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Nomad Foods Limited

Second Quarter 2020 Earnings Conference Call

August 6, 2020

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PRESENTATION

Operator

Good day, and welcome to the Nomad Foods Second 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 proceed with your question.

Taposh Bari

Thank you for joining us to review our Second 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, expectations and intentions 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 does represent adjusted figures for 2019 and for 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 hereon will refer to those adjusted numbers.

With that, I will hand you over to Stéfan.

Stéfan Descheemaeker

Thank you Taposh, and thank you all for joining us on the call today.

First and foremost, I hope that you and your families continue to stay healthy & safe throughout these unprecedented times.

Earlier today, we reported our second quarter earnings results, marking Nomad's 14th consecutive quarter of organic revenue growth. In addition, we also announced our intention to commence a tender for up to US$500 million of ordinary shares, representing a significant return of capital to our shareholders.

Starting first with our second quarter earnings results, we are pleased to report another quarter of exceptional performance with nearly every financial metric exceeding the expectations that we provided on the first quarter earnings call.

Second quarter financial highlights were as follows. Organic revenue growth of 12.3% driven by a 9.9% increase in volume and mix and a 2.4% increase in price. This performance was in line with the business update that we provided in June. Gross margin of 30.3%, reflecting 50 basis points of expansion. Adjusted EBITDA growth of 21% to €119 million, adjusted EPS growth of 26% with 34 euro cents per share.

Based on our year-to-date performance and our expectation that sales growth in the back half will now remain elevated, we are raising our organic revenue guidance for the year and now expect to be above the high end of our prior ranges for both Adjusted EBITDA and adjusted EPS. Importantly, this new outlook now includes approximately €10 million of incremental strategic investments to be deployed over the course of the next six months.

Let's turn to the details of the second quarter, beginning on Slide 4.

We are very pleased to report second quarter organic revenue growth of 12.3%. Performance was fairly consistent throughout the quarter with all three months achieving double-digit organic revenue growth.

Importantly, we were encouraged to see growth sustain at an elevated level, even as stay-at-home restrictions were relaxed across Europe beginning in early May.

Frozen food has proven to be one of the fastest growing and most durable FMCG categories throughout Europe these past four months. At Nomad, our business has performed at a very high level, a testament to the agility of our organization and the power of the brand. Moreover, our portfolio is concentrated in the sweet spot of the packaged food space, in frozen, branded and retail. This focus has worked to our advantage and this is where we continue to direct our attention.

While we had originally planned for strong growth in 2020, the impact of COVID-19 has undeniably accelerated our top and bottom line results, due in large part to an influx of new consumers discovering our brands and significant repeat behavior since the start of the pandemic. During the second quarter, we recruited an unprecedented number of new consumers into our portfolio with 12-week household penetration up 4 percentage points to 44% across our three largest markets.

Across each of our three largest markets—the U.K., Italy and Germany—millennials demonstrated the strongest spending growth amongst new consumers, a clear indication that our power brands—Birds Eye, Igloo and Findus—are resonating with this important and influential set of shoppers. Our expansion of Green Cuisine will only further strengthen our appeal amongst millennials given the high value that they assign on food that is healthy, convenient and sustainable.

In terms of repeat purchase, we saw a notable year-on-year uptick amongst users who repurchased two times or more during the quarter. For example, in the U.K., our largest market, nearly 40% of Nomad users repurchased into our brand two times or more during the second quarter. We are encouraged to see repurchase rates that are best-in-class amongst frozen savory, ahead of other branded competitors.

We responded to sustained and elevated demand by running our product lines at maximum capacity while creating new safety protocols in our factories, all which have remained open and operational throughout this pandemic. Despite these extraordinary efforts, there were still parts of our portfolio where demand outstripped our ability to supply during the second quarter.

As you may know, our largest factories in Bremerhaven, Reeken and Lowestoft were already running at high utilization rates prior to COVID-19. While there was adequate capacity to deliver our original plans, the unanticipated spike in demand did create some bottlenecks which reduced our factory service levels to as low as 87% in April.

We responded by increasing factory output and reducing demand creation activities during the second quarter, namely advertising and in-store promotions, which led to temporary market share declines during the months of May and June. The good news is that these actions have enabled us to not only improve our customer service levels, which are now back to a robust 98%, but also to rebuild our own inventory levels to support our expectation for elevated consumer demand in the second half of 2020.

Further, preliminary data in July suggests that our market share is stabilizing and we now have the capacity and promotional support to deliver on our robust plans for both the third and fourth quarters.

Moving on to gross margins, we achieved 50 basis points of gross margin expansion during the second quarter, a positive development versus our prior expectations which called for a year-on-year decline. This was driven by lower promotions, as I just described, but also fixed cost leverage and favorable channel mix. We are pleased to see the business return to gross margin expansion one quarter earlier than we had originally planned and remain on pace to achieve gross margin expansion during the second half of the year.

As you may know, we have successfully navigated an unprecedented level of raw material inflation in 2019 and 2020, arising from a correction in fish prices and persistent strength of the US dollar, the transactional currency for approximately 20% of our cost of goods.

Inflationary pressure is now clearly abating. Earlier this year—before COVID-19—we had already observed a moderating trend in fish prices, a welcome development. Since then, supply/demand dislocations in the out-of-home channel have created some unique opportunities for us. These benefits should accrue in the back half of this year.

Another recent trend has been a strengthening of the euro, which is near a two-year high versus the US dollar. To the extent that this trend sustains, a strong euro would help further contain our cost of goods in 2021 while driving a higher real-time conversion of our euro-denominated results into US dollars, the currency in which our stock trades.

Finally, we generated a significant amount of cash in Q2, bringing our first six month adjusted free cash generation to €243 million. We had made meaningful strides in optimizing our working capital terms over the past year and are pleased to be in the position to both generate this amount of cash but also use it to fund highly accretive actions like the expected tender offer which we announced today.

Our business has performed at an exceptional level through the first six months of 2020 with consumer shifts to at-home consumption—and frozen food in particular—providing strong macro tailwinds.

Looking forward, as I mentioned earlier, our business is exceeding our expectations relative to where we thought we would be exiting Q1 and certainly versus our plans at the start of this year. This has created a unique opportunity to both raise our guidance for 2020 and to deploy approximately €10 million behind incremental strategic investments to capitalize on our success to date and fuel key growth initiatives to position the business for continued success entering 2021.

While this year's guidance would have been even higher without these investments, we are fortunate to have the opportunity to deploy capital to create sustained, long-term value for our shareholders.

Our plan is to allocate these additional resources across three strategic pillars of growth. One, the targeted retention of new consumers who have entered our brands since the onset of COVID-19; two, even greater media support behind our core portfolio where we have superior ROI's; and finally, doubling down on Green Cuisine, our plant protein brand. Green Cuisine continues to perform very well with our revenues and gross margin both exceeding our plans. This is despite a delayed activation program which we shifted our plans from Q2 to Q3 as a result of COVID-19. I am happy to share that we are now beginning to activate the Green Cuisine brand across our continental European markets with a multi-channel media campaign and traditional trade and promotional support. This is starting in Germany and Austria as we speak and will expand to the other markets throughout the third quarter.

In terms of distribution, Green Cuisine, which was available in only two countries at the start of the year, is now available in 10 European markets and will be in all our markets by early 2021.

And finally, we are making excellent progress along our innovation agenda with Green Cuisine set to expand into the exciting meat-free poultry category in the coming weeks, starting with the U.K. market.

I'd like to conclude by providing some broader perspective as we celebrate our fifth year anniversary as a public company.

We are on an exciting journey and I am sure that I speak on behalf of our entire organization when I say that we are incredibly proud of the performance that we have been able to generate in a relatively short period of time, and we look forward to the opportunities still to come.

Our second quarter results mark Nomad's 14th consecutive quarter of organic revenue growth and based on our updated expectations for this year, we are well on our way to delivering a fourth consecutive year of organic revenue growth in 2020.

While we have clearly benefited from unprecedented demand for frozen food, this slide also demonstrates our longer term track record for growth, leading up to this year.

From Day 1, we have managed this business with an owner's mentality, acting in the best interest of long-term, sustainable shareholder value creation. As such, we firmly believe between our consistent track record of delivering results, solid financial health and attractive growth prospects that Nomad Foods is well equipped for continued success throughout and beyond the COVID-19 pandemic.

This brings me onto the other piece of news this morning.

Earlier today, we also announced our intention to commence a tender offer to purchase up to US$500 million of the Company's ordinary shares. As you know, we raised equity 18 months ago to prepare ourselves for a slate of interesting acquisition opportunities that we saw ahead of us at the time. We have maintained our discipline by sticking to our acquisition criteria and ultimately passed on a number of deals. In the meantime, our business has evolved in a very positive way. Our revenues, Adjusted EBITDA and cash balance have grown while our leverage has come down.

As we sit here today, we see numerous avenues for growth within our European frozen food footprint, both organically and inorganically. As a result, we believe that further concentrating our strategic focus within these opportunities offers our shareholders the best return on our investment.

Organically, we have strong momentum and are making incremental strategic investments to ensure that our business is well positioned entering 2021. Consumer interest in our iconic brands has never been higher. Moreover, our expansion into the plant protein space, through Green Cuisine, positions the Company for the possibility of accelerated organic revenue growth in the years to come.

At the same time, we are refining our M&A focus towards European frozen acquisitions, which are primarily mid-sized in nature. This compelling and targeted pipeline will require us to carry significantly less cash on our balance sheet than we have in recent quarters.

This brings me to our intention to repurchase up to US$500 million of our stock through a modified Dutch auction process. As stated in this morning's announcement, the expected tender offer is intended to serve two objectives; first, we recognize that we are carrying more cash than we need and, as a result, we are returning excess cash to our shareholders in what we believe is the most efficient way of doing so, and second, we believe repurchasing our shares is a compelling and accretive use of our cash, while preserving financial flexibility to pursue our M&A pipeline as I just described

Our confidence in the growth prospects of our business and the European frozen food category has never been higher. In fact, we have begun planning our first ever Investor Day to be held virtually later this Fall to present the various growth initiatives ahead of us. We look forward to sharing more details on this exciting event in the coming weeks.

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 7, I will provide more detail on our key second quarter operating metrics beginning with revenues, which increased 11.4% to €599 million driven by 12.3% organic revenue growth and were offset by 90 basis points of foreign exchange translation. Organic revenue growth was stronger than we expected at the time of our Q1 earnings call in May and was in line with the business update that we provided in June.

Organic revenue growth was led by our branded retail business, which represents 90% of sales and grew just under 20% during the second quarter. This was offset by more modest growth in private label and declines in foodservice.

Growth was geographically broad-based with seven of our 13 countries posting revenue growth in excess of 15%.

Second quarter gross margins expanded 50 basis points to 30.3%. The year-on-year increase exceeded our prior expectations and was driven by reduced promotions, fixed cost leverage and favorable mix. We are pleased to see the business return to gross margin expansion and continue to anticipate year-on-year gross margin expansion throughout the second half of the year as a result of supply chain productivity benefits.

Moving down to the rest of the P&L, adjusted operating expenses increased 1% year-over-year, reflecting growth in Indirects and a double digit decline in A&P. The decline in A&P, which we had planned for, reflects our prior decision to shift Green Cuisine advertising from Q2 to Q3 and to reduce unnecessary stress on our supply chain amidst an unprecedented level of consumer demand.

Adjusted EBITDA increased 21% to €119 million and adjusted EPS increased 26% to 34 euro cents for the quarter.

Turning to cash flow on Slide 8, we generated €243 million of adjusted free cash flow during the first six months of the year, nearly three times the amount that we had generated for the same period a year ago. In six months, we have already surpassed the amount of free cash that we generated through all of the year 2019. This is an exceptional level of performance and I'm proud of our entire organization for maintaining their discipline on cash throughout this crisis while making structural enhancements in our working capital over the past two years.

In addition to better terms on both receivables and payables, working capital also benefited from the fact that we significantly depleted our inventories as we chased demand as a result of COVID-19. We converted nearly 180% of our Adjusted EBITDA into adjusted free cash flow through the first six months of the year, reflecting seasonality, structural enhancements and the effect from COVID-19.

Looking out, we expect Q3 to be a use of working capital, as it typically is due to the harvest. Moreover, with our customer service levels now back to normal, we are also rebuilding our inventory stocks to support our second half plans and to secure enough safety stock in the event of a second wave of COVID-19 across Europe.

With that said, we do expect to end the year with robust cash generation and cash conversion.

With that, let's turn to Slide 9 to review our 2020 guidance, which is based on foreign exchange rates as of August 3, 2020. For the full year 2020, we are raising our organic revenue guidance from mid-single digits to high-single digits. As a result, we now expect Adjusted EBITDA and adjusted EPS above the high end of our prior guidance ranges. This equates to Adjusted EBITDA in excess of €460 million and adjusted EPS in excess of €1.27. When translated into US dollars, the currency in which our shares trade, full year 2020 Adjusted EBITDA guidance equate to at least $543 million and adjusted EPS guidance equates to at least $1.50. Adjusted EPS guidance assumes a fully diluted share count of 198 million in Q3 and Q4, which may ultimately be lower based on the outcome of the proposed tender offer which we announced this morning.

Our guidance now assumes an elevated level of organic revenue growth in the second half of the year, reflecting four factors. One, the sustained level of growth that we have experienced throughout the pandemic, including double-digit organic revenue growth in June and July despite the easing of government restrictions. Two, the accretive effect of the strategic investments that Stéfan described in his remarks. Three, the replenishment of retailer inventories, including the recovery of out-of-stock positions, and four, the return to a more normal promotional level now that our service levels are back to normal

As I mentioned earlier, gross margins are expected to increase in the back half of the year as a result of supply chain productivity.

Finally, we expect operating expenses to grow ahead of revenues as a result of our decision to deploy incremental strategic investments in the back half of this year.

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. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick your handset before pressing the star keys. One moment, please, while we poll for questions.

Thank you. Our first question comes from Andrew Lazar with Barclays. Please proceed with your question.

Andrew Lazar

Great. Good morning everybody or I guess good afternoon for you.

Stéfan Descheemaeker

Good morning, Andrew.

Samy Zekhout

Morning, Andrew.

Andrew Lazar

I want to start off if I could, I really appreciated the specific wording in today's release around the refined strategic focus for some of your M&A going forward to be really specific to European frozen food acquisitions. I think, Stéfan, maybe it was a few quarters ago even where you had started to talk about the increased sort of time and resources that Nomad was spending against really developing relationships through multiple different avenues with potential targets around some of these types of frozen food targets. I'm curious, is it your sense that maybe those relationships are now starting to become a little more fruitful or you've got a little more visibility around how some of those might work out? How has the current state of affairs, all things pandemic related, impacted some of those discussions maybe with potential targets one way or the other? That'd be the first thing.

Stéfan Descheemaeker

Okay, thank you. That's a long question, let me try to—let me start with a bit of background, Andrew. You know it's 14 consecutive quarters of growth, this with cash flow that is generating, that is quite high, more than 0.5 times a year. Obviously deliberate balance sheet, and in the middle of this, with and without COVID by the way, frozen food looks increasingly attractive and we're in the middle of this as the category leader. Again, that's why deliberately I am talking about organic and inorganic, both are extremely attractive for us and I think it's the right thing to do, which is to be disciplined and be logical, which is we're going to focus behind this category. Green Cuisine is a great example.

In terms of M&A, yes, I think it's important to mention, and you are right, talking about refined M&A focus, it's an interesting pipeline. It's a pipeline where as a leader you have all the reasons to generate a good value from this and beside that, you know as much as I do that M&A, you have to talk to people and at some state it is coming. You can't plan these things but you have to be ready.

What we see is with refined focus and with so much cash, we think it's only the right thing to do to return cash to shareholders while leaving obviously enough cash and cash flow generation for this refined focus. That's how we see things, which is we think quite logical and also requires obviously quite some discipline.

Andrew Lazar

Thank you for that. I don't know if you have this handy, and if not obviously that's fine. You talked about some of the trial and repeat metrics that you're seeing for current—I think you describe it as current Nomad users. I didn't know if we dig down a little bit there and we look at those that are—consumers that are new to the brand, if you will, how their repeat looks as well.

Stéfan Descheemaeker

That's the good news. Again, let me use a good proxy which is the millennials and what we can see that these new Nomad buyers, the millennials overindex and this is interesting, Andrew. It goes the same way in the U.K., in Germany, in Italy, which represent all together something like two-thirds of our business, so that's for us good news. Two good news. One is that we are gaining penetration across the board, and second, to your point, when you dig deeper, you go to the millennials, it goes even faster.

Andrew Lazar

Great. Thanks very much.

Stéfan Descheemaeker

You're welcome.

Operator

Our next question comes from the line of John Baumgartner with Wells Fargo. Please proceed with your question.

Jonathan Baumgartner

Good morning, thanks for the question.

Stéfan Descheemaeker

Good morning, Jonathan.

Jonathan Baumgartner

Good morning. You're about four to five months into this elevated COVID demand environment and I'm wondering if you could elaborate a little bit in terms of what you're learning about your supply chain right now, whether it's a newfound realization of flexibility. You mentioned increasing capacity, or maybe even recognition of inefficiencies in the midst of this demand uptick. How are you thinking about the phasing and the opportunity set related to the overheads and the lean manufacturing at this point? Thank you.

Stéfan Descheemaeker

Let me start again by thanking our people in terms of supply chain. I think they've been fantastic. All the 13 plants have been left open throughout this whole process, which says something in terms of motivation of our people.

The reality is we have a reasonably tight—and obviously we are working on it—capacity utilization across the plants, especially with our big plants in Germany and in the U.K. So, while the team has done a fantastic job, we've been producing as much as physically possible and in the meantime during this crisis where, you know, our service level unavoidably started to go down. We also have tried to respond by reducing the promotional activity because that could have been a mistake. And by doing so and by obviously working very hard with the supply chain now we're back to more normal level in the region of 98% and we have been able to produce some safety stock so we are feeling in better shape looking ahead in Q2.

That's where we are. We're not standing still, obviously. We are also checking short to mid term how we can increase capacity in some plants, but that's where I think we are. And we see this, by the way, in terms of some market share starting to normalize.

Samy, anything else I am missing?

Samy Zekhout

No, Stéfan.

Jonathan Baumgartner

Thanks for that. Stéfan, just a quick follow-up on Green Cuisine. Wondering you can update a little bit for us in terms of the U.K., household penetration, market share, anything noteworthy there, and then I think also in H1 you launched into a number of new markets. Obviously still early but I'm curious any observations you can make thus far in terms of retailer merchandising and you have initial buy-in before the marketing really kicks in in the back half to this year. Thank you.

Stéfan Descheemaeker

Yes, so overall and again independently from COVID, I think what we can see in the countries like U.K. or Ireland where we started ahead of time, and in the new countries -- we are gaining market share. It means something that as a category leader in frozen food we are coming with the right combination in terms of quality of product and in terms of pricing, so that's one thing and that's very interesting for us.

What we also can see is yes, initially we thought that we will be a bit late this year given COVID because when you have that kind of crisis, the retailers—and for the right reasons by the way—the retailers prefer to focus on the very limited number of SKUs because it makes their life easier, it's a better allocation of the space, and all the rest of it. I fully understand that. At the same time, what we've seen is no, we're not behind plan, quite the contrary. We've seen all our countries with the exception of three markets; but they are going to come by next year they will be also ready. So another eight countries have launched Green Cuisine, and in our model, John, what you need to understand is it's global and local. Obviously to have the input and the feedback and really have the countries with you is crucial, and so with the enthusiasm that we have seen from these guys we are very positive. We are more than ever confident that our target of €100 million plus by 2022 will be achieved. In the meantime we are not standing still. We started to advertise in Germany and Austria and other countries will come. We also, in terms of innovation, we're coming with—I think it's coming next month actually in September—in the U.K. with the new line of plant protein in terms of poultry, which is excellent. I can tell you it's a great taste, fantastic. All our exec members, you know, when we have this—I know it's a digression but still I couldn't resist. We have these tasting sessions. I can tell you at the end of the tasting session nothing was left, which says something about the quality of the product.

That's where we are. We also, as you can see—we've also decided to allocate part of the €10 million to further reinvest in behind Green Cuisine because we think it's a great category, there to stay but you have to think big and that's what we increasingly are doing.

That's what we see. We all—and I'm sure that what I'm saying is fully representative of what the whole organization thinks behind Green Cuisine, very exciting and full in line with our strategy.

Jonathan Baumgartner

Thanks, Stéfan. Much appreciated.

Operator

Our next question comes from the line of Rob Dickerson with Jefferies. Please proceed with your question.

Matt Fishbein

Hi, good morning. It's Matt Fishbein on for Rob. Thanks for the question and congrats on a solid quarter.

Stéfan Descheemaeker

Good morning.

Samy Zekhout

Good morning.

Matt Fishbein

So, A&P was down double digits in Q2 and you're investing an incremental €10 million in the back half. I'm assuming that's on top of the Q2 shift. What does the promotional environment in your key geographies look like currently? Have you seen a full normalization of promotional activity or are some markets still less promotional than others.

On Green Cuisine, glad to hear you're doubling down and it's exceeding plans. On the Q3 rollout, thinking back to the slide you shared with us at CAGNY showing the 2020 timeline, will Green Cuisine be out in all those planned markets by the end of Q3 or Q4? I think in response to Jon's question you said that some markets are now planned for the beginning of next year. Just trying to get some clarity around that. How many of these markets have seen advertising get activated already versus how much is coming on later this year? Thank you very much.

Stéfan Descheemaeker

Samy, do you want to start with the promotional side?

Samy Zekhout

I'll get started on the promotional side. First and foremost, yes, we've been shifting advertising spending from Q2 to Q3 and have made the strategic choice to reinvest in the range of about €10 million. You can see that there was a very strong momentum. I mean that gives us the confidence that this was the right move with the appropriate return on those investments.

The one thing that's important to note is this is a promotional category so we have to be clearly present from a promotional standpoint, and so when you look at where we are today with our supply chain back to almost normal, we are going to take our promotion back to normal as well and be able to defend the business.

I'll leave it up to you, Stéfan, to comment on Green Cuisine.

Stéfan Descheemaeker

Thank you, Samy.

Back to the countries, actually having already 10 countries carrying Green Cuisine is higher than what we originally planned, so that's very good for us. Again, the Nordics are coming very early next year. So that's that.

The second piece, in terms of advertising, we already started to advertise in Ireland and in the U.K. last year, and actually, we're just starting advertising in Germany and in Austria, as we speak, actually. The other countries are going to follow in the coming weeks, so more to come. Initial results are good, and by the way, something I forgot to mention is what we can see also is great enthusiasm from the retailers. We see this from the quality of the plans we are putting together with them.

Matt Fishbein

Perfect. Thanks for the additional color. Just a quick follow-up, Stéfan, have you won any additional distribution beyond what you originally secured for Green Cuisine based on the retailers response?

Stéfan Descheemaeker

The answer is overall, as I said, a great response from the retailers in the U.K., which is probably the best, where it's the most relevant piece because that's the most mature market and that's where we have already gained a significant position.

What we can see is without mentioning names obviously, by definition—you don't want to do this—we're working on partnership even closer with them, which means, you know, you understand what it means, that yes, we are doing well in terms of positioning in terms of obviously space allocated to Green Cuisine, and again, it's not limited to the U.K. I would invite you to go to France and you have some great examples of in-store activation.

Matt Fishbein

Excellent. Thank you very much.

Operator

Our next question comes from the line of Brian Holland with D.A. Davidson. Please proceed with your question.

Brian Holland

Thanks. First question, if I could. Can you just frame for us kind of what your sales trends are looking like, either kind of how you exited the June quarter or to the extent you might have information to that end in July?

Samy Zekhout

I'll start and…

Stéfan Descheemaeker

Yes, please, please, please.

Samy Zekhout

As we mentioned, actually, we were up double digits in June and July and our prospects for the year is that we will be in the high single digit range roughly.

Brian Holland

Okay, thanks. Apologies if I missed that earlier.

Then last one for me, just on the M&A front. Stéfan, I think you mentioned in your prepared remarks that you passed on several opportunities, and I'm just reconciling that with the commentary about targeting more European frozen assets. The stuff that you passed on, is that valuation focused or is that just kind of a valuation issue or is this just thinking about kind of the momentum that you're seeing in frozen and just a decision that you've made as you've looked at other assets, maybe outside your core either from a category or a geography standpoint? Just maybe any color there that would help us understand the deals that you passed one.

Stéfan Descheemaeker

Actually, it's all of the above. I'll put it that way. I think we've come up—from the start by the way—with a list of criteria and we've remained very disciplined with this M&A criteria and all the acquisitions didn't pass the right tests. Sometimes in terms of valuation, sometimes in terms of quality of assets, and then increasingly so what we could see is over the last years this category is really improving. Obviously it's been exacerbated by COVID and I think it's more than a short-term blip, and we are in the middle of this.

With this, when we saw this, we thought that refining, focusing even further behind frozen where we know we understand the category much better than anything else was the right thing. So, it's a combination of both.

And again—and I used the word several times today, for some of you maybe too many times—but I think it's a question of discipline as well. M&A is also a game of patience. It is difficult because sometimes you're getting too excited for something that you have worked very hard for, and at the same time you should never forget that it's about patience and it's about discipline. Discipline in this context means for us that buying back our shares is we think the right investment.

Brian Holland

Appreciate the color. Thank you.

Stéfan Descheemaeker

You're welcome.

Operator

Our next question comes from Bill Chappell with Truist. Please proceed with your question.

Bill Chappell

Thanks. Good morning, good afternoon.

Stéfan Descheemaeker

Hi, Bill.

Bill Chappell

I guess first on the M&A and on the tender offer, I mean should we look to that to imply I guess, one, that you've basically—the things you're looking at are more expensive than your current stock price and so this was a better use of cash in the near term? Then, two, should we assume that the big potential acquisition that was out there is really kind of moved on to it's really more of the smaller consolidating type acquisitions versus kind of reaching for the big opportunity that sounds like it's now out of reach?

Stéfan Descheemaeker

I would put it slightly differently, if you don't mind, Bill. Back to the multiple, I think multiple is one of variables and it's only one of them. Sometimes you'll have fantastic deals that may be at high multiples and sometimes you have poor deals at low multiple, so I'm not sure that multiples is—it's only variable, one criteria, so I will not limit myself to the multiple.

Then in terms of size of the deals, the nature—the nature of the frozen foods in Europe is such that most of the deals are of a mid size and that's just that. That's just why, and the decision to return cash to shareholders is just a manifestation of what the reality of the market is. We believe that with the balance sheet we have, after the tender, with the cash flow generation we have and we see—we compare this with the kind of assets that are available and interesting assets, we believe that we can do them because they're mostly mid-size by nature today. That's that.

Bill Chappell

Got it. Just switching to kind of private label, I guess the thought is we'll have an extended recovery; private label is already fairly prevalent. Some of your especially frozen veggie categories can be viewed as commoditized. I understand that you're putting more money to kind of retain the new customers and brand building, and obviously Green Cuisine is different, but can you help us understand kind of your outlook over the next few quarters of just how you fend off private label or consumer trade down in some of those more commoditized categories?

Stéfan Descheemaeker

Let me start with the word commoditized, because —and I know that a lot of the Nomad Food employees do listen to this session, and they would totally disagree with you, by the way. When you go to the U.K., for example, and you would say that our peas are commoditized. No, they're coming with a premium because they have a quality that is really premium. You can't imagine how much care has been put behind these vegetables in terms of quality, in terms of education, in terms of training with the farmers, and again, it's not limited to the U.K. You would go to the spinach in Germany, you would have the same.

That's the first thing because commoditized, I can tell you, it's not commoditized. It's quality product and it doesn't come by chance. It's really a question of knowhow and many things. Sorry for this long digression but I thought it was important to make the point.

Back to private label, in Europe we probably have a longer tradition of private label than in the U.S. I've seen that also in my background as a retailer both in Europe and in the U.S. Today, private label represents around 40%. Depending on the category, but overall it's stabilizing.

What we have seen during these four months is actually the market share of the private label has been stable and to some extent in some countries even declining throughout the four months.

If you're looking ahead, when you look at the likely recession, I would even before starting to talk about private label I would start talking about frozen food which is convenient but it's also affordable and our products are affordable, so this category tends to do well during recession times. Obviously private label does well as well, but again, we as an A brand, between our core products, Green Cuisine, the retention of our new consumers and our additional investment, we believe that we have what it takes to do well during these times, and again, private label and A brands do well together because retailers do need these brands as well.

Operator

Your next question comes from the line of Jason English with Goldman Sachs. Please proceed with your question.

Jason English

Hey, good morning and good afternoon, folks. Thank you for slotting me in.

Stéfan Descheemaeker

Good morning, Jason.

Jason English

I want to come back to the M&A strategy. First, I find it very welcome news, the buyback and the increased discipline and the increased focus. I guess I'm still a little unclear as to what catalyzed this narrowing of focus. For the last couple of years I've heard you talk about expansion to different categories, expansion to different markets, but now you're coming back, you're really narrowing, you're really focusing, you're really more disciplined. What changed? What catalyzed that pivot?

Stéfan Descheemaeker

I would put it that way, Jason. I think it's the last five years have been a journey. When we started, Nomad was losing market share in a declining category. A tired category, I would put it that way.

The first thing we've done is to make sure that in terms of turnaround we would regain our position as leader in the category, and then little by little what we've seen is the category has—at least it had the potential to offer more and what we see increasingly so is that it is really a very—more than promising - it's doing extremely well as a category and we are in a sweet spot, which is we are the category leader, we're coming in with new products and all the rest of it.

I would say COVID has only exacerbated this trend and we thought it's unavoidable that the best way to be disciplined and also to be mindful in terms of value creation is - we are in the middle of this - we have everything that it takes in terms of organic growth. We have what it takes in terms of inorganic growth, let's go for it, and that's that. But when you think about the "Must Win Battles", the COVID retention, the Green Cuisine, all the things we have developed over the last five years, this goes very well with a focused and disciplined approach, organically and inorganically. That's why.

At the same time, we oversee—you can imagine, Jason, we have spent quite some time thinking what the pipeline is and it's, without mentioning names, it's a very good pipeline. It's a very attractive pipeline and that should keep us busy for quite some time.

Jason English

Okay. That makes a lot of sense. I agree with it a lot.

Coming back to business momentum, you sort of foreshadowed a bit into 2021 when you mentioned that your cost position—and we contemplate both where commodities have gone and particularly fish and currency—in the context of the economic backdrop—sort of building on the last question—potential private label pressure and deflationary input costs into next year, how should we think about your pricing model? You have successfully raised prices through the inflationary period. Is now the right time, is it appropriate to give some of that back, whether it be in the form of list price or higher promotions, as we think about 2021?

Stéfan Descheemaeker

Samy?

Samy Zekhout

Sorry. Hi, Jason. At this stage it's premature to talk about 2021. We are holding a lot of the observation you have in terms of economic trends which are absolutely right, and we're going to have an Analyst Day. We are undertaking now a complete review of our plans, I mean as we are refining, going into the next year capitalizing on the momentum that we have in the second half, and we'll have an Analyst Day, as we said, in the fall, to clearly share with you the plans and how we're going to be managing all of this across next year.

At this stage, we would rather really reserve the comments for 2021.

Jason English

Yes, I understand. Thank you very much. I'll pass it on.

Samy Zekhout

Thanks.

Operator

Our next question comes from the line of Robert Moskow with Credit Suisse. Please proceed with your question.

Robert Moskow

Hi, thanks. I think several people have already asked about private label threat already but I'm going to ask it in a different way.

In your interaction with retailers, have you seen them start to develop more aggressive private label plans for merchandising? Like, your categories are growing and I would imagine that retailers like to expand private label in categories with a lot of growth. Can you comment on what you think their plans for expansion, particularly in plant-based protein because it seems like there is access to that texturized protein if those retailers want to develop their own versions of Green Cuisine?

Stéfan Descheemaeker

Hi Robert. The answer to your first, the answer is yes. We see that they are developing plans, and at the same time we think it's absolutely fine; there is a place for brands and especially for A brands, and we are A brands. That's absolutely critical. There is place for A brands and for private label.

The game has not changed, Robert. It's always the same. You need to come up with things that are attractive to these guys. Plant protein is a good example and improved quality is another example, because at the end of the day what matters for the retailers—and I know that for a fact—is the key indicator is the gross profit per square meter or per SKU and from that standpoint A brands are just fantastic. So that's what we need to deliver.

I think at the same time there will be also brand and non-brand rationalization, which is also fine. I think at some stage too much choice for the consumer is not necessarily a good thing and that's the kind of things we need to do. At the same time, it's going to be our job obviously to make sure that our innovations like Green Cuisine are well positioned.

Back to your point about plant-based protein, is it available—is the technology available to these guys? At some stage it will be, but again, nothing new in this world. It's always been like this. It's the job of the brands to come up with the innovation and at some stage—is it six months, one year, two years or three years down the road—the retailers are obviously following with private label. That's nothing new and I don't see why plant protein should be different from that standpoint. Again, it's our job to come up with better quality and that's why you heard me saying I was almost becoming, I would say romantic, about the quality of our plant protein and with poultry, which is just remarkable.

Robert Moskow

Okay. All right, I'll follow-up later. Thank you.

Stéfan Descheemaeker

You're welcome.

Operator

Our next question comes from the line of Faiza Alwy with Deutsche Bank. Please proceed with your question.

Faiza Alwy

Hi, good afternoon.

Stéfan Descheemaeker

Good morning.

Faiza Alwy

Hi. I wanted to talk about various sales in various countries because as we dig a little bit deeper it feels like some countries did better than others. We know about some of the issues in the Nordic region, but I thought U.K. was a little bit below Italy, Germany, France. I'm curious if you could provide more color around that. Was it more market differences, or were there share differences?

Stéfan Descheemaeker

Samy?

Samy Zekhout

Sure. Hi Faiza.

Overall, if you think of all the markets with, let's say minor exception, we had a pretty consistent H1 performance across the board. I mean, as we had mentioned, the vast majority of our markets have been growing quite significantly, and if you talk about the U.K., I mean the U.K. was up about 16% in Q2, which was quite above average.

I think when you look at effectively the total map from the market you will see the big ones, I mean, clearly winning very well, driving the growth, and a bunch of smaller ones as well, continuing to get on the same growth pattern overall. But the growth was pretty broad-based, I would say.

Faiza Alwy

Okay. Then just on—I know you've talked previously about ecommerce and I think when we talked in June you talked about the significant acceleration in online grocery and how your share is higher there, so I'm curious if those trends have continued as some of these markets have begun to reopen and what your share performance has been online.

Stéfan Descheemaeker

The answer is yes. I think the growth remains very, very high. Sometimes north of 50% still now, and so that's more than a blip. In the meantime, interestingly enough in the more mature market—that is the U.K.—all the big players have doubled sometimes their capacity. You also have obviously people like Ocado, so it's there to stay.

Again, we like ecommerce. We like ecommerce because frozen food is doing well with ecommerce for a variety of reasons, defensive and offensive, and we see that in our numbers.

Faiza Alwy

Okay. Then I do apologize for coming back on the tender question, but in my opinion share repurchase, especially for a small cap company, hardly ever creates long-term value creation; if anything, it might result in reduced liquidity. I wonder if you thought about reducing your debt even further as opposed to repurchasing shares.

Samy Zekhout

We looked at all possibilities in the context that Stéfan has described and our borrowing costs today are about 3%. We looked at effectively the cash needs that we would have for the future in light of all of the comments that have been made; we have a pretty good leverage in place that would allow us to continue the strategy of growth that we have, and we really felt that after a thorough review of all of our capital allocation options that this was the best option coming from shareholder value creation.

Faiza Alwy

Okay, thank you.

Operator

Our next question comes from the line of Jon Tanwanteng with CJS Securities. Please proceed with your question.

Jonathan Tanwanteng

Hi. Thank you for taking my questions and congrats on a strong quarter and the outlook as well.

Stéfan Descheemaeker

Thank you.

Jonathan Tanwanteng

My first one is as you look into 2021, is it possible to grow year-over-year given the extremely tough comps you've been facing? What would it take to drive growth if it is there? Is it Green Cuisine? Is it high customer retention from people new to the brands this year? Are you expecting to achieve that at this point?

Samy Zekhout

As I had mentioned earlier to Jason, I think it's premature to say at this stage. We are currently gathering all of the detail to really set up our goals as we get into next year.

All I would say is that effectively we have a strong momentum, especially with the investments that we are making in the second half exiting 2020, and we are committed to driving long-term sustainable growth. We believe that we have the drivers. I think the strategies we have in place have been proving very effective pre COVID, during COVID and exiting from COVID with the investments that we are making, we clearly feel comfortable—we feel confident at the momentum we have exiting the year.

Jonathan Tanwanteng

Got it. Then just quickly on the July trends, are you finding that that's more people who are sticking with the brand as they go back to their normal lives? Or is it more that there are still people staying home, either due to a resurgence of pandemics here as in some regions, or even where people are relatively safer they're still electing to stay home and eat at home and not at restaurants.

Stéfan Descheemaeker

At this stage in the game it's quite early to say, but what we see is really a combination of both, Jon.

Jonathan Tanwanteng

Got it. Thank you for the color.

Operator

We have no further questions at this time. Mr. Descheemaeker, I would now like to turn the floor back over to you for closing comments.

Stéfan Descheemaeker

Thank you, Operator, and thank you all for your participation on our second quarter earnings call. We are pleased to deliver another quarter of solid performance and are making the necessary strategic investments to fuel sustainable, long-term growth in the business. At the same time, we are pursuing a disciplined approach to capital allocation, which has created the opportunity to return a significant amount of excess cash to our shareholders. Stay tuned for more details on the timing and agenda of our Investor Day, which we are planning for this coming fall. We look forward to updating you on our progress when we next report Q3 results in November.

Operator:

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.