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Nomad Foods

Fourth Quarter and Full Year 2021 Earnings Call

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Jason English, *Goldman Sachs*

Robert Moskow, *Credit Suisse*

John Baumgartner, *Mizuho*

Jon Tanwanteng, *CJS Securities*

Peter Saleh, *BTIG*

PRESENTATION

Operator

Greetings and welcome to Nomad Foods Fourth Quarter and Full Year 2021 Earnings Call.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Seamus Murphy, Group Finance Director. Thank you. You may begin.

Seamus Murphy

Hello and welcome to the Nomad Foods Fourth Quarter 2021 Earnings Call.

I'm Seamus Murphy, Group Finance Director, and I'm joined on the call by our CEO, Stefan Descheemaeker, and our CFO, 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 include forward-looking statements that are based on our view of the Company's prospects, expectations, and intentions at this time. Actual results may differ due to risks and uncertainties, which are disclosed in our press release, our filings with the SEC, and this slide on 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 reconsidered a replacement for and should be read together with our IFRS results. Users can find the IFRS to non-IFRS reconciliations within our earnings release and in the appendices page at the end of the slide presentation available on our website.

Please note that certain financial information within this presentation represent adjusted figures for 2020 and 2021. All adjusted figures have been adjusted for exceptional items, acquisition-related share-based payments, and related expenses, as well as non-cash FX gains or losses. Unless otherwise noted, all comments from here on will refer to those adjusted numbers.

With that, I will hand over to Stefan.

Stefan Descheemaeker

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

We're pleased to report our results for the fourth quarter and full year 2021, in line with the high end of our prior guidance range and marking a fifth consecutive year of growth on revenue, Adjusted EBITDA, and adjusted EPS. This is a great achievement for the team, overcoming a series of macro challenges throughout the year, and reinforcing the resilience of our business model and the strength of our brands.

In the face of a volatile market backdrop, we prioritized our attention to areas of the business where we could have the most control. Specifically, we sharpened our consumer proposition while strengthening our supply chain through process improvements and targeted investments.

We also took the opportunity to materially lower our cost of capital through a successful debt refinancing. This was concurrent with the acquisition and integration of two significant acquisitions, which continued the development of our brand portfolio and expanded our European footprint to the high growth in the Adriatic region.

With that, I'd like to recap our 2021 key financial metrics beginning with reported revenues of 2.6 billion euro, which increased by 3.6% compared to 2020, and 6% on a two-year CAGR basis. Full year organic revenues were in line with our guidance and declined 2.1% as we compare against strong 2020 results and navigated a volatile market through 2021. Importantly, it's worth noting on the two-year CAGR basis, organic revenues increased 3.2% as we consolidated our consumer wins from 2020.

We delivered a robust adjusted gross margin of 28.9%, which was 140 basis points lower year-on-year, reflecting the impact of acquisitions as well as raw material and utilities inflation through the second half of the year and the normalizing of promotional activity.

Adjusted EBITDA of 487 million euro represents 4% growth compared to last year and a 6% CAGR compared to 2019 on a two-year basis. Finally, adjusted EPS was 1.55 euro cents per share, representing 15% growth versus last year and a two-year CAGR of 12%.

This performance, which included a fourth quarter seasonal loss from Fortenova's frozen food business of approximately 4 cents is in line with the top end of our full year guidance. After an exceptionally strong year for frozen food demand in 2020, we saw greater volatility in 2021 as Europe reopened and consumer demand began to normalize, in some cases faster than the other parts of the world.

However, while the European frozen food category did decline modestly during 2021, we believe our continuing solid performance is evidence of the longer-term shift of consumers eating occasions to their homes and the greater share of frozen food within that consumption.

At the same time, we continue to invest in our brands as we optimize our A&P strategy to maximize impact with our consumers and develop a growth engine in green cuisine. Specifically, on green cuisine, we are pleased with our continued growth in the meat alternative segments, which has seen that business grow by 31% during 2021. This growth is driven by product and technology innovations with the launch of chicken-less burgers and grills, as well as fish alternative, fishless fingers. We continue to expect this segment to be a driver of dynamic growth in the years ahead.

I am proud of how our supply chain has adapted to a radically different environment since 2019, navigating exceptional growth in demand in 2020, and ratcheting inflation pressure since the first half of 2021. Focusing on continuity of supply, we have a right-fitted process to optimize our manufacturing and logistic network while undertaking several capital projects to ensure excellent service levels despite the volatile macro backdrop.

Even in this environment, our strong business model delivered free cashflow of 232 million euro for the year after a high capital investment in capacity expansion and cost reduction project. This was driven by our solid EBITDA performance and disciplined working capital management.

Within this number, we increased our capital investment by 20 million euro to 79 million euro or 3% of revenue, as we invest in capacity expansion and cost reduction projects. We expect our underlying free cashflow to grow as we continue to expand our business and our conversion returns to its long-term 90% to 100% average.

Our strong operational performance in 2021 was augmented with a number of capital allocation actions. We successfully completed two acquisitions during the year with a total announced purchase price of 725 million euro. Findus Switzerland, which we acquired at the start of the year for 110 million euro, completed our consolidation of the Findus brand in Europe. Our integration program is largely complete and the business is performing well. In late September, we completed the acquisition of Fortenova's Frozen Food business, which expanded our geographic footprint into several new markets in Central and Eastern Europe through the leading brands, Ledo and Frikom. We have now owned business for nearly five months, and we are pleased with what we have seen. The brands have leading market share positioning and our teams are working hard to enhance them even further by leveraging the commercial and scale capabilities of Nomad Foods.

In 2022, we plan to invest significantly in the business with targeted A&P increases and growth focused capital investments, and we are confident of delivering our stated synergy target of 15 million euro by the end of 2024.

Fortenova's Frozen Food business represents our fifth acquisition since the creation of Nomad Foods in 2015 and it shares many of the same characteristics as the deal that preceded it. Iconic brands with number one market share, strong consumer awareness, and attractive free cashflow. While we are excited to integrate Fortenova in the coming quarters, we have the appetite and capacity to continue the consolidation of frozen food across Europe. Our M&A pipeline is active and we look forward to updating you with progress when we have news to share.

In August 2021, we announced a $500 million buyback program expiring in August 2024. To date we have repurchased 4.2 million shares for a total value of 94 million euro and we continue to regard opportunistic repurchases as a highly accretive option to drive shareholder value.

Turning to Slide 5, we're pleased to share a number of the sustainability milestones that we achieved in 2021. As Europe's leading frozen food company and a major purchaser of fish and agricultural produce, we are committed to playing our part in transforming the food system to protect natural resources and tackle climate change. Despite significant challenges across our supply chain in 2021, we have continued to raise the bar and I would like to provide you with a few examples.

In 2021, we joined the United Nations Race To Zero and announced plans to significantly reduce our greenhouse gas emissions. We are also partnering with the World Wildlife Fund to further enhance our work on sustainable agriculture.

During 2021, we achieved 100% renewable electricity in all of the factories within our base business, which reflects the medium-term direction of our energy strategy. As recognition of our progress on sustainability over a number of years, we were also delighted to be included in the Dow Jones Sustainability Europe Index for the first time. We were ranked as one of the top four companies in Europe within the food product industry with a full 100 score in health and wellbeing.

Turning to Slide 6, I believe it is important to look at our results in 2021 in context of what we have achieved since the creation of this business in 2015. Following the series of early acquisitions, which consolidated much of the Bird's Eye, Iglo, and Findus operations across Europe, we have continued to grow our sales from 1.9 billion euro to 2.6 billion euro with the run rate into 2022 of 2.9 billion euro, including the Fortenova business.

Our Adjusted EBITDA has increased by over 50% to 487 million euro and our adjusted EPS has increased by 85% at an average annual rate of 13% to our 2021 reported 1.55 euro per share.

We will discuss our 2022 guidance later. I'm confident that our business is well positioned to repeat this pattern of growth in this current year and over the medium and longer term, supported by our excellent team across Europe, our strong brand portfolio and consumer proposition, and our proven track record to deploy capital in the optimal way to drive value for shareholders.

With that, I will now hand the call over to Samy to review our financial results 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 fourth quarter operating metrics. We reported revenues of 704 million euro in the fourth quarter with growth of 7% year-on-year, driven primarily by the acquisitions of Findus Switzerland and the Fortenova Frozen Food business. As a reminder, the Findus Switzerland business was acquired at the start of 2021, while Q4 represented our first quarter of ownership of the Fortenova business.

Beyond M&A, fourth quarter revenues also benefited 2% points from favorable foreign exchange translation. These were offset by a 4.5% decline in organic revenues as we anniversaried elevated consumption resulting from lockdown across Europe in the prior year period.

Full year revenues increased by 3.6% year-on-year. Within this results, organic sales declined 2.1%, reflecting a low, single digit decline in the frozen food category, albeit still reflecting strong growth on a two-year basis versus the pre pandemic levels. Against this backdrop, our market share for the year was down 20 basis points. However, the momentum in our business through half two and into 2022 has been positive with solid market share growth since May 2021 as we recovered our positions following out of stocks and supply constraints during the first four months of the year.

Gross margins were 26.5% during the fourth quarter, reflecting a 500 basis point decline compared to the prior year and in line with our expectations. This was composed of a 350 basis points decline in our base business as inflationary pressures impacting the business during the quarter while mitigating pricing follows at the lag with price increases expected to be implemented through 2022.

The remaining 150 basis points contraction was driven by the inclusion of the Findus Switzerland and Fortenova acquisitions whose gross margins are seasonally lower at this time of the year. The base business gross margin decline was driven by the anniversary of strong volumes in the prior year, increased promotional activity, channel mix, and cost of good inflation.

On a full year basis, gross margin declined 140 basis points, with M&A mix driving roughly half of the contraction.

Moving down to the rest of the P&L, fourth quarter adjusted operating expenses declined 9% year-over-year and compares against a 15% increase in the prior year. This year's decline reflects a more normalized level of A&P spend as we anniversary the incremental 10 million euro of investment last year beyond brand billing and consumer retention efforts.

Fourth quarter Adjusted EBITDA of 113 million euro was down 5% versus the prior year and adjusted EPS of 0.33 euro cents reflect a 13% decline as a result of the item discussed.

Turning to cashflow on Slide 8, we generated 232 million euro of adjusted free cashflow in 2021, representing a conversion rate of 84%. As we have communicated, this outcome was mainly impacted by working capital outflow as a result of our need to reduce inventory in 2021 and the anniversary of depressed working capital levels in the prior year.

Furthermore, we increased capital investment by 20 million euro year-on-year to drive investments in capacity expansion and cost takeout. When evaluated on a two-year basis, 2021 and 2020, our free cashflow conversion was in excess of our 90% to 100% target.

Turning to Slide 9, our strong free cashflows underpin our long-term capital allocation strategy and we have been consistently generating cash since our formation, delivering 1.55 billion euro in the six years since 2016.

Looking forward, as we continue to strengthen our brand portfolio and operational footprint, we fully expect to drive conversion at the 90% to 100% level over the medium term.

During the year, we took the opportunity to significantly amend and extend our capital structure with the refinancing of almost 1 billion euro of debt, inclusive of our revolving credit facility, an issuance of 400 million euro in new senior secured notes to partially fund the acquisition of the Fortenova Frozen Food business at the end of September.

At the year end, our average debt maturity was 4.9 years with a reduced year-on-year average debt cost of 2.3%. We remain committed to our 3x to 4x net debt to EBITDA target as we believe this is the optimal balance for our business to drive accretive growth over the long-term. As we have previously highlighted, we are investing in our business with capital investment of 3% to 4% of sales in 2021 and 2022 as we target specific high return projects.

Finally, we will continue to deploy capital in an accretive way to drive growth where appropriate. As Stefan mentioned earlier, we maintain an active M&A pipeline of targets within our core capability set to expand our footprint and maximize synergy potential. Balancing this will regard buybacks as a sensible alternative to drive value for our shareholders, particularly given our consistent and on-track progression towards our long-term operational and financial objectives, as outlined at our Investor Day in November 2020.

With that, let's turn to our final slide, Slide 10, to review our 2022 guidance, which we are initiating today and is based on our latest economic outlook and foreign exchange rate as of February 17, 2022. Starting with the top line, we expect to return to solid organic revenue growth in the low single digit range for the year. This is a balanced outcome of phased price increases through the first and second halves of the year, and our willingness to lose some volumes across our markets as we push for maximum cost recovery.

We expect our newly acquired Adriatic business to continue its recovery during 2022and it's incremental contribution to revenues during the first nine months of the year supports our reported revenue guidance of high single digits for the full year 2022.

Adjusted EBITDA is expected to grow by high single digits due to the performance in our base business, cost controls, and the inclusion of the Fortenova acquisition. All in, we expect adjusted EPS in a range of 1.71 euro and 1.75 euro per share, representing another year of double digit growth at the midpoint.

Like many businesses, we are currently experiencing high levels of inflation, which we plan to recover in a number of pricing waves throughout the year. As a result, we expect an improving gross margin profile over the course of 2022 as we recover cost input pressures in two phases through the first and second halves of the year. Supplementing this, we expect the favorable mix from Fortenova to provide a tailwind margin driven by the performance in the high seasons of quarter 2 and 3, where ice cream sales are strong.

Based on the sequence of gross margin evolution, the seasonal loss from Fortenova during Q1 and relatively difficult comparisons during the first three months of the year, we expect sequentially improving financial performance throughout the course of the year.

For cashflow, we are confident we will deliver strong free cashflows in 2022. However, we expect a combination of higher capital investments and the implementation of the EU Unfair Trading Practice Directive across the countries in which we operate to present some headwinds to our 90% to 100% medium term conversion in 2022.

Specifically, the adoption timeline of the EU Directive is not consistent across all markets and therefore, we are currently working to both evaluate and mitigate this in a sustainable way. We'll give further detail on this at the end of the first quarter. That concludes our remarks.

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

Operator

Our first question comes from the line of Andrew Lazar with Barclays. Please proceed with your question.

Andrew Lazar

Great. Thanks very much. A couple of questions here. Maybe to start with pricing, as you've discussed, with pricing not yet fully phased in, a tough top line comp with last year and the seasonality of Fortenova that you talked about, it sounds like the shape of first quarter profitability could still be under some pressure, sort of like what you saw in the fourth quarter. I know in the fourth quarter; EPS was down some 14% or so year-over-year. I'm just trying to get a sense of the magnitude of what we should think about in terms of the year-over-year change in earnings.

Again, still in the first quarter, regarding organic sales, I know that it's still a pretty tough comp as you're still not fully lapped the lockdown from last year, would you expect any sequential improvement in the year-over-year decline in organic sales from what you saw in 4Q to 1Q? Then I've just got a follow-up.

Stefan Descheemaeker

Oh, okay. Thank you very much, Andrew. Let me start with obviously the full year results and the quarterly results. Let me start with what we're coming up with in terms of guidance, which is the double digit EPS growth and obviously revenue growth, so that's the full picture for the full year. To your point, this year will be very different quarter-by-quarter. I think your points are right.

First quarter, we still had, last year, COVID. This year, we have to lap this part. Interesting to see, by the way, that we are gaining market share in the meantime, which is something we've been doing over the last now 10 months. That's an interesting piece. To your point, yes, there is always some sort of time lag between, let's say, COGS and price. That is the nature of the different countries we have. Some countries, let's say, structurally the negotiations are happening faster. Some are happening obviously at a different pace. This year we'll also go through potentially several waves of price increase, which is going to be making, obviously, the quarter-by-quarter comparison a bit more difficult. The last piece to your point, absolutely right.

Fortenova Q4, Q1, structurally these are the lowest quarters just for a simple reason is the very strong ice cream business by definition obviously sells a bit less in the winter and early spring, but I can tell you, and when we see obviously Q2, Q3, we are very pleased. I'm not going to obviously come up with the details of each quarter, but I think directionally, it is true that it's going to be a different story.

Now, the second question about the sales, yes, I think what you see, exactly to your point about tough comps in the first quarter, we should see obviously this ramping up over time. Again, I think we are also planning to increase market share on the full year basis. That's a bit what we can see this year, which is volatile by nature. It's a different perspective compared to what we had, but definitely, after six years of growth, we have all the intents to grow again in 2022.

Andrew Lazar

Okay. Thanks, and then you talked about—we've heard a lot about grocery sales in general and you talked about the frozen food category as well has been running down low single digit, just given the extreme nature of the lockdown in many countries in Europe last year versus a reopened environment these days. You still have some of that to go before you fully lap that.

Have you seen any changes more recently in the overall frozen food category performance at retail that leads you to believe that once you've fully lapped some of those more significant lockdowns last year that the category itself can more quickly return to modest growth that I would think would be underpinning your expectation around low single digit organic sales growth for the year?

Stefan Descheemaeker

I think you're absolutely right. When you take a bit of a distance, Andrew, what we can see is on the CAGR basis, two-year basis, we compare obviously, let's say, 2019 and 2021, two years. What we've seen is a CAGR of around 3.3% which is definitely higher than what we had in the past with the category. Another way to look at it is also, and we have these four or five top markets, but I don't see any reason why it wouldn't apply for all the markets, the number of consumers going to frozen.

We also have seen something like 2019, we were close to a bit lower than 42 million people, consumers, 41.7 million to be precise. In the meantime, we've seen the number of consumers growing by something like close to 5%, which is definitely very encouraging. When you think about it, well, I think people, they've tasted again the frozen food. They've seen what they've tasted. They like it, and I think it's only the beginning. I definitely believe that they see, for example, waste is a big component.

I definitely think it's going to grow in the future and nothing can definitely beat frozen food from that standpoint. I think that health and sustainability are definitely strong tailwinds for us, and it's going to help us in the future. What holdings to materialize at what pace, we don't know yet, but definitely these are also some key themes we will emphasize in the future.

Andrew Lazar

Okay. Thank you.

Operator

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

Jason English

Hey, good morning, folks.

Stefan Descheemaeker

Hi, Jason. Good morning.

Jason English

Or good afternoon. I think it may be afternoon for you. A question on price. I know there's a lot of noise in the prior year base. Sometimes it's easier to look at things on a two-year stack basis. When we do that, you clearly have inflation escalating every quarter, but at the same time, you've got price slipping lower. I think this is the second consecutive quarter that your year-on-year price on a one or two-year stack basis has eroded and it's now negative. What's driving that negativity? What's driving the erosion, and what does that foreshadow in terms of the pace and magnitude of price increase you're going to get as we roll into next year to offset some of the inflationary pressure?

Stefan Descheemaeker

Well, I think when you see Q4, I think you have to take into account the fact that in Q4 the year before, we were totally under promoted for obvious reasons. That's the main reason why you have, obviously, that difference in Q4. I can only tell you that definitely the intent is to price according to COGS. As we know, in Europe, it's going to be a bit staggered, but that's how we want to prepare the year and to prepare ourselves for the coming years. Quite frankly, last year, there was also very, very low COGS, as you know, and we've seen that. We've been I think extremely efficient from that stand point, which then is materializing also in terms of price.

I think we are also well equipped compared to private label, which also helps us in terms of potential recession, but at the same time, right now, it's like the clearly, according to COGS, obviously with pricing. We're just taking a bit more time here and there, as you know, but that's the way it's working country by country.

Jason English

Well, on the topic of timing, your comments on potentially multiple rounds was a bit surprising, in a good way, to me. I suppose I've always viewed continental Europe as a one shot on goal per year type market where you can negotiate start of year and that's it. You're locked in and you've got to wait the next year. Were those comments on multiple rounds really more referring to U.K. where you have more flexibility or are you seeing more flexibility in your continental European markets as well?

Stefan Descheemaeker

That would be very simple, Jason. The world is changing and so we are changing and the others will be changing. That's it.

Jason English

That’s good stuff. All right. Thanks a lot. I’ll pass it on.

Stefan Descheemaeker

Yes.

Operator

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

Robert Moskow

Hi, thanks. I just wanted to make sure I'm doing the math right for Fortenova in 2022. I'm getting at least an 8% contribution based on the original 270 million euro forecast. If that's the case, your guidance for 2022 is high single digit. There's not a lot of wiggle room there for organic growth being positive. Am I doing the math right or is your definition of organic growth just very, very modest?

Samy Zhekout

Well, on that, Robert, hi, first. Overall, we've remained on the fact that our earnings, I think our EPS, are going to be double digit. Effective from that standpoint, if you want, with the revenue pattern we have, we are clearly seeking for growth in 2022. Fortenova is clearly a vector that's contributing to that, no doubt, but as you know, we have a history of integrating a newly acquired business and driving out synergies as fast as we can from that perspective.

We have provided some perspective on the fact that Fortenova was going to be a key contributor to the business. Overall, we don't provide, as you know, necessarily a breakdown across the business that we have acquired and buyback category either, but overall, if you want, the commitment is that the combination of both, the existing base business in Fortenova is to drive double digit EPS growth overall. With Fortenova clearly being a key vector to that, but organic effect continuing to be an area where we continue to invest and grow.

Stefan Descheemaeker

One more thing, Robert, yes, I would put it that way. From the start, our model has always been based on the combination of organic growth and M&A, and so that's exactly what's happening right now.

Robert Moskow

I'd like to get a little more specific if I could. Is there anything that you find you've had to do with Fortenova to rationalize SKUs, maybe shrink the business to grow first on top line? Given the numbers that you're providing there, I think you need to give us a little more detail on what is happening with that business.

Stefan Descheemaeker

Well, the business is not changing. I would put it that way. I think after five months and a half, the only thing we can see is we can only confirm what we've seen from the start which is great business, great brands. I think it requires a bit of reinvestment as we renew, especially in terms of freezers, for example, or route to market. That's exactly what we are doing. We're increasing a bit also the A&P and that's what we are doing at this stage.

We're also, by the way, very much in line with our model of Must Win Battles. We are defining what the Must Win Battles are. We are focusing even further the investment behind the key categories which unsurprisingly will be also by the way, impulse, for example, in ice cream, take home, and also some other—one or two other frozen food, but very much in line with the rest of the business. People like it, by the way. They like this focus. There is nothing changed compared to what we said that we would do; quite the contrary.

Samy Zhekout

Robert, the perspective I will add as well with that as well to clearly confirm the picture is that we are clearly gearing up very fast the synergy agenda as well overall, be it on cost and to drive revenue as well, very consistent with what we have talked to on the Fortenova announcement, but the fact here I would refer back to Aunt Bessie's and Goodfella's, and then Findus Switzerland, where we have a very good historical track record of integrating well and driving our synergies out. Frankly, that's what makes I think (inaudible) very strong on the M&A side to complement the organic field side as well.

Stefan Descheemaeker

This one is just a bit bigger.

Robert Moskow

Okay, so there's no change in terms of your sales expectations for Fortenova, it sounds like. Just to follow up on Jason English's question about pricing waves, does that imply also you expect to take more than one price increase in a given country during the course of the year? Because in the U.S., it's more like, well, you raise the pricing as you need to and then if you need more pricing, you take another pricing round. This one sounded, at least the way you're describing it, as you already know there's going to be more than one in a given country in a given year. Is that fair?

Stefan Descheemaeker

Well, to your point, countries are a bit different and inflation levels are a bit different country, but I would put it that way. Yes, our intent is to raise price more than once, but at the end of the day also, partly in line with what the U.S. players are doing, which is on a need basis. Nothing really different. Otherwise to your point, we just—this idea of having a timeline between COGS and price is not the kind of things we want. That's very much in line with what the U.S. players are doing.

Robert Moskow

Okay, and the last question. You said you're willing to cede some volume as you raise price, but you're also saying that you expect to gain market share. Can you help us reconcile those two things? Can you do both at the same time?

Stefan Descheemaeker

Yes. We already had one, by the way. I think we were right, but yes, I think it's important. Well, by definition, Robert, it's never easy to do both at the same time. That's our job, obviously, to maneuver around this, but what's important in terms of shareholders value is to make sure they know the cashflow or the future are not going to be damaged.

What's important for us is to make sure that on the long term, the gross margins are well protected. If it means that we may have some bumps in the road, well that's life. We believe as Management and as shareholders, by the way, that it is the right thing to do on the long-term basis. Still at the same time, yes. To your point, we're still intending to gain market share.

We've been doing this for the last 10 months and so that's what we want to do, what we want to achieve. We don't want to have fully—it depends on what you're defining at this location or what's a negotiation. You have to carefully choose these things, but yes, that's what's happening when inflation is a bit higher. That's normal.

Robert Moskow

Okay. Appreciate it.

Operator

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

John Baumgartner

Good morning. Thanks for the question. First off, Stefan, there's been a lot of focus during the COVID era on volume, given the swings of consumption in home and then out of the home, and you mentioned the growth in new consumers this morning, but I'd like to focus on product mix. To the extent that new households have come into the category since 2020 in frozen, you've been increasing your offerings of single serve meals, entrees, even independent of Green Cuisine. I'm curious, what are you seeing in terms of demand for those premium products? Then given the changing consumption trends, is it reasonable to think that mix can contribute a larger portion to organic revenue growth in the future on a sustainable basis relative to pre-COVID?

Stefan Descheemaeker

Well, to the point, let me start with Green Cuisine. Green Cuisine is part of a new category. We believe that long-term, it's going to be a fantastic category and it's growing very nicely. We're gaining market share in this category, which is growing, which is nice. To your point, we've seen a lot of these consumers testing our products, and what they've seen is definitely something which is of great quality. That's for Green cuisine, which by the way, generates a very nice gross margin. That's also important to notice.

For the risk. I would put it that way, John. I think we remain true to our Must Win Battle concept, which is very much in line with what we said, which is we're focusing on the categories country by country, where we have the highest market share, the highest gross potential, and the highest gross margin. To your point, I think there is a remarkable convergence with what you said, but from our standpoint, we have not changed our game from that standpoint. We just have adapted. Obviously, we're also capitalizing on e-commerce, which as you know is good for frozen food and is very good for brands like us, like ours.

John Baumgartner

Okay, and then on the operational side, Samy, Nomad launched this companywide transformation optimization program in 2020. I think you've made some good changes to the supply chain since then as well, but can you highlight any specific accomplishments in that program during 2021? What can we expect in terms of milestones or focus areas for 2022 in terms of optimization? Thank you.

Samy Zhekout

Sure. John, on that one, just to set the record right, I would say the program was reinitiated in 2021. It covers a number of areas, if you want, transformations that are aimed at effective maximizing revenue growth and accelerating them, and as well, optimizing our work structure.

At this very stage, we have completed the task of putting together the appropriate team, starting to work effectively on the key building blocks that are going to drive us on both sides of revenue and cost optimization. You will hear more, if you want, this year, but as we already said, we are clearly completing the design phase as we speak in order for us to move the start of the implementation phase in the second half of it.

It's a big program as you know, and we've been talking about it and it's a material program. The benefit will start to probably kick off more towards 2023 onwards as opposed to 2022, where we will be effectively implementing the different parts of the program.

John Baumgartner

Okay. Thanks for your time.

Stefan Descheemaeker

Thank you, John.

Operator

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

Jon Tanwanteng

Hi, good morning. Thank you for taking my questions. Not to beat it to death, but I was just wondering if you could expand a little bit more on the pricing commentary and the multiple increases this year. Are you seeing parity now with the U.S. model just in terms of the ability to raise prices closer to real time, or is this still a way to go before you reach that point with maybe a big piece of your business that's still staying on the annual model?

Stefan Descheemaeker

Jon, the reality there is the condition, the market conditions are changing. I think historically Europe has been operating particularly in our segment and potentially in a lot of other staples businesses under a fairly low single level of inflation. Usually, if you want, you got into a regular pattern, as you are very familiar with, which is inflation, the negotiation, promotional plan alignment to get to, an aligned view that would effectively preserve margin, contributing to optimized growth, and hopefully, show the gain share. The context has dramatically changed now, as you know, and what we are seeing is I think inflation that is touching not us only, but everyone.

There is effectively—there are the condition at this stage whereby we either go with a very high inflation and have to spend a year to correct or effectively try to scatter the pricing in a way that's probably more conducive to the reality of inflation. We are starting the process. Clearly, this is something that is not just only concerning us, but many other operators in the area of FFBG.

Don't forget that within pricing, there's pricing per se, but there's a number of other components that are important to optimize, such as promotion, as you know, price pack architecture as well, trade terms. The whole idea is to use all of the vectors. That's what has made us, frankly, very strong in developing our revenue growth management strategy, but rather than doing it in one go in the year, we're trying to spread it in a way that effectively softens down the implementation and enables the retailer to really be with us as we reflect the appropriate level of inflation into our prices.

Jon Tanwanteng

Okay, great. Thank you for that. Then second, I was wondering if you could talk about the phasing of promotional spending this year and if there's any specific lumpiness that you're expecting, if there's any concentration maybe on Green Cuisine or a separate program? I think you mentioned that acquisitions will get some concentration this year. Just help us understand how that will run through the quarters as you expected today.

Stefan Descheemaeker

On the promotion, I think the one message you're hearing is effectively we want to grow the business and this is a market where promotion is absolutely critical. We had situations, because of supply issues, particularly in the past, whereby a promotional ramp up has not been up to what we would like to see simply because we didn't have the product in the quantity we wanted.

Now I think that we're getting to a point where a vast majority of the supply issues are behind us. We're able to promote the business. Therefore, you will see probably a more steady pattern of a promotional activity across the year and leveraging as well the seasonality of the product on both sides of the portfolio, which is obviously the base business on the one hand, and the Fortenova business, which will go through a different promotional cycle. The intent is to clearly drive competitiveness in promotion be it on the aisle, being on end of our displays, on features, in order for us to continue to attract consumers in our category in our business.

Jon Tanwanteng

Okay, great. Thank you very much.

Operator

We have a follow-up from the line of Jon Tanwanteng. Please proceed with your question.

Jon Tanwanteng

Hey, thank you for the follow-up. I was wondering, within your EPS guidance for the year, are there any planned repurchases or other assumptions around capital deployment or allocation just included in that? If so, what are they?

Stefan Descheemaeker

As you know, we have we have aligned on a 500 million euro authorization. We have realized out of this 500 million euro, 94 million euro in Q4. We continue to look at buyback as an opportunity for us to beef up our performance from an EPS standpoint. We are always going to assess the buyback versus other forms of capital allocation optimization there.

We won't provide you a number per se, but clearly the intent is to continue the program and we have this authorization form, is to make good use of it at the time effectively we judge is the right moment there. We have the authorization in place. We've already started, and we intend to continue. At this very stage, the objective is to contribute to driving double digit EPS growth and drive the best return possible for the shareholders.

Jon Tanwanteng

Okay, great. Just to be clear, there is some component of that that's included in guidance?

Stefan Descheemaeker

I've not said that. I've just told you that we are looking at this in a very regular way in order for us to clearly contribute to the delivery of the goals and looking at all possibilities within our capital allocation strategy.

Jon Tanwanteng

Okay. Fair enough, and then second follow-up, if I may. I was just wondering, just given your supply chain and demand base, is there any risk at all just from conflict in Eastern Europe? Are there any impacts that may be coming down the line, just in terms of the ability to get supply or anything else that we may not be thinking of at this point?

Stefan Descheemaeker

Well, let me start by saying first we have no, or very, very, very little sales and no footprint at all in these countries. That's the first thing. In terms of supply chain, yes, definitely, we have some of our commodities that are like everybody else, energy is one component. Some ingredients, fish as well, so we have some exposure. What we are hearing so far as anybody else has, let's say, the measures are more of a financial nature. Still, obviously we have not waited to prepare ourselves.

I think we've demonstrated that the adaptability is something that we are very strong with. That can be the name of the game, and so definitely, we already have prepared ourselves in terms of how can we do the dependency here? Can we move to other spaces if needed? That kind of thing. Short term, midterm, we're preparing ourselves. We haven't waited.

Jon Tanwanteng

Okay, great. Thank you again.

Stefan Descheemaeker

Okay.

Operator

Our next question is a follow-up from Andrew Lazar with Barclays. Please proceed with your question.

Andrew Lazar

Just a quick one. Sorry if I missed this. Did you mention what you were looking for in terms of total inflation in '22? I'm just trying to get a read there on what sort of pricing would be needed to ultimately help manage profit dollars. Thank you.

Stefan Descheemaeker

We haven't provided a specific number out there, but suffice to say that when you start to aggregate the different pieces of our COGS and the breakdown of our business between fish, veg, and the rest, you definitely have some view of the different components. Clearly, looking at, depending on the category between mid to high single digit inflation, that would require effectively associated pricing across the different ways you are going to execute.

Andrew Lazar

Thank you.

Operator

Our next question comes from the line of Peter Saleh with BTIG. Please proceed with your question.

Peter Saleh

Thank you. Thanks for taking the question. I just wanted to come back to that previous question. Can you just elaborate a little bit on what you can do on supply chain to make sure you have the appropriate product? Can you buy stuff ahead of time just to make sure that you're not in a crunch period with all the ongoings in Europe at this point? Thank you.

Stefan Descheemaeker

Well, the first thing we are doing in for example, energy, for example, we're fully hedged. That's one thing. We'll obviously increase our hedge over time. Then in terms of, let's say fish and all the rest of it, as I said, it's not limited to Russia. You have all the other suppliers. You also can move to other species. They can be wild caught. They can be farm fish as well.

By the way, interesting also to see that, for example, we are very proud of our Green Cuisine fishless fingers. That's a great way to obviously increase the exposure to the consumers. It's a great product and I think it comes very handy at the right time. A lot of options are available. Some more short term by nature, but also I think more in the long-term, we will need to flex our muscle and to demonstrate the adaptability.

Samy Zhekout

The one point I think I just want to make sure it doesn't get lost in translation there is that we clearly have been on our toes on this one. We have not waited for today to frankly start this thinking. This thinking really started a while ago as we saw the situation deteriorating. We have a task force that has been put in place in order for us to really think broadly from supply availability, to possibility to adapt the formula while maintaining the same level of quality requirement for our consumers and making sure that effectively we had a lot of preparedness scenarios in case we had some supply route that would be shut down or whatever. Let's not forget that we've got this, but we've got as well veg where we have stock that is being built for peas.

For instance, we had a great season last year which is clearly going to give us quite large quantities of peas for the year. We have spinach and other products. We clearly have taken that very seriously and we will try to leverage our competitive advantage on the fact that we don't have any position in Russia. We don't have any position in Ukraine, and we just need now to make sure that we get the product we need, which we are working on a decision. We have the right plan in place.

Peter Saleh

Great. Is it fair to assume that some of these mitigation strategies and maybe any additional costs associated with them are already contemplated to a certain degree in 2022 guidance?

Stefan Descheemaeker

Well, at this stage, I think the fact is it's too early to say because we don't know yet whether there will be some penalties or not. The fact of the matter, to your point, I think it's important to understand that, if at some stage we come in with other species, for example, we also have a conversation with the customers. That's a fact as well. That's a fact. It's something that everybody will understand. The clear intent to your question is to remain committed on delivering double digit EPS growth. If there were some adverse elements there, you know us, you know our past record. Frankly, we've delivered if not over delivered. The intent is to continue to drive the same pattern as we look forward. This year is no different from the others. We are committed to delivering the number that we have laid out.

Peter Saleh

Great. Thank you very much.

Operator

We have another follow-up from the line of John Baumgartner with Mizuho. Please proceed with your question.

John Baumgartner

Thanks for the follow-up. Just a quick point of clarification, the $75 million of share repurchase in Q4, is that a timing thing where it'll show up on the P&L in Q1, or was that offset on a net basis by share issuance? I'm just curious because the share count didn't really move much in Q4 sequentially.

Stefan Descheemaeker
Yes. The number has been aggregated in Q4, definitely. What's important there is that the $75 million is Q4. The 94 million euro is the total that has been realized overall. That's how it's been playing out.

John Baumgartner

Okay. Thank you.

Operator

We have another follow-up from the line of Robert Moskow with Credit Suisse. Please proceed with your question.

Robert Moskow

Hi. Thanks again. Just to be clear on the guidance, can you confirm that it contemplates $100 per barrel oil, a significant increase in natural gas, and maybe you can give us a rough estimate on what percent those components are of your total cost basket?

Stefan Descheemaeker

We can take offline the specific feedstock or underlying assumption on that, I think, Robert, but rest assured that our forecast is consistent with the macroeconomic condition and that is already embedded into the guidance that we have. Our energy cost represents a small percentage of our total COGS, as you know, even if we are an industry where we heat and we freeze, but it's still small. The reality is that in fact we've seen a significant inflation increase at that level which we have hedged against so that we would be covered for the year. I can take it offline if you want the specific assumption relating to all oil or other elements that are of interest for you.

Robert Moskow

Okay. Thanks. Did you say you expect mid-single digit pricing in your modeling for 2022 or did I mishear that?

Stefan Descheemaeker

No, we didn't say that. We did say that the inflation in terms of the different category of product we are facing would range on a yearly basis from mid to high single on inflation. Then depending on the timing and our commitment to recover inflation through pricing, we will adapt the pricing accordingly indeed so that the total of the waves enable us to come out of the year towards recovery inflation exiting the year.

Robert Moskow

Got it. Got it. Thank you.

Operator

There are no further questions. I'd like to hand it back over to Stefan Descheemaeker for closing remarks.

Stefan Descheemaeker

Thank you for your participation on today's call. Well, 2021 has been an eventful year. We are all learning to live with COVID. While we see unprecedented inflation impacting global supply chains, our organization has remained focused and shown incredible commitment to ensure the delivery of the business objectives that we outlined at the start of the year. We are pleased to have achieved the fifth consecutive year of record financial performance and look forward to making it six in 2022.

As a reminder, we'll be attending the CAGNY Event later today, where we intend to talk through the business drivers in more granular detail. We look forward to speaking to many of you there,

Operator

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