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Nomad Foods

Third Quarter 2023 Earnings Call

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Steve Powers, *Deutsche Bank*

Pete Lucas, *CJS Securities*

PRESENTATION

Operator

Greetings. Welcome to the Nomad Foods Third Quarter 2023 Earnings Call.

(Operator Instructions)

Please note that this conference is being recorded.

I will now turn the conference over to your host, Anthony Bucalo, Head of Investor Relations. You may begin.

Anthony Bucalo

Hello, and welcome to the Nomad Foods' third quarter 2023 earnings call.

I'm Anthony Bucalo, Head of Investor Relations. I'm joined on the call by Stéfan Descheemaeker, our CEO, and Samy Zekhout, our CFO.

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 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 can find the IFRS to non-IFRS reconciliations within our earnings release and in the appendices at the end of the slide presentation available on our website.

Please note that certain financial information within this presentation represents adjusted figures for 2022 and 2023. All adjusted figures have been adjusted for exceptional items, acquisition-related costs, share-based payments, and related expenses as well as non-cash FX gains or losses. Unless otherwise noted, comments from here on will refer to those adjusted numbers.

With that, I will hand you over to Stéfan.

Stéfan Descheemaeker

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

Nomad posted solid top and bottom line performance in the third quarter, following our excellent results from the first half of the year. Sales grew organically by 1.6%, our fifth consecutive quarter of organic sales expansion. Additionally, we generated strong adjusted free cash flow, successfully refinanced $700 million of our debt to lower our interest charges and bought back €66 million of our own shares at attractive prices. We have bought back more than 4% of our shares in the first nine months of the year.

Our teams accomplished this while deploying new strategic commercial investments to drive growth and bring us back to positive volumes. Boosted by our share repurchases, we are again raising our annual adjusted EPS guidance.

We're closely watching the development of weight loss drugs globally, and the possible impact on food industry volumes. The long term impact of these treatments is still under examination. However, in any scenario, we believe Nomad is in an excellent position due to our unique portfolio of products which are on target for consumers looking to eat healthy.

Nomad is a highly resilient Company, and over the past several years we have effectively managed through several crises. Through those challenges we have protected our cost and margin structures to ensure that we maintain the right level of investment in our business. In reaction to historic inflation last year, we adjusted our prices in 2022 and 2023, knowing that we would lose volumes. We've lost volumes. But this was a necessary decision to safeguard the integrity and strength of our business. Now that we have stabilized our business, returning to volume growth is our most important strategic objective.

We made progress in the third quarter. We also made some difficult but necessary decisions with a few of our retail partners across several markets. This resulted in some volume losses that were outside of our original plan. Absent these dislocations our volume progress would have been consistent with our sequential volume improvement plan. The majority of these discussions have been addressed. We expect that these losses will reverse in the fourth quarter and in the first quarter of next year, bringing us back on track.

Consistent with our objective to return to share and volume growth, we activated our A&P investment plan, raising our A&P spend in September to 5% of sales from 3.5% of sales last year. Utilizing these resources, we launched new advertising across Europe, and we have strengthened our media profile, leveraging the iconic Captain in our advertising for Nomad's leading fish brands across our key markets.

Additionally, we've stepped up our in-store execution with new and exciting promotional activity across Europe, placing our leading brands directly in shoppers' line of sight. This heightened visibility is compounding the effectiveness of advertising and driving demand.

The initial results of our dynamic A&P program are highly promising. We expect our volume and share trends to improve in the fourth quarter, ultimately returning to growth in 2024 and beyond. While our A&P program will be crucial to driving growth, we also remain laser-focused on our other strategic plans. We are harvesting our supply chain cost savings to redeploy in marketing. Additionally, we continue to expand our revenue growth management capabilities. We have made significant progress on both initiatives. This is helping drive pull from consumers leading to volume and market share recovery.

Looking ahead to the end of the year and next year, we are excited about our growth prospects. We expect to see an improvement in performance in Q4, which should carry well into 2024 and beyond.

With that, I'd like to recap our third quarter key financial metrics, beginning with revenues. Our reported sales grew 1% and grew 1.6% on an organic basis. This result was ahead of original expectations. Gross margin was 28.4%, with cost pressure offset by our pricing initiatives and cost control programs. Adjusted EBITDA was €140 million, while adjusted EPS came in at €0.43 per share, both ahead of market expectations. At current dollar spot rates, our Q3 Adjusted EPS was $0.45 per share.

In Q3, sales grew by 1.6% on an organic basis, with strong pricing offsetting volume and mix declines consistent with our expectations. For the first nine months of the year, we grew organic sales 6% and we remain on track to deliver our guidance of mid-single digit growth for the full year. Our supply chain delivered excellent results, and we remain in a positive cycle of customer service and cost management. This efficiency is helping support our new A&P investments. Our service levels rose to 98.6%, up 160 basis points.

The hard work we've done on supply chain transformation is paying dividends at a crucial time. As volume demand picks up and commodity prices stabilize our efficient supply chain execution will be critical in filling new customer and consumer needs. We have benefited throughout the year from a strategy of selectively assessing the risk profile of each individual raw material category we buy, making our buying more efficient.

Looking ahead, we have begun the process of covering for next year. We have good visibility on key commodity trends heading into 2024. Our value share was down about 1% in the quarter, consistent with our expectations. However, our new A&P investments were rolled out towards the end of Q3. We expect an improving share trend moving forwards.

With our business performance on track with our expectations and our share repurchase, we are raising our adjusted 2023 EPS guidance to €1.57 to €1.60 per share from a previous range of €1.54 to €1.57 per share. This represents an adjusted EPS range of $1.66 to $1.69 per share at current spot rates. This guidance excludes the impact of any potential future capital allocation.

While on the topic of capital allocation we are pleased to share significant developments in our capital allocation strategy. Accretive capital allocation is crucial to our long term goals at Nomad. We deployed €66 million to repurchase our shares in Q3. In the first nine months of the year, we have invested a total of €118 million, reducing our share count by more than 7.6 million. As you may recall, in August of 2021 we announced a $500 million share repurchase program which was successfully utilized and is set to expire at the end of this year. Proceeding with our share repurchase efforts, our Board of Directors has approved a new $500 million share repurchase program, which will expire by the end of 2026.

In addition to our share repurchase program, and subject to approval by our Board of Directors, we intend to initiate in early 2024 a regular quarterly dividend, which we expect will be a key means of delivering reliable value to Shareholders going forward. We will share further details early in 2024. This enhanced framework for shareholder return, bolstered by our strong free cash flow profile, underscores our commitment to maximizing shareholder returns.

Since 2022, it has been our plan to raise our media and promotion spending in the second half of this year to drive volume and share momentum. This quarter, we launched many new initiatives to reignite growth, such as our back-to-school Birds Eye campaign in the U.K., our television sponsorship with Croustibat in France, and our Captain Adventures TV and digital activation in Italy.

We launched new fish shapes in Austria, Netherlands and Belgium, Green Cuisine Chicken and Cheese Nuggets in Germany, and a wave of modern meal solutions in vegetables across Europe. We debuted new advertising with the Captain across our markets, connecting even more with our consumers and bringing attention to our delicious fish products. Fish makes up just under 40% of our sales, and we are the leader across most of our markets.

To win at the point of sale, we stepped up our promotion in supermarket aisles, bringing consumer attention to our high quality branded products. With our new promotional plans in place, the price gaps with our private label competitors have stabilized. Frozen food is a resilient category, and there are plenty of green shoots across Europe. Frozen is back in volume and value growth. September trailing 12-week data shows 1.5% volume growth in the category. There is growth in 12 out of the 16 markets tracked.

Additionally, the category is performing ahead of total food in volume terms across several key markets. Consumer behavior is showing signs of improvement as well. In the U.K., for example, we see consumers putting more frozen food products on their plates, for instance, adding peas to fish fingers.

For Nomad, the quarter is still in early stages, but we are seeing improving value share and volume trends in some of our biggest markets, U.K. and Italy especially. There were many great commercial developments at Nomad during the quarter. In the U.K., we launched a back-to-school master brand campaign with Birds Eye to capture the attention of families settling back into the school year after summer breaks. We reached more than 90% of households with our Birds Eye brand advertising during the period.

In the Adriatic region, we posted record ice cream sales driven by our excellent portfolio and supported by good weather, high service levels and an acceleration in our point of sales programs. We benefitted from our investments in supply chain, marketing and innovation. We also launched fish fingers in the region, and the initial results are highly promising.

Following the 60th anniversary of Findus in Italy, we are now celebrating the 25th Birthday of Carletto, our brand icon chameleon for Sofficini, our beloved pancake product. We celebrated with the introduction of a short movie about his "life" at the prestigious Film Festival for kids, creating significant media coverage from national newspapers and TV.

Finally, green cuisine remains our plant based pillar for iglo and keeps growing value share. In Germany, one of our core markets for the brand, our value share was up 7% in Q3. This was driven by focused activation behind a new campaign, as well as product innovation. We've gotten many questions from investors and analysts about how the retail trade looks with our new promotional plan now in full swing. We've got some great examples here of in store execution in four of our top markets.

In the U.K., we are combining our best selling and most loved products in a high visibility aisle freezer to give consumers combined meal ideas. This provides a great takeaway experience at an affordable price.

We've lined up our fish fingers with Green Cuisine, Goodfellas and Aunt Bessie's. We also have our famous potato waffles in the mix. In France and Spain, we've ramped up Goodfellas distribution in recent months. In France, we've got a good example here of how we are catching the consumer's attention for what is a new brand in the country. Notice the high visibility of the display, giving details on the product for new consumers first learning the benefits of this great brand.

Since acquiring our Adriatic business, the addition of ice cream to our portfolio has been a great success. In Croatia, we have an example of our King ice cream promotions, especially our highly profitable single serve versions. In Germany, we are on offense with our fish fingers and vegetables. In this aisle freezer, we've got our key spinach products on promotion, next to our iglo fish fingers, both Must-Win Battles in that market. We have many more examples across our business. I'm happy to report that the reaction from these programs have been strong so far. With this in store execution driving sales along with our new media, I'm highly optimistic about the outlook for the rest of the year and beyond.

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 9, I will provide more detail on our key third quarter operating metrics, beginning with reported revenues, which increased roughly 1% to €764 million. Sales grew organically 1.6%. Third quarter revenues were negatively impacted by 1.1% of unfavorable FX. We delivered gross margin of 28.4% supported by pricing and cost control. This result was ahead of our plan. As previously discussed, Q3 was the most challenging quarter for gross margins for the year due to the comparison from the third quarter of 2022. Looking out to Q4 we remain on track to deliver stable gross margins for the year. This will be supported by an improving volume trend, pricing, strong cost discipline and robust RGM execution.

Moving down to the rest of the P&L, our gross profit came in at €217 million in the third quarter. Cost of goods sold increased to €547 million, an increase of 2% up €8 million versus last year. Adjusted operating expense of €100 million was up 11% year-over-year, reflecting stepped up A&P investment. As a result, Adjusted EBITDA was €140 million with Adjusted EBITDA margin at 18.3%.

Finally, we posted adjusted EPS of €0.43 per share in Q3. This translates to $0.45 per share at current spot rate.

Turning to cash flow on Slide 10, we delivered strong cash flow in the first nine months of the year, driven primarily by working capital improvements and EBITDA growth. Additionally, we've been highly focused on effective inventory management and cash collection, helping our working capital performance. We are well on track for annual adjusted cash flow guidance target of €250 million at a conversion rate of 90% to 95%. Maintaining this high level of conversion is paramount as we consider our capital allocation strategies for the year and beyond.

In the first nine months, we generated €125 million of adjusted free cash flow for a conversion ratio of 56%, our highest first nine-month conversion rate since 2020. Working capital decreased €151 million to €68 million, more than offsetting a €44 million increase in cash interest driven by our refinancing and repricing activities.

Capex of €59 million was up €4 million versus last year, as we remain highly disciplined on supporting long term strategic investments within our business. Changes in cash tax increased €9 million to €53 million while cash interest was up €44 million to €113 million driven by last year's refinancing.

With that let's turn to Slide 11 to review our 2023 guidance, which we are updating today. This guidance is based on foreign exchange rates as of November 1, 2023. First, we are again maintaining our organic revenue projection of mid-single digit growth for 2023 with our pricing more than offsetting volume declines. As our current A&P investment takes hold in the market and we approach 2024, our expectation is that we will develop a more balanced mix of price and volume. We expect to see the beginning of volume recovery in Q4 rolling into 2024.

We are keeping our adjusted free cash flow guidance of approximately €250 million. We expect our cash conversion ratio to be in the range of 90% to 95%, consistent with historical averages. As Stefan spoke to earlier in the presentation, with our underlying business performance in line with our expectations and our share repurchase across the first nine months of the year, we are raising our 2023 adjusted EPS guidance last updated in August.

We now expect adjusted EPS in the range of €1.57 to €1.60 per share, or $1.66 to $1.69 per share at current spot rates. This excludes any additional impact of potential future capital allocation.

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

Operator

Thank you.

(Operator Instructions)

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

Jason English

Hey, good morning, folks, or perhaps good afternoon where you're at. Thank you for slotting me in. Great news on the dividend. I look forward to more details to come in terms of payout ratio, magnitude, etc., early in the New Year. On the quarter itself, I was surprised by retail disputes. Strange time of year to see retail disputes. Looking at your P&L, price growth accelerated on a two- and three-year stack basis. Is it fair to assume that you've implemented new price increases in the quarter? Those were the cause of the disputes? If so, can you give us a sense of order of magnitude?

Stéfan Descheemaeker

Thanks, Jason, thanks for the question. Well, I think the world has changed a bit. In the past in Europe, we had one negotiation per year, at the beginning of the year, and then you have these volatile times with inflation going up. You remember, last year, we increased price three to four times. Instead of one negotiation, you had two to three to four negotiations. This year is the other way around. Obviously, inflation is coming down, which is great for all of us. But it's still a volatile time. I'm not surprised that we have this conversation, healthy conversation instead of conflict, because we never stopped the dialog with these guys.

I think it's absolutely unavoidable and to some extent, sometimes, necessary to make sure that we have the integrity in terms of pricing. I think the key piece for us is, how can I say, is we've decided to do this way, because we want to protect the long term integrity of the business. Sometimes it's obviously not easy because we list it and you have the quarter coming in. That should not prevent us from making the right decision in terms of negotiation. That's absolutely fundamental for us and for the future and for our retailers. That's what we had.

In terms of what it did in Q3, in terms of revenues, around 2% plus of revenues were “lost” with these negotiations. I think most of these negotiations are over, or you still have a bit left ahead of us. Q4, you will have obviously the remaining, it's going to obviously during the first month, but then at least we're going to positively impact Q4 and definitely even more so for Q1 with the right level of margin. That's that. The world is changing, Jason, and I think probably it's going to be a bit more stable in the future. But the number of negotiations have increased.

Jason English

Okay. One thing that's also changed in the last year or so is the private label was no longer following you as closely or as quickly as they had been in the past with price increases. You note in the slides, that private label price caps remained stable. I assume that they still—A, still haven't followed on your last rounds. Now if you're putting through more, are you seeing them—it would suggest in the slides that you're seeing them follow. Price gaps are stable, but can you confirm that's the case?

Then the second part of it, you're talking about a lot more merchandising activity on the floor, which makes a lot of sense as you look to improve volume. But between that and rectifying some of the disputes of retailers, is there any net price that you're effectively having to give back to fund that merch or rectify the tension with the retailers?

Samy Zekhout

Sorry for my voice. I have a bit of a voice concern. But I'll try to answer your question. On the private label point, I think what's really important is that we have effective stabilization, but with a gap that is now frankly reaching a point where we think we can still operate, while effectively leveraging all of the other aspects of our promotion in order for us to really stay competitive versus them and reignite growth from that basis. If you recall, the price gap was double digit increase versus the prior gap. Then it started to go down. It has reached the level of 5%-plus. Within that, really what we are taking—the action we are taking right now is acting at the promotional level, beefing up our A&P, and at the same time as well taking into consideration the change in the inflation dynamics that we see for the future. This is where the negotiation and the conversation ought to play there.

We clearly want to reignite share growth. We want to revert the volume trend which it has stabilized at this stage, and on its way back to effect a recovery by Q1 and—Q4 we see an improvement. Q1 we'll see effectively a turnaround at that point in time.

Jason English

Very helpful. Thank you very much. I'll pass it on.

Operator

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

John Baumgartner

Good morning. Thanks for the question. Stefan, it looks as though in this latest run of Nielsen data, Nomad's seeing some market shares improve across a number of countries but Italy is still soft. I think that's one where the pricing, the relative pricing has been more troublesome. How do you think about the time required, once you're in-market, for consumers to shop the aisle, become aware of the promo and take advantage of it? What's the natural purchase cycle for your categories? Is it four weeks, is it six weeks? Just trying to better understand the willingness and ability for consumers to take advantage of a promo once it's in market.

Stéfan Descheemaeker

To your point, I think frozen aisle is obviously is more something like your destination as such, and the average, country by country, but let's say give or take, is around four to five times per year. You can imagine between the moment you're starting your promotion and the impact it has in the market, it takes a bit of time. What we see in Italy, we see some green shoots. It's in very much in line with what we were expecting. Then basically the last thing we need to do is to change course. We think that's the country we've started our RGN program, let's say, the fastest with very deep, especially in fish. We are starting to see some green shoots, but definitely, it's going to be complemented by A&P on top.

Take that on top of the four to five times, also with stabilization of cost, stabilization of—labor cost is starting to increase, which to some extent, in terms of cost of living, is good progress as well, especially in a country like Italy. Then we see that they definitely end of this quarter, end of Q4, this quarter and definitely in the next year with the A&P we are very confident that Italy will reverse the trends, which is what they are starting to do, especially in fish.

John Baumgartner

Okay, and then thinking more about the macro into 2024 and the persistent inflation in Europe and the impact on consumers' budgets and shifts in food spending. When you're lining up these brand investments, how are you thinking about the competition, just alternatives for consumers? Are you mostly focused on winning in store against other frozen or fresh categories? Is there also an angle here to try and capture some food spend from outside the home? What are your expectations for how or where you'll source that incremental volume from, going forward?

Stéfan Descheemaeker

Well, the first thing is we've lost market share. Definitely there is a piece of that that we want to regain. That's the first thing. That's within the area and that we think that with the programs we have, we can do this. But also, we believe that we have this program of Must Win Battle, they're supposed to gain, to grow in a disproportionate way compared to the others. That's what we've been doing.

One more thing you will see as well is we're going to start in a very selective way to work on new categories on the country by country. Very far from what happened something like 10 years ago, which was a bit of everything, but definitely where we think that in a country, this category could be poultry in some countries, could be pizza in another, we have the right to win. We are going to do it. There's going to be a long term investment. That's a combination of different things.

When you think about poultry or you think about pizza, for example, definitely, you have a contest, competition with not only with frozen, but also with chains. That's going to be the framework for us. Definitely focused on the Must Win Battles, with RGM, with obviously A&P. With that, we think that within this frame, we're going to gain market share. Then on top of that, we're starting something which is, again, very focused behind new categories. That really impacts the frozen foods, but definitely also above and beyond frozen foods, which in and of itself, by the way, is doing well compared to many other categories.

John Baumgartner

Okay. Thanks, Stéfan.

Stéfan Descheemaeker

You're welcome.

Operator

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

Robert Dickerson

Great, thanks so much. Stefan, maybe just to follow up on what you just said. I think in the prepared remarks, you stated volume growth was back for the broader frozen category in 12 out of 16 markets. Clearly, a few things going on in Q3 that you're not posting the volume growth. But then also sounds like there is some incremental pricing that's going through the market. As we get through Q4, as you say, you think the volume trajectory improves into Q1, should we be thinking that hopefully as you get toward the end of the quarter that you start to see volume stabilize, and therefore there could actually be volume growth next year, despite the pricing because of ongoing higher A&P and Must Win Battles?

Stéfan Descheemaeker

To your point, I think the programs we have with the combination of more stable macros. Definitely, we believe that we're going to come back to the previous algorithm, which was based on obviously volume growth. Then you have obviously higher sales, then obviously definitely higher EBITDA and then double digit EPS. That's definitely what we want to come back with, with a combination, as we said, A&P, RGM, which is really something that we have invested a lot, and milder, let's say, macro, that's the idea. The concept of do we believe that we're going to gain market share and get back to volume growth next year? Absolutely. When is it going to happen, in which week? I can't tell you that right now, but definitely, we are very confident that we're going to gain market share, and we're going to gain volume next year.

Robert Dickerson

All right, super. Then, Samy, just on the gross margin, I think you'd said Q4 gross margin in line to have gross margin essentially flat for the year. I think that implies Q4 gross margins essentially flat. But at the same time, I'm hearing some stuff about pricing and RGM initiatives, and sure, there's productivity. I'm just curious, with some pricing coming through, it sounds like maybe that is clearly offsetting some higher costs. Otherwise, I would think gross margin would be up. Thanks.

Samy Zekhout

Rob, you have a bit of an effect as well of mix because we had ice cream in Q3 and then we don't have ice cream in Q4. When you look at the trends, for the first three quarters to the fourth quarter, but versus year ago, you start to see some improvement there, which is going to conform to the projection of, let's say, flat gross margin, I would say for the year. Technically, the cycle has been that the first three quarter were slightly above 20%. Then effectively in Q4 it's going to be slightly lower than that. But for an average of the year that's going to be flat versus year ago.

It's clearly definitely the investment we're making in terms of productivity, in terms of investment behind our core brand and particularly on mix in our core category, and Must Win Battle in particular are going to start to pay off. We see effectively the trajectory starting to improve into the next year, but for this year, we definitely maintain our flat gross margin for the year.

Robert Dickerson

All right, good enough. Thank you, guys.

Stéfan Descheemaeker

Thanks.

Operator

Our next question comes from the line of Steve Powers with Deutsche Bank. Please proceed with your question.

Steve Powers

Hey, great. Thank you very much. On the gross margin, actually, while we're here, you mentioned that 3Q came in ahead. What was the source of the upside? Was it better ice cream sales? Or were there other drivers of the upside versus your expectations?

Stéfan Descheemaeker

Well, this is expectation, I think we've been slightly higher, as you know, because effective we had a bit of a bit of performance on the top line, if you really look at that versus expectation. Yes, ice cream has been doing really well there. There's a mix factor there. The continuation effectively of the return that we're putting in, we're getting behind all of the cross selling and productivity initiatives. As you know, we're putting a lot of focus and a lot of effort in COGS in particular, but it's a combination of elements that is here. It’s not only just reverse saving in itself, but you really have a good combo and focusing on Must Win Battle, stepping up effectively the mix by investing behind the Must Win Battle.

RGM starts to get promotional, that which is giving us a bit of a breathing space there, which we expect to continue to maintain. Again, securing our hypothesis and our projection for the year at about flat gross margin.

Steve Powers

Okay, very good. You mentioned 100% coverage and strong visibility on cost into '24. Is there anything you can offer us in terms of an overall cost outlook or any color on expected timing of the cost curve into the next year?

Stéfan Descheemaeker

Yes, I'm going to leave the guidance there because frankly I have to say, so far, of course, indeed, I have covered for the year, that's obviously clear, frankly, at the level where we are. But getting into the nature, we starting effectively to lock some of the deals available in the market. There is effectively some deflation in fish, some slight inflation on some of the veggies, some of them more than others. We are really trying to look at the market dynamics to, frankly, make sure that we remain competitive versus the other players in the market.

Frankly, we have a COGS structure that enables us to adjust the price as necessary through promotion as we move forward to stay competitive there. But definitely, after two years of heavy inflation, we're seeing effectively a flattening and a decline in some of the category, fish as an example, and a bit of an increase on the right. Rest assured we will keep you up to date at this stage, but we're maintaining the strategy of trying to grasp as much as we can from the market in order to really help create value to existing business.

Steve Powers

That's very helpful. Last question, if I could, there's been a—I think everyone's trying to get a pulse and try to track your progress on volume recovery and market share improvement as you make good on the investments that you're currently making. As we do that, from the outside, is tracked channel data a good barometer of your progress, or is there reason to believe that tracked channel performance will either lead or lag total portfolio performance?

Stéfan Descheemaeker

Directionally, it's okay, absolutely. But then they have some put and takes. Obviously, you have the difference between sell-in and sell-out. You also have the food service, the piece, then some countries are not covered as well. But directionally it’s okay. Then definitely with Tony, we can obviously help you to guide—to be a bit further - more precise with the difference between, let's say, the numbers are such that are publicly available, and then how to get to the final number, but directionally, it's okay.

Steve Powers

Okay, very good. Thank you. Thank you very much.

Stéfan Descheemaeker

Thank you.

Operator

(Operator Instructions)

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

Pete Lucas

Yes. Hi. Good morning. It's Pete Lucas for John. You guys covered most of the stuff here in the prepared remarks and Q&A. But if you could just maybe summarize the biggest puts and takes you are seeing in regards to working capital, cash flow expectations going forward?

Stéfan Descheemaeker

Yes, I think as we had mentioned, cash flow is absolutely an essential critical measure for us because it drives a lot of the commitment we have to driving shareholder value, and to effective capital allocation. We clearly have been investing a lot of efforts in order to step up our performance in all of the areas of working capital and the team get them one by one, our receivables is clearly something where we have to clearly get to perfect match between the overall receivable and the collection. Honestly, at this stage, we're really making very good progress and have set up a performance from that end, not necessarily in the change itself, but in the efficiency of collecting effectively on our receivable.

On the drawing table the point there was, as you recall, a year ago, we had stepped up our inventory because of all of the condition we have with the disruption in supply, with war and with specific supply issue, relating to some of the ingredients. We have taken the journey. The supply chain team has done an extraordinary work there to really drive down our inventory in order to support our business requirements. You see that in the customer service level that are very good.

At the same time, you've seen a step change improvements in our inventory that have been down, together with our receivable that have now integrated, if you want, the one-off effects of the past, particularly the unfair trade practice that has dragged an impact on the overall payable. Net-net, if you want receivable, clearly huge focus on a per market basis to make sure we perform in line with expectation. Inventory on a journey of taking the overall inventory level down, while making sure that we maintain top performance in the area of customer service. The totality of all of that is enabling to free up an amount of cash that's enabling our performance.

From a cash flow standpoint, we just reiterate the point that this business is designed to deliver 90% to 95% of free cash flow conversion, which amounts to €250 million for this year. We intend to continue to do that and to do each and every effort to even generate more cash beyond on top and beyond that in this year and the outer years.

Pete Lucas

Very helpful. Thanks. Then just last one for me, what is your expected net interest expense following the repricing?

Samy Zekhout

Following the repricing, we will get back to you. Let me tell you the net interest expense will be overall for the year, we'll be expecting probably around €118 million, €110 million, €150 million overall.

Pete Lucas

Great, thank you. That's perfect. Thank you very much.

Operator

We have reached the end of the question-and-answer session. I'll now turn the call back over to Stéfan Descheemaeker for closing remarks.

Stéfan Descheemaeker

Thank you for your participation on today's call. After the unique challenges of 2022, we continue to deliver organic sales growth while protecting our margins and investing in the long term health of the business. Our A&P program is poised to drive growth, our supply chain is in great shape and our RGM capabilities are expanding with each new quarter. We are already looking forward to an exciting 2024 of volume and market share recovery.

Once again, we are on track to deliver our ambitious financial objectives for 2023 and beyond. Thank you, all. Operator, back to you.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.