklin

Oh, I'm sorry. Yes, look, I think that's hard to predict. In all likelihood, it's probable that—it's reasonable to believe that there'll be more opportunities. I think what's important is that we position ourselves to be able to take advantage of those, and obviously, with our liquidity and how our business is performing, I think we're very well positioned.

Andrew Lazar

Have you seen maybe a corresponding correction in private market asset valuations yet, like we've seen with public equities? I know there can sometimes be sort of a divergence for a period of time, until those things sort of settle down together.

Martin Franklin

Yes, I think in the near term, I don't think anyone is going to be buying or selling much, given the dislocation in valuations. I think that things that were in process probably will continue to move along, albeit at a slower pace, for reasons Stéfan described, the ability to move around and do the work that needs to be done. Again, once things do open up, I think we're very well positioned. We've got a pretty good pipeline that we've been working on and I'm sure that new opportunities will present themselves along the way because of this.

Andrew Lazar

Got it. Well, great. Before we close out the call, and I appreciate everyone's time, maybe, Stéfan, if there was anything else that you wanted to mention just before we closed out the call.

Stéfan Descheemaeker

Thanks a lot, Andrew. Again, as I've said, teams are working incredibly hard to do what our purpose is, is to produce food for consumers, and at the same time—and we're incredibly proud of what they're doing, working from home or working from the factories, and at the same time, as we said, we're doing the best we can to demonstrate that frozen food is, more than ever, is a great food, and it's going to be more, we think, more than a short-term benefit for the category. It's going to be something, as we're going to demonstrate, for the long term. So, obviously, very important times for us, difficult times, but at the same time, you know, as I said, a lot of pride vis-à-vis what the team is doing right now.

Andrew Lazar

Great. Well, thank you. I want to thank once again Stéfan, Martin, Noam, Samy and Taposh for taking the time with us today. Thanks to everyone on the line for joining us and I hope everyone stays well and healthy, and hope to see everyone in person sooner than later. Thanks again, everyone.

Stéfan Descheemaeker

You too, Andrew, stay well.

Operator

This concludes today's teleconference, you may disconnect your lines at this time. Thank you for your participation and have a great day.