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Nomad Foods Limited

First Quarter 2020 Earnings Conference Call

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PRESENTATION

Operator

Good day, and welcome to the Nomad Foods First Quarter 2020 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

Thank you for joining us to review our First Quarter 2020 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 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, including considerations related to the impacts of COVID-19. 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 may 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 2019 and 2020. All adjusted figures have been adjusted for exceptional items, acquisition-related, share-based payment and related expenses, as well as non-cash foreign exchange gains or losses. All comments from here on will refer to those adjusted numbers.

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.

On behalf of our entire organization, I would like to extend our thoughts to those affected by COVID-19 and hope that you and your families are staying safe.

At Nomad Foods, we have been working hard to ensure the continuous supply of frozen food to consumers across Europe during this time of need. From day one, we have done this with the health and safety of our employees as our top priority. I'm extremely proud of the collective effort our entire organization has made to act quickly and decisively. I speak for all of us when I say that we are humbled to help our communities navigate this crisis.

Turning now to first quarter results, which came in well ahead of our expectations due to an unprecedented level of consumer demand beginning in early March.

Highlights from the first quarter were as follows:

- Organic revenue growth of 7.7%, driven by a 6.3% increase in volume and mix and a 1.4% increase in price;
- Gross margin of 29.1%, which was in-line with our expectations;
- Adjusted EBITDA of €120 million; and
- Adjusted EPS of €0.33 per share

Based on our first quarter results and our expectation that sales growth will remain elevated for at least the next several weeks, we now expect to exceed our full year guidance. Samy will walk you through the details of our guidance in his remarks.

I am sure many of you are looking to better understand how we are managing the business throughout this crisis and what we are doing to ensure that we will emerge in an even stronger position. I will address these points in three sections.

First, I will cover the near-term, outlining how we have adapted our business to service an elevated level of demand throughout the home confinement period.

Second is the medium-term and how we plan to navigate through these next few months as restrictions gradually ease.

Third, the long-term, specifically what we are doing to ensure that our business is on an even stronger foundation once we ultimately return to some sense of normality, whenever that may be.

Let's begin with the near-term on Slide 4.

Given the unprecedented nature of the current environment, we thought it would be helpful to provide you with a weekly view of the sell-out progression across our branded retail business, which represents 90% of our sales. The remaining 10% of our sales are comprised of private label and foodservice, which each represent roughly 5% of total sales.

It is important to note that the data on this slide represents branded retail sell-out growth, which may not align perfectly with the organic revenue growth for a variety of reasons, but this should give you an indicative directional view.

You will notice that we had an okay January and saw sales beginning to accelerate in February, which was our original plan, and clearly, the surge which followed in March as stay-at-home orders and school closings went into effect.

Since the growth peak in mid-March, which was likely driven by pantry loading, we have experienced a continued elevated level of demand throughout April which we believe reflects growth of in-home consumption. You will notice a dip in week 16, which was depressed due to Easter phasing. When triangulating this sell-out data with our five weeks of actual Q2 sales results, it is clear that performance continues to trend ahead of plan. While we expect this may continue for at least the next few weeks, it is very difficult to project the future trajectory with accuracy.

Turning to Slide 5, I'd like to provide some more color on the near-term.

As you recall, our original expectation for Q1 was that organic revenue growth would be roughly flat versus last year. We were firmly on pace to deliver against these plans as of late February. However, the pace of demand increased meaningfully throughout the month of March, with organic revenue growth for the month growing roughly 20 percentage points ahead of our plan.

In terms of insights, it's clear that early on, the growth spike was a result of consumers stocking up. However, as time has passed and people have remained relatively confined to their homes, our research is showing that people are opening their freezers and consuming our products.

Another insight is that we are seeing an influx of new consumers into the category. This is largely driven by the significant shift to at-home consumption, a natural role that our leading and trusted brands play in serving family meals.

Finally, our brands have observed a disproportionate up-tick in market share. This has been evident fairly broadly at both country and category level across our business.

During the month of March, our market share was up 1 percentage point, a notable improvement versus being roughly flat over the preceding 52-week period. We believe the increase in market share has primarily been driven by the fact that consumers tend to buy brands they trust in moments of uncertainty. This is particularly the case for new consumers entering the category. In all, this progression is a validation of the power and awareness that our brands have in their local markets.

This brings me to our supply chain, which has done an incredible job in not only keeping up with demand but doing it in a way that has protected the health and safety of our factory employees. We took a number of decisive actions at the onset of this crisis to ensure that we can deliver against our goals. In Italy, we were one of the first companies to use thermographic cameras at factory entrances. In January, as we noticed delays in Chinese production of pollock, our procurement team quickly increased our cover position from alternate countries to ensure adequate raw material stocks. These examples, plus many more, have allowed us to maintain high service levels throughout the crisis.

Despite our best efforts to keep up with demand, the reality is that there is a significant amount of pressure on our supply chain. As such, we have reduced near-term marketing and promotion plans, with the goal of reactivating these programs in the back half of the year.

There has been a lot of coverage lately around how COVID-19 may impact agricultural supplies, given farmer dependence on migrant workers and potential labor shortages. This is a risk that we have been monitoring for some time and one that we do not expect to impact our business for two important reasons. First, our main crops, peas, spinach and potatoes, are picked using machinery and are not labor-intensive like certain other fruit and vegetable crops. Second, we have strong relationships with our farmers, many which have spanned multiple generations. These farmers tend to have secure labor forces, and as a result, are not as dependent on immigrant labor.

To recap the near-term, we have observed strong demand since March, with elevated growth remaining into April. Our factories are all operational and are working at full capacity to maximize throughput.

Let’s now shift to how we are preparing for the medium-term outlook over the next several months, as restrictions ease and out-of-home consumption begins to normalize. As you can imagine, there are a lot of unknowns as the progression will be dictated by global and local health authorities. Certain European countries have recently announced plans to gradually reopen schools and restaurants. With that said, it’s probably fair to say that this next phase will likely be prolonged. We will navigate through these next few months with a strong set of plans that include merchandising, innovation, promotions and traditional support to help sustain demand.

Another consideration is the macroeconomic backdrop that we expect to see once restrictions begin to ease. Given the number of puts and takes, we are preparing for a range of scenarios, including the probability of a recession. As we’ve seen throughout this crisis, frozen food is a resilient category with a strong consumer value proposition. History shows that during periods of economic uncertainty, consumers trade down into frozen, while also being more price-conscious. Taking these factors into consideration, we expect that our business will prove resilient in a recessionary environment, as it has throughout the COVID-19 crisis.

Finally, the long-term implications; while our current focus is on managing through this crisis with solid day-to-day execution, we are also planning and acting to ensure that our business exits this period with a healthier foundation than when it entered. There will be some permanent changes that we will lean into. These include a step-change in e-commerce, where our category and our brands have structurally higher market share. Another is the fact that freezer capacity has increased at the consumer level.

We also recognize that there has been an influx of new shoppers into the frozen food category, with many of them trying frozen food for the first time in years. While some of the eating occasions are likely to return to out-of-home as schools, work and restaurants gradually reopen, we do believe there is an opportunity to convert new frozen food eating habits into permanent repeat consumption. We know that frozen food has a lot to offer, not only in crisis time, but for everyday life. We are confident that as consumers eat more frozen food, that they will recognize the many benefits, whether they be nutrition, convenience, quality improvements or innovative meat-free solutions.

Speaking of meat-free, I’d like to provide you with an update on Green Cuisine, our new meat-free sub-brand that we are launching across Europe. At CAGNY back in February, we announced our intention to develop this into at least a €100 million business by 2022. As we sit here two months later, I am pleased to say that we remain on track to deliver our near and long-term targets despite some timing shift resulting from the COVID-19 crisis. Our original plan was to have distribution of Green Cuisine across at least eight markets by mid-year. This is still the plan, albeit with some modifications given a general de-prioritization on innovation as retailers and suppliers focus on their highest volume SKUs.

Year-to-date, we have launched Green Cuisine in Germany, France, Netherlands, Italy and Spain. Belgium and Austria will soon follow. One adjustment that we have had to make around Green Cuisine is the timing of media, which was originally scheduled to go live this spring, but will now take place during the second half of the year.

The performance of Green Cuisine in the U.K., where we first launched a year ago, continues to be very strong and encouraging. Sales are tracking ahead of plan and our market share continues to grow. Further, we are driving solid incrementality to the category through the recruitment of new consumers. In all, Green Cuisine remains a key strategic priority of ours, and while our plans have shifted a bit this year, we are exceeding our near-term sales expectations and remain on pace to deliver our 2022 target.

In summary, we reported a strong first quarter and now expect upside to our original guidance.

- Our business has demonstrated extreme resilience throughout the COVID-19 crisis. This is being driven by solid execution and the fact that our portfolio is highly concentrated in frozen food sold in Western Europe. Further, our exposure to foodservice is only 5% of our revenues.
- We are gaining new consumers and are seeing growth in market share, and
- Our supply chain is working hard to keep up with strong demand
- Finally, our strong balance sheet and liquidity profile created a unique opportunity to repurchase shares during the first quarter amidst the valuation dislocation in our share price. We are pleased to be in a position to deploy cash to shareholders in a value-enhancing manner.

Our Company is well-positioned to not only navigate the current crisis but emerge in a structurally stronger place.

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

Samy Zekhout

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

Turning to Slide 7, I will provide more detail on our key first quarter operating metrics, beginning with revenues, which increased 10.5% to €683 million, driven by 7.7% organic revenue growth. Revenue growth also benefited 3.2% from a trading day benefit, including an extra day due to the leap year. Foreign exchange translation was a 40 basis point offset to revenue growth during the first quarter. In all, organic revenue growth exceeded our expectations in almost every country due to the aforementioned factors related to COVID-19.

First quarter gross margin was 29.1%, down 180 basis points versus last year and in line with our expectations. The year-on-year decline was driven by the timing of inflation relative to price increases.

Moving down to the rest of the P&L:

- Adjusted operating expenses increased 14% year-over-year, reflecting phasing shifts which we had planned for. Within operating expenses, A&P and Indirects both increased double-digits.
- Adjusted EBITDA was €120 million, representing a 2% decline versus the prior year. This was better than our prior expectations, which called for Adjusted EBITDA to decline double-digits. Upside was primarily driven by increased sales.
- Adjusted EPS was €0.33 for the quarter. In Q1, we repurchased 4.7 million shares, which had a limited effect on the first quarter weighted average share count as the program commenced late in the quarter.

Turning to cash flow on Slide 8; we generated €74 million of adjusted free cash flow in the quarter, as compared to €93 million in the same period a year ago. Factors contributing to adjusted free cash flow performance include:

- Adjusted EBITDA of €120 million, a 2% year-on-year decrease;
- A working capital inflow of €1 million;
- Capex of €10 million, representing 1.5% of sales;
- Cash taxes of €19 million; and
- Cash interest and other of €18 million, due primarily to year-over-year impact of interest swaps.

We converted 110% of our Adjusted EBITDA into adjusted free cash flow.

During the first quarter, we announced a $300 million share repurchase program, which we consider to be a unique and accretive use of capital due to the dislocation in our share price. Since that announcement on March 13, we have deployed $91 million US dollars of capital towards buybacks, acquiring approximately 3% of our shares outstanding at a weighted average price of $16.78

Looking forward, our approach to capital allocation remains consistent and unchanged. We continue to prioritize excess cash for potential acquisitions while retaining flexibility to mobilize share repurchases when unique opportunities, like the one we saw in March, present themselves. Finally, our balance sheet remains strong with leverage in the mid-twos, €828 million in cash and short-term investments, and total liquidity of nearly €1 billion when factoring other undrawn lines of credit.

With that, let's turn to Slide 9 to review our 2020 guidance, which is based on foreign exchange rates as of May 5, 2020.

- For the full year 2020, we are raising our guidance and now expect to achieve Adjusted EBITDA of approximately €450 million to €460 million and adjusted EPS of €1.24 to €1.27. Full year guidance now assumes organic revenue growth at a mid-single-digit percentage rate.
- Given the wide range of potential outcomes for the remaining of 2020, we have made the following assumptions in formulating our guidance.
    - First, the guidance assumes an elevated level of organic sales growth in Q2, where we already have five weeks of strong organic revenue growth behind us.
    - Due to the inherent challenges in accurately modeling the future commercial impact from COVID-19, our guidance currently assumes organic revenue growth in the low-single-digits range in the back half of the year.
- In terms of quarterly phasing, given strong sales performance in H1, coupled with the delay of marketing and promotions to the second half of the year, we now expect Adjusted EBITDA to be more balanced between the first half and the second half of the year, versus our prior guidance which was Q4-weighted.

- Finally, guidance now assumes a weighted average share count of 200 million for the year, down from our prior expectation of 204 million. This reflects the share repurchase activity conducted since mid-March and does not take the possibility of future potential share repurchases into consideration.

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

Operator

Thank you. 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 are 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.

Our first question comes from Andrew Lazar with Barclays. Please go ahead.

Andrew Lazar

Great, thank you. Good morning everybody.

Stéfan Descheemaeker

Morning, Andrew.

Samy Zekhout

Morning, Andrew.

Andrew Lazar

First off, I guess, obviously Nomad chose to provide specific full year guidance above initial expectations. I guess my question is, what gives you the confidence to be able to do this when, really, the vast majority of peers have either withdrawn guidance for the full year, or perhaps only reaffirmed full year guidance in a more vague sense? That would be my first question.

Stéfan Descheemaeker

Thanks, Andrew. It's a very good question. As you know, forecasting with accuracy, and especially right now with this COVID-19, it's a difficult exercise.

At the same time, our portfolio is really uniquely positioned, vis-à-vis, when we compare with many of our Company peers. Simple; the simplicity is one category, which is frozen, is one channel, which is retail, is equal to our total consumption. It's one geography, which is Europe, and it's leadership with all our brands. At the same time, we have, as we said, very few exposure in terms of foodservice, it's 5%.

With that, again, it's difficult to predict exactly how the trajectory will play out throughout the rest of the year. This is why we've taken a position of low-single-digit organic revenue growth in H2 as a baseline, as Samy mentioned. That's why, but again, to your point, it's unusual, which is great.

Andrew Lazar

Thank you for that. Yes?

Stéfan Descheemaeker

No, please, keep going.

Andrew Lazar

Thank you for that. The second one would be, truly fascinating to track how, for the industry, many of these new users, of which you're clearly getting a lot of given the stay-at-home restrictions, ultimately convert into, let's say, ongoing repeat purchasers and such. You talked about some of the numbers around the magnitude of—the incremental volume and how many of those were new users to the brand, if you will.

I'm curious, how does this compare, maybe, to the type of new users that you would see to the brand under more normal circumstances? In other words, there's always some churn for all brands like these, between new users and lapsed users in a more normal environment. I'm curious if the levels of new users are even well beyond those more normal sort of churn numbers.

Then, it's early so we may not have a great read on this at all, but what would be—even if there's any anecdotal evidence around maybe what some portion of consumers have suggested they might do, in terms of repeating, when things normalize? That's a tougher one, I realize.

Stéfan Descheemaeker

That one is a tougher, but again, I think it's really extraordinary times. Back to the baseline, the penetration historically has been roughly flat. To your point, what we see now is, absolutely, new consumers coming, by the way, from different backgrounds.

Andrew Lazar

Great. Thank you very much.

Operator

Our next question comes from Steve Strycula with UBS. Please go ahead.

Steven Strycula

Hi, good morning.

Just to actually piggyback off of Andrew's question, Stéfan, do you or the broader team have any numerical data to just reference what new household penetration is right now, maybe for some of these key products relative to how it was just a few months prior. How does that change that we've seen just recently compare to, maybe, what we've seen in the past recession? I know '08, '09's probably the date that maybe is not as clean as today, but any type of historical context might be useful.

I think you also said something about consumers having additional freezer capacity relative to the past. We've read a few articles on that, but any elaboration would be helpful. Thank you.

Taposh Bari

Anastasia, I think we may have lost Stéfan.

Operator

Okay. Please be patient as we reconnect…

Taposh Bari

Samy, are you still here?

Samy Zekhout

Yes, I'm here, I'm here. Yes.

Taposh Bari

Why don't we try to reconnect Stéfan?

Samy Zekhout

Yes.

Stéfan Descheemaeker

Hello? Can you hear me?

Samy Zekhout

Yes, Stéfan, we can hear you.

Taposh Bari

Loud and clear.

Stéfan Descheemaeker

Oh, okay. Sorry, okay, excellent. Thank you very much.

Steven, the question about the new household, and obviously the new consumers; too early to say. At the same time, anecdotally, I can tell you what we've seen in terms of qualitative, is people are very impressed by the new frozen. People were expecting something which was all about convenience and all about price and affordability, and have seen something which is nutrition, taste, nutrients, sustainability, so that's absolutely fantastic, and is obviously something we're—that we're very much focused on at this stage. That's one thing.

The freezer capacity, in all fairness, Steve, it's too early to say. We know that those freezers are not going away, but we really don't know exactly by how many new freezers. The point for us has always been to get more consumers to open the freezer door more frequently, and that's exactly what we're expecting to see, especially with the new way of consuming. That's where we are.

It's too early to say in terms of really quantitative, but it's going to come very, very soon, and I can imagine that our Insight department is really fully busy with this. But what we've seen so far, qualitatively, very, very, very good; and at the same time, what we also see is these people will not leave anytime soon because what we also see is that the de-confinement will take time, and the more time we see, the more these people will obviously use our products. What we also have seen is that these people want to cook more from home, and that's also obviously very good for us.

Steven Strycula

Great, and then I have a quick follow-up before I pass it along. Stéfan, I know Wayne has been in charge of the Sweden business more recently, he did phenomenal work with repairing the U.K. business a few years back.

Can you help us understand, strategically, what's maybe now going into place right now to stabilize or fix the Sweden business, and the same commentary for Aunt Bessie's. You had mentioned at CAGNY that a few of your initiatives were to get back on-shelf starting in around the April timeframe. I'm just wondering if the business that you're seeing right now, the COVID-related demand, does that shift the timeline over, Aunt Bessie's getting some of that new distribution back until the summer?

Thank you, and I'll pass it along.

Stéfan Descheemaeker

Let me start with Aunt Bessie, it's quite simple. You remember, Steve, we had an issue in 2019; actually, we lost distribution with one of the top four guys in the U.K. We're very pleased to see that, for our must-win battle, which is the key piece, which is roast dinner, we're back on track with this top guy. Actually, I think it started back on March 11; obviously, it's a bit too early to see the results, but it's there. That's very good news. We also know that we're going to increase our distribution with another too.

Again, 2019 was a bit more difficult with Aunt Bessie's, but for what really matters, which is our must-win battle, which is the key piece of the organization, we're very pleased with, again, what we said, and it's happening, actually. More difficult to read across all these things with COVID-19, but that's the reality. That's very good.

In terms of Sweden, the first thing that Wayne has done is to put in place a new Management team. I think it's a very strong one, with a very, very good team. The second piece is really about repairing the relationship with the trade. As you know, Wayne is very, very strong. He's fantastic at doing these things. It takes time. It really takes the time to create a joint business plan together with these guys, and that's exactly what he's doing, adding more presence—obviously, now screen presence, video presence with these guys, which probably is something that we didn't have enough in the past, and in just applying the must-win battle framework that's proven so successful with the U.K., Italy, Germany, and lately with Spain.

Spain, remember in 2018, was difficult, a lack of focus, a new team as well, we started in 2019. We've seen the results. We know it's going to take time. It's only representing, at this stage, 2.5% of our EBITDA, but definitely, for us, we think it's an important country. We hope that we're going to see improved performance later this year, and obviously, a good momentum in 2021. That's the idea for Sweden. To your point, I'm very confident that Wayne is going to do a great job.

Steven Strycula

Great. Thank you.

Operator

Our next question comes from Rob Dickerson with Jefferies. Please go ahead.

Robert Dickerson

Great, thank you so much. Hopefully everyone at Nomad is doing well and staying safe.

I guess, just a quick question on Green…

Stéfan Descheemaeker
You too by the way, Rob.

Samy Zekhout

Hey, Rob.

Robert Dickerson

Yes. No, I'm doing my best. We're okay, my family's okay. Thanks for saying.

In terms of Green Cuisine, I know you had mentioned a shift in media timing. Other challenges, like obviously, A&P is shifting a little bit more to the back half of the year overall. But specific to Green Cuisine, I guess, on the media timing piece, is the strategy there basically, we have it, it sounds like, in most countries; it sounds like the innovation's there. I think you called out maybe Belgium and one other market where it still needs to enter.

The trial, I would assume, is much more elevated than it probably traditionally would have been, which obviously should be a great driver of repeat, potentially. I guess the question is, do you shift that media spend later to try to put the switch once you have trial to increase the possibility, the probability of sustained consumption of the new brand? Or was it basically, hey, we just don't need to spend the media now, so let's wait until later, and the brand seems to be doing okay.

I'm just kind of broadly trying to understand, has there been any shift in the way you're thinking about Green Cuisine as it phases through the year, and then the potential carryover effects of that shift as we emerge from the pandemic effect? I also ask because a company like Beyond Meat this week, they actually really didn't see revenues grow that much, because they have foodservice exposure; the margins are a little bit better, the stock's up almost 90% in a month.

Stéfan Descheemaeker

To start with, Rob, we're not changing our short-term expectations, so we're very pleased with what we've seen. To Samy's point, there was a bit—which was expected, it's normal, by the way—a bit of de-prioritization during this crazy March from the retailers. In some countries like Belgium for example, we've moved the back to the shelves, or let's say, starting with on-the-shelf, from week 18 to week 23. That's an example.

But again, you're not going to advertise at the time, so it's just a shift. It is just a shift in terms of timing, in terms of A&P. What we see is, definitely more than ever, meat-free and back to what the CEO of Beyond Meat said, it's on-trend, it's going to only accelerate with what we're seeing right now. That's exactly what we're experiencing with Green Cuisine.

In this year, to your point, we have the U.K., Ireland, Germany, France, Netherlands, Italy and Spain. Belgium is coming, Austria is coming, and I definitely believe other countries will also be coming in the course of this year. It's definitely a fantastic product, great trends, so we're only positive.

Samy Zekhout

Stéfan, if I may, just add as a complement to the question, the reality is you really want to advertise when you have the right level of distribution, as well, I mean, obviously it's very important for us. In a context like the one we are going, if you work with distribution, it is geared towards opportunities of the consumer or the retail expectation. We are trying to balance, if you will, when will we have the appropriate level of distribution to reaccelerate growth, and this is when the support is going to kick off.

I think what's really important for us is we've seen—we are increasing our performing versus our expectation, and clearly are in good shape for the year.

Robert Dickerson

Okay, super. Then just very quickly, and simplistically on the cost side, we saw gross margin pressure a little bit in Q1, that was expected. I know there was some cost inflation that came through probably all on the fish side. I think you had mentioned before some pepperoni, there's currency. As we think through the year into Q2 and then the back half, is the expectation still for that gross margin cadence to improve quarter-to-quarter? That's all. Thanks.

Samy Zekhout

Yes, we expect inflation actually to moderate, and I would say for the rest of the year, yes, actually, our gross margin would be down less in Q2. We are looking for gross margin to improve into the second half of the year overall.

Robert Dickerson

Okay, super. Thanks so much.

Samy Zekhout

Thanks, Rob.

Operator

Our next question comes from John Baumgartner with Wells Fargo. Please go ahead.

Jonathan Baumgartner

Good morning, thanks for the question.

Stéfan Descheemaeker

How are you doing?

Jonathan Baumgartner

How are you doing? I wanted to come back to the comments about the broader environment here. What is your understanding about your competitors, both branded and private label suppliers, and their ability to respond to the demand spike? Your shares were up solidly across the board here in Q1. Is it your sense that those market share can be sustained, either through supply chain advantages or marketplace execution? How do you think about the relative positioning there?

Stéfan Descheemaeker

I think it's a combination of two elements, John. One is, in the short-term, we acted very early and decisively on the supply chain, from the procurement standpoint. For example, we could see that there would be some issues in terms of fish, for example, and we've been able, very early on, to come with alternatives. That's one thing.

Second, in terms of, again, the factories, the obsession was obviously to keep all our 13 factories open, and that's what we've been able to do, through a combination of, obviously, many initiatives, all centered around the health and the safety of our people. They've responded fantastically well, so we're very, very, very pleased with that.

At the same time—so that's the offer. On the demand side, it's very clear that the consumers are moving to brands they trust in times of crisis, and that was the beginning of my introduction. All our brands are A brands, they're leading brands, and it's very reassuring, obviously, in crisis time, to come back to these brands.

The third piece is, you remember, our portfolio is quite simple; 40% is fish, 20% is veg. These two categories, again, are very reassuring and doing extremely well, doing this category. That's that. Again, helping us is obviously—so, it's 90% brands and everything is about retail. When you go back to new consumers, I'm not talking about the existing ones, the first thing they want to do is, okay, let's try with the brands we know, and Birds Eye, Iglo, Findus are great brands, and that's their starting point. It's our job, obviously, now to make sure that they're going to see what has improved over the last 6 years, which is in terms of nutrition, in terms of new sustainability, in terms of innovation, and we have so much to offer.

At this stage, that's what we've seen, and our job obviously is to keep most of these consumers. That's going to be the big job; that's our focus for the coming weeks and months.

Jonathan Baumgartner

Then if I could just build on that, when you think about the promotional environment as well, and I think given—especially in frozen fish, because your promoted price points tend to be—and it's fairly deeper than both brands in private label even under normalized conditions. You mentioned the portfolio of A brands. I mean, do you think there's an opportunity to use this market dislocation to maybe migrate the depth of your deals higher on a more permanent basis, coming out of this, in conjunction with the net revenue management? Or, do you think there's a need to continue promoting the way you do, for competitive reasons, maybe trying to retain some of these new consumers coming into the portfolio?

Stéfan Descheemaeker

Samy, do you want to take that?

Samy Zekhout

Yes, I think we're clearly considering promotion as a key vector to drive the business, I would say, of all these parts in our framework. That's part, frankly, of our, let's say strategy, and in terms of growth, we're measuring our promotion as part of the total price point propositoin to the consumer relative to competition. We don't intend, at this stage, to frankly make a fundamental change to that. I think what we want to do is to make sure that, frankly, we're coping with the current reality which is re-promoting when it's needed and making sure that we have a relative price index to competition and to the proposition that is strategic enough for the consumer.

Jonathan Baumgartner

Great, thank you.

Operator

Our next question comes from Faiza Alwy with Deutsche Bank. Please go ahead.

Faiza Alwy

Yes, hi, thank you.

I wanted to pick up on the private label point also. I was wondering if you had some data as we went through this crisis, starting from the original stocking-up phenomenon and then more recently. Have you sort of seen consumers continue to gravitate towards brands, or have you seen, as recessionary pressures build, have you seen consumers go more towards private label?

Stéfan Descheemaeker

To your point, short-term what we've seen is people gravitating towards brands, and preferably A brands like us. That's why we're gaining share. Long-term, to your point, or longer-term, I would put it that way, we know that the likelihood of a recession is very high, and it's going to have two impacts. One is the fact that people are going to stay more at home, so yes, they will go back to work, but at the same time, for recession reasons and other reasons, by the way, people will stay more at home and will have dinner at home. That's good news for us, because, again, in terms of category, we know that frozen food is doing extremely well during recession times.

At the same time, to your point, private label is always something that we focused on, so there will be a price question, and that's our job, obviously, to make sure that we're offering the right price and value equation. That's that, but nothing new from that standpoint, and it's going to come at some stage. Probably, what's going to happen on top is, there might be some SKU rationalization, which then probably will impact B and C brands, and probably will lead to very interesting conversation with the retailers. As long as we're coming with the right A brands and right innovation, we believe that it's going to be more a plus for us than anything else.

Faiza Alwy

Okay, makes sense. I just also wanted to ask about costs, in terms of cost inflation specifically around fish. We've been hearing about meat packing plants where there has been virus spread and there's been supply constraints; can you just talk a little bit about the fish supply chain and if you see any risks there as we go out to the balance of the year?

Samy Zekhout

I'll take that. I mean, we have had no impact on our supply chain, I would say, from fish. The chicken and beef issues in the U.S. appear to be U.S.-specific. We haven't seen anything happening of that sort in Europe.

We entered, I would say, 2020 with a second year of inflation, but we saw actually inflation moderating back in February. We are at the scale, as well, to be fairly active in the market and make sure that we are taking advantage of our position to get some of our inventory at a very effective cost, actually.

Faiza Alwy

Thank you.

Operator

Our next question comes from Brian Holland with D.A. Davidson. Please go ahead.

Brian Holland

Thanks, good morning.

Can you tell me what consumption was in the quarter? I guess my context here is, obviously very strong Q1 on the shipment side, but I would have assumed some of that initial consumption would have drawn down on your trade retail inventory. I'm just wondering, as we go into Q2, as we're still seeing consumption very strong, should that—if I'm right and consumption was faster than shipments in Q1, does that reverse in Q2, or do we have more room there?

Stéfan Descheemaeker

Okay, let me take that one. Hi, Brian.

Just some math here, Brian; remember that the 20% for Q1, which is the sell-out the way you have seen it, but obviously it gives you just a part of the explanation. What you have to take off is, we mentioned and Steve mentioned Aunt Bessie's, and it represents something like a 5%, let's say.

Then foodservice, it's only 5% of our business, but we've been declining by 15%, Q1, which is quite moderate. It's represented another 1%. You'll remember also that we had a shipment question between Q4, Q1 in terms of phasing, which is another 1%. We have 2% of leap year, so we left with 11% to be compared with the 7.7%.

Quite frankly, the delta then is really, sell-out leading sell-in, which is the answer to your question. There is a bit of interesting upside ahead of us.

Brian Holland

Okay, that's helpful detail, thank you.

Then, to the extent that you have any insight on this, what is the state of the consumer pantry right now at home? Obviously, we have a demand surge, but unlike in a typical pantry-load situation that might be driven by a storm or what have you where folks are buying excess of how long they're actually going to be home, or the impact of a storm, something like this, folks don't have options other than to eat at home, so they are working through what they're buying.

Stéfan Descheemaeker

Yes.

Brian Holland

I guess one of the thoughts here was, when we come out of this, people would still have a lot of inventory, but as you're pointing out here, this is a demand surge; they're consuming the product. Has consumer mobility improved? Just wondering what your sense is as to how much inventory is working out of the home, to the extent that we might have a normal second half as opposed to a lag here with people drawing down on that home inventory? Thank you.

Stéfan Descheemaeker

When you see the numbers, again, we had an extraordinary spike in the middle of March. Since then, obviously, people have come back to a new normal. We're still in the region of 20%+, so that's that.

At the same time, freezers in Europe are smaller than the U.S., they also have, by the way, fewer storms. The pantry-loading is much less of a phenomenon in Europe than it is in the U.S. What we know is, by definition again, Brian, people are consuming frozen more because, 25% in Europe, 25% of food is, normal time, or at least pre-COVID-19 time, as was eaten away from home, 50% work, 25% schools, and the rest is restaurant. That's not happening. That, by definition, people are eating more at home, which is exactly what our market is.

Yes, there is opportunity for retailer to build up given the sell-in versus sell-out comment, as you saw, to your point. The key question for us in the coming weeks and months is how this, let's say de-confinement process is going to play out between school, work and restaurant. What we see is schools, it's starting to de-confine, but it's going to be limited until September, very limited. I can see that—my wife is the Director of a school; I can tell you it's going to be probably something like 10%, 20%.

Restaurants, again, are going to respect social distancing. Again, it's going to be very limited. Work, I don't know about you, but what we can see, even with Nomad, is we're going to be very, very, very cautious. At the same time, long-term what we see is people, "Oh, my God, it's working, this working from home." It doesn't mean that it should replace fully the office, but definitely, it's going to be more important, which means more consumption at home, which means then, more consumption of frozen food.

That's a bit of what we see. We see the mid-term is going to be how to monitor this staggered movement to a new normal. When is it going to be a new normal, we don't know, by vaccine time probably. Then beyond this new normal, there will be new patterns coming in, which we believe are going to play out in our favor. Did it answer your question, Brian?

Brian Holland

Yes, that's excellent color, appreciate it. Best of luck gentlemen.

Operator

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

Jonathan Tanwanteng

Good morning, gentlemen. Thank you for taking my questions and congrats on now getting through just an extraordinary, unprecedented crisis.

My first question, and maybe you've addressed this already, but do you still view your shares as attractive compared to M&A at this point? Then maybe as a follow-up, discuss the status of the acquisition pipeline and your ability to diligence and pursue deals in this environment.

Stéfan Descheemaeker

Well, the fact is, we're not going to comment as such on M&A. I'll let you know. Samy comment on the repurchase, which is, I think, the right thing to do. At the same time, it's fantastic. We have a balance sheet the way it is right now, which is great. I'll let you comment maybe a bit more on the share repurchase, maybe, Samy?

Samy Zekhout

Absolutely, Stéfan, thank you.

Yes, I think, as we have mentioned, I would say for us, I would say the share repurchase has been opportunistic. We've been buying back, in total up to now, 5.4 million shares at an average of $16.78 price, and since—let's say we announced the program on March 13. I would say my only comment, frankly, is just to reiterate the fact that we have a very strong balance sheet that you have seen. We have cash on hand and we can mobilize up to about a billion, so I think we feel clearly that we are ready to try to jump on the right opportunity at the right time, and for the time being, this has been in the area of share repurchase.

Jonathan Tanwanteng

Okay, great, thank you.

Then I was just wondering if you could comment on your relative position in your supply chain and the strength there versus, I guess food in general. Maybe what I'm getting at, are you going to benefit from the impacts in the global supply chain to meats and harvest and fish and all that that are being caused by the pandemic? Are you in a position to say that your supply is secure for the rest of the year for your demand expectations, and maybe, does that give you an advantage when packing plants are closing down, or harvests are not getting enough labor and issues such as that?

Samy Zekhout

Yes, I'll take that one, and Stéfan, feel free to jump in. I think the point that we highlight is that we have been acting very early, overall, to secure our factories and our people, making sure that we have the right infrastructure, I mean, to allow our people to come and continue to work in order for us to produce and deliver to our customers and consumers. We've acted as well on the whole supply chain, so we did have already a very good cover, but we even strengthen it, I would say overall, and consider that we have a very good cover overall today, I mean, on our raw material.

The reality of the issue that we see in the U.S., effectively, is that the protein issues in the U.S. do not seem to be occurring in Europe. On the harvest, I would say that the biggest issue are with lettuce, fruits, which are very much labor-intensive, and are not where we have exposure. I mean, our own process is from the harvest and are pretty well automated. We're fairly well-protected, at least from that standpoint, and have all of the materials we need to ensure the supply for now and for the rest of the year.

Jonathan Tanwanteng

Got it, thank you.

Then finally, maybe you could build on a prior question about inventories coming out of the pandemic. Maybe from a more psychological perspective, do you think it's possible that consumers, they veer away from frozen foods after having come out of isolation for so long and maybe back towards fresh, or something that they haven't had in a while, maybe going out to the extent that is possible. I'm wondering if you've been able to think about those possibilities and how much it could impact you, if that's something that might be in the cards.

Stéfan Descheemaeker

You always have to think about range of possibilities, which we definitely think that what we have ahead of us is more opportunities than anything else. We always know that opening the freezer has always been an obsession of ours, and it's—compared to the fridge units, the difference is huge. What we're going to monitor very soon is, obviously, if we see that it's changing over time, that's one thing.

The second thing is, we've seen a lot of people, we're monitoring these people; our Insight department is really monitoring what they think about the product, and what's happened is really, when you think about it, a lot of people left frozen with these ideas that it's about convenience, affordability. But what they're discovering right now is, "Oh, my God, it's great taste. Nutrition is fantastic." Meat-free is part of frozen food. Sustainability with waste, all these things that are important, by the way, for the new generations and beyond. That's the kind of thing that they didn't know. That was our job to make it known, and whether we like it or not, with the current situation, these people discovered frozen food, and we definitely believe that it's going to help. I see much more opportunities than anything else ahead of us.

Samy Zekhout

The point I would add probably is the fact that what we have seen, what we have observed is, in the new, let's say, shopping pattern that we see from consumer, they are coming back to frozen food in a much more regular basis. Historically, they were going and buying some frozen food and then putting them in their fridge, waited, and then as Stéfan was highlighting, effective, which was very important for us to make sure that they open up the door on the freezer. But what we are seeing right now it is effective that they're using frozen foods on a much more regular basis. They're coming back to the store, purchasing again and again. That's extremely encouraging for us.

Now, the question is whether that pattern will stay, but during the period of time during which they will adopt that pattern, it's very likely that, effectively, those changes remain for quite some time. I mean, if you're in a habit, usually, I mean, change for about three to four months total, so I think it's quite encouraging on our side.

Stéfan Descheemaeker

One additional point, Jon, is you probably have seen, and it's not limited to us, that online has literally exploded during this time. Again, it's going to stay, so some people may have even said it's been 10 years in three months. It's big and it goes to all the categories of people, by the way.

What we're also very clear is, that frozen is over-indexing with online. It's another reason why we believe this combination is going to help us.

Jonathan Tanwanteng

Got it. Thank you very much, guys, for the color. Good luck out there.

Stéfan Descheemaeker

Thanks.

Operator

Our next question comes from Bill Chappell with SunTrust Robinson Humphrey. Please go ahead.

Zeki

Hi, this is Zaki on for Bill, thanks for taking the question.

Samy Zekhout

Hi.

Zeki

Just kind of following up the last question, is there a world where, you mentioned that consumers are talking about an old way of looking at frozen food versus a new way of looking at frozen food. Is there a possibility where retailers would look to increase shelf space or maybe provide more support to the category if that takes place? Thank you.

Stéfan Descheemaeker

The simple answer is yes. Actually, it's a very good category for the retailers, it's a good margin for them. We know that their undistributed versus the opportunity in the face that comes with frozen, so that's what's going to happen. It's not going to happen overnight, at least in terms of total fixtures, but definitely, you can imagine that they could equip with secondary replacements in terms of freezers. We believe we can make it work, but it's going to be part of our joint business plan with all these guys. But definitely, it's on the agenda.

Zaki

Got it, thank you.

Operator

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

Stéfan Descheemaeker

Thank you very much, Operator. Thank you all for participating on our first quarter earnings call.

The past two months have been an unprecedented moment of time for many of us. Our entire organization has adapted to a new way of working while working hard to ensure that we can continue to supply our developed brands to grocery stores across Europe while protecting the safety of our employees. In times like these, we are humbled to be serving our communities with nutritious food. Our business is proving to be very resilient throughout this period of uncertainty and is poised to emerge on an even stronger foundation.

Thank you for your time, stay safe and I look forward to updating you when we next report Q2 earnings in August.

Operator:

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