Nomad Foods

Fourth Quarter 2023 Earnings Call

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John Baumgartner, *Mizuho Securities*

Steve Powers, *Deutsche Bank*

Robert Dickerson, *Jefferies*

Jon Tanwanteng, *CJS Securities*

PRESENTATION

Operator

Greetings, and welcome to the Nomad Foods Fourth Quarter 2023 Earnings Call.

(Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Amit Sharma, Head of Investor Relations for Nomad Foods. Thank you. You may begin.

Amit Sharma

Hello, and welcome to Nomad Foods Fourth Quarter 2023 Earnings Call.

I'm Amit Sharma, Head of Investor Relations and I'm joined on the call today by Stefan Descheemaeker, our CEO, and Samy Zekhout, our CFO.

By now, everyone should have access to the earnings release for the period ending December 31, 2023 that was published at approximately 6:45 am Eastern Time. The press release and investor presentation are available on Nomad Foods website at www.nomadfoods.com. This call is being webcast, and a replay will be available on the Company's website.

This conference call will 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,

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which are discussed in our press release, our filings with the SEC and in our Investor Relations 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 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 compensation and related expenses as well as noncash FX gains or losses. Unless otherwise noted, comments from here on will refer to these adjusted numbers.

With that, I will hand you over to Stefan.

Stéfan Descheemaeker

Thank you, Amit.

I would like to begin by offering a few highlights from our solid fourth quarter and full year results. I will then offer a few comments on our accelerated growth outlook and the health of the frozen categories before handing it over to Samy for detailed review of our quarterly financial results and our initial 2024 guidance.

Nomad Foods delivered another quarter of solid top and bottom line performance. Fourth quarter organic sales increased by 1.9%, our sixth consecutive quarter of positive organic growth as our volume trends improved sequentially in each month of the quarter. Quarterly and full year gross margins improved substantially, and we continued to generate strong cash flows, enabling us to initiate a quarterly cash dividend. I'm proud of our team to enable us to continue our uninterrupted track record of top tier financial performance and finished 2023 with record high annual sales and EBITDA.

I'm even more excited about our building momentum as the key drivers of our long term profitable growth begin to accelerate. As the impact of challenging macros recedes and we return to our typical operating cadence, we expect even stronger top and bottom line growth in 2024 and for many years to come. Specifically, we expect 2024 organic sales to increase by 3% to 4%, including positive volume and share. Adjusted EBITDA is expected to increase by 4% to 6% to EUR556 million to EUR567 million, and adjusted EPS is expected to be in the range of EUR1.75 to EUR1.80, which implies 9% to 12% growth. We expect another year of strong cash flow generation with cash flow converging to 90% to 95% range.

With that, let me provide a few highlights on our fourth quarter performance. Fourth quarter net sales increased by 1.4% as organic growth of 1.9% was modestly offset by unfavorable ForEx. Our volume/mix declines improved sequentially from the last quarter and moderated to the lowest levels since the third quarter of 2022. Fourth quarter gross margins improved by more than 160 basis points due to disciplined pricing, optimized promotions and continued focus on productivity. Our full year gross margin also came in better than expected, even as we absorbed substantial COGS inflation, enabling us to continue to increase A&P investments behind our brands.

Adjusted EBITDA of EUR117 million and adjusted EPS of EUR0.32 per share, both came in ahead of expectations. We generated nearly EUR174 million of free cash flow during the quarter, and EUR300 million for the full year, one of our highest, with cash conversion ratio of 109%, well above our targeted range.

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A long track record of consistently strong cash flow is at the foundation of our effective capital allocation to enhance shareholder value. To that effect, we initiated a quarterly cash dividend of EUR0.15 per share, a notable milestone for Nomad Foods and a testament to the quality and resilience of our business and our confidence in our ability to generate significant cash flows and a sustainable long-term growth.

At the retail sales level, as reported by NielsenIQ, our value sales for the 12 weeks period ending December 31, increased by nearly 2%, including sequentially improving volume and market share trends. Our recent year-over-year volume growth and share trends have already returned positive in many key markets, giving us greater confidence in delivering positive volume growth in 2024.

The frozen food segment in Europe remains healthy. Underlying consumption in our core categories and key markets continued to grow with improving volume trends over the last two periods. Even with the unprecedented level of inflation-driven pricing in the last two years, frozen food remains highly relevant for most consumers. Frozen food enjoy high household penetration in our key markets in the mid to high 80% range. Even more importantly, household penetration has remained largely stable even with the extraordinary pricing in the last two years.

It's not that difficult to see why. Frozen food categories align perfectly with a number of secular consumer trends, including convenience, taste, nutrition, sustainability and remain highly affordable. For instance, using our value packs and promotion, a family of five can enjoy a meal of fish fingers, waffles and peas for around $10 in many markets, highlighting the tremendous value proposition of our product offering, a key consideration for consumers in the current environment. We are positioning ourselves to capture a greater share of this growth by increasing our focus in investments behind our biggest and most profitable opportunities.

Our total advertising and promotion spending increased by nearly 30% in the fourth quarter and a disproportionately large share of these investments were made against our top 20 Must Win Battles. These high-priority opportunities account for nearly half of our retail sales and even bigger share of our gross profit. Our recent trends in many of these opportunities are very encouraging and gives me greater confidence in our revised growth plans as we look to 2024.

The significant ramp-up in our fourth quarter A&P investment will continue in 2024. Specifically, we launched our Master Brand campaign to drive greater affinity to our brands in the first quarter, to build an emotional connection to our brands and to remind consumers of the most relevant and loved aspect of their relationship with our iconic brands. Our messaging will also focus on highlighting the stronger health claims of our brands to emphasize the naturalness and goodness of our products given the increasing debate around obesity and ultra-processed foods.

Along with driving the core, higher A&P will also help reignite our innovation engine. Historically, new products have accounted for nearly 5% of our annual sales, and it fell below that level in 2023. We're committed to regaining our innovation momentum and have an exciting pipeline of new products to be launched through the rest of the year. I mentioned two of these innovations last week. iglo branded Mexican coated fish fillet in Germany and King's branded multilayered premium ice cream for the home occasion in the Adriatic. We have planned a full spectrum of marketing support and retail activation behind both this innovation along with our other new products in our pipeline.

As expected, the majority of this are difficult but necessary pricing discussions with a few of our retail partners which I mentioned in our last call, were resolved successfully. Retail environment remains dynamic, but we have successfully completed pricing conversations in majority of our markets and we remain on track to complete the rest over the next few months. At the same time, we are optimizing our promotion spending and reallocating resources where we see the largest potential impact.

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As I mentioned in my comments at the CAGNY Conference last week, we are investing in our growth capabilities, in our data, in our analytics to position us for accelerated growth in 2024 and beyond. These investments are meaningfully upgrading our retail execution. We have better insight and a wider and more comprehensive revenue growth management toolkit to maximize our profitable volumes. These strategies are working, and I strongly believe that they position us to capture a greater share of the frozen food growth in our markets.

Our increasing investments to drive accelerated growth is underpinned by our productive agenda, particularly across our supply chain. The resilience and nimbleness of our supply chain during a period of unprecedented volatility is unmatched across the frozen food aisle. But I'm even more proud of the fact that we are accomplishing it while increasing our focus on driving great efficiencies across our network. We are optimizing our manufacturing and logistics network, reducing complexities and establishing strategic relationships with key suppliers to reduce supply risk and generate procurement savings.

Our supply chain delivered strong cost savings and higher cash flows in 2023, even as our service levels improved to over 98%. We expect similar trajectory in 2024. While on the topic of cash flow, as I mentioned earlier, we generated EUR300 million of free cash in 2023, our second highest annual cash flow ever. Strong cash flows are a foundation of our value-enhancing capital allocation strategies.

We bought back more than 6% of our shares outstanding in 2023, initiated a quarterly cash dividend and adopted a new $500 million share repurchase program, highlighting the strength and flexibility of our balance sheet as we continue to execute a balanced capital deployment strategy intended to maximize shareholder returns.

In conclusion, we delivered record high sales and EBITDA in 2023 with improving margins and strong cash flows. Our quarterly volume trends improved sequentially, positioning us to deliver positive volume and share growth in 2024. We are increasing our growth investments to unlock the full potential of our attractive frozen categories and iconic brands, positioning us to deliver sustained attractive growth in 2024 and for many more years to come. I'm highly confident of delivering our revised long-term targets of 3% to 4% organic revenue growth, 5% to 7% Adjusted EBITDA growth, 7% to 9% adjusted EPS growth and 90% to 95% cash conversion, which I believe will deliver superior returns for our shareholders.

With that, let me hand the call over to Samy to review our fourth quarter results and our 2024 guidance in greater details. Samy?

Samy Zekhout

Thank you, Stefan, and good morning, everyone.

I am pleased to present another quarter of solid performance at Nomad Foods. For the fourth quarter, reported net revenues increased by 1.4% to EUR761 million. Organic sales increased by 1.9%, while unfavorable FX impacted quarterly sales by 0.5%. Our organic sales growth was driven primarily by pricing as we continue to benefit from pricing to cover inflation. Our volume mix was down 5.6% during the quarter, a marked improvement from the third quarter and our lowest volume mix decline since quarter 3, 2022.

Fourth quarter gross profit increased by 7.9% to EUR208 million, while gross margin increased by over 160 basis points from the year ago quarter to 27.3% due to better procurement and cost discipline, improving volume trends and contribution from pricing and favorable RGM execution. Adjusted EBITDA increased by 3.2% to EUR170 million in the quarter as the higher gross profit was partially offset by higher operating expenses. Our adjusted operating expense increased by 14% from the year ago quarter due to the stepped up A&P investment as well as higher indirect expenses.

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Adjusted net income declined by 9.4% due to higher interest expense from our last year's refinancing, while adjusted earnings per share of EUR0.32 declined by only EUR0.01 from the year ago quarter as impact from higher interest costs was partially offset by share buybacks. At current euro-dollar spot rate, our quarter four adjusted EPS was $0.35 per share.

For the full year 2023, net sales increased by 3.6% to EUR3.04 billion, including 4.9% organic sales growth. Gross margin increased by nearly 50 basis points to 28.2%, while Adjusted EBITDA increased by 2% to EUR535 million. Full year adjusted EPS of EUR1.61 or $1.74 declined due to higher interest expense from the refinancing of our debt. During 2023, we repurchased more than 11 million shares of our common stock for nearly $185 million under our previous buyback authorization. As Stefan mentioned, we now have a new $500 million share repurchase authorization.

We delivered yet another year of strong cash flow in 2023 with full year adjusted free cash flow of $300 million, driven by strong working capital improvement, higher EBITDA and favorable timing on certain receivables. Full year and fourth quarter cash flows came in well ahead of our expectations as we continue to be highly focused on effective inventory management, cash collection to improve our working capital performance. Specifically, full year working capital decreased by nearly EUR155 million, more than offsetting a nearly EUR40 million increase in cash interest.

Twenty-twenty-three CapEx of EUR82 million increased modestly from last year as we remain highly disciplined on supporting long-term strategic investment. Given the strong Q4 cash performance, full year cash conversion came in at 109%, well ahead of our targeted 90% to 95%. Maintaining a high level of cash conversion is paramount to ensuring the strength of our balance sheet and to continue to execute our effective capital allocation to deliver enhanced shareholder returns. We paid our first quarterly cash dividend of EUR0.15 per share earlier this week, reinforcing our ability to generate strong, consistent cash flows and attractive long-term growth.

Turning to our guidance for 2024, we are pleased with our building top line momentum as we enter 2024. We expect to deliver net revenue growth of 3% to 4%, Adjusted EBITDA growth of 4% to 6% and adjusted EPS of EUR1.75 to EUR1.80 per share. We continue to expect strong cash flow with cash conversion in the range of 90% to 95% range.

Our 3% to 4% organic growth in 2024 is expected to be relatively balanced between price and volume mix including positive volume growth for the full year. Volume trends are already beginning to inflect to positive growth in many of our key markets. We expect continued sequential improvement in the first half and consolidated volumes to turn positive in the second half. We expect our gross margin trends to continue to improve in 2024 as we benefit from improving volumes, greater focus on productivity initiatives and favorable costs. Digging into inflation, more specifically, we expect relatively flat inflation for the full year with lower fish and protein costs offset by headwinds in some of other cost buckets, including vegetables.

As Stefan mentioned, we remain committed to investing behind our brands. Overall, A&P spending increased by nearly 13% in 2023, and we have planned an even greater increase in 2024, particularly in the first half as we drive strong volume and share performance in 2024. At U.S. dollar euro exchange rate as of February '17, our adjusted EPS guidance translate into $1.89 to $1.95 earnings per share and implies 9% to 12% year-over-year growth as we lap impact from higher interest costs in 2023 and continue to benefit from lower share counts.

In terms of quarterly cadence, our top line is likely to be largely in line with historical pattern. However, the second half will account for a disproportionately higher share of our profit and earnings given the timing of cost flow through due to the balance sheet remeasurement and the timing of our A&P investment,

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particularly in the first quarter. Absent of any strategic acquisition and given our strong cash flow, we remain committed to returning capital to shareholders through the recently instituted dividend and opportunistic share repurchase.

We have a proven track record of top tier financial results and are even more excited by the opportunities we have ahead of us. We are confident of delivering attractive growth at or near the top tier of our food peers in 2024 and for many years to come.

I will now turn the call over to the Operator for your questions. Thank you.

Operator

Thank you. (Operator Instructions)

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

John Baumgartner

Good morning. Thanks for the question.

Stéfan Descheemaeker

Hi, John.

John Baumgartner

Good morning. I wanted to dig into Q4 gross margin, which I think was a bit better than expected. I understand you've got pricing inflation sort of matching better relative to last couple of quarters. Can you walk through what drove that upside? How much of that was underlying cost efficiencies coming through? How much of it was cost inflation moderation relative to net pricing?

Samy Zekhout

Yes. Thank you, John. Actually I think, we had a good performance in our gross margin of nearly 160 basis points from a quarter year ago. I would say, the main driver were frankly pretty much the same. I mean, even though the spread was changed, when you look at effective spread beginning of the year, end of the year, because effectively we saw the pricing impact starting to effectively fade down as we had prior pricing in the base. A lot of it was coming from good discipline and better procurement. We clearly continued to benefit from the fact that there were some clearly stepped-up improvement in that area.

We had a higher focus as well overall on productivity and efficiency. At that same moment, we had improving volume trend. If you recall, we had implemented at the same time a sharpened RGM strategy to define some promotional intervention, but also effectively, there were some specific stepped-up cost (phon) advertising that really boosted the volume, which effectively reduced the impact that we had versus year ago. The volume element had a component, I mean, into that progress.

John Baumgartner

Okay. Thanks for that. As a follow up, looking at the vol/mix, I think that came in a little bit lighter than we were looking for in the quarter. I think you mentioned some one-time drags there. But bigger picture, can

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you walk through the non-measured channels? What we can't see in Nielsen, what you're seeing in the Nordics, what you're seeing in the Adriatic, and how that sort of evolves in 2024? Thank you.

Stéfan Descheemaeker

Well, I think to your point, John, actually, (inaudible) Nielsen is only capturing part of our businesses. It doesn't include, to your point, Nordics, Swiss, Adriatic, Ireland. It doesn't include some brands, by the way, like Aunt Bessie's. It doesn't include either for example food service. We have, as you know, a bit of private label. When you see, let's say, quarter four in value—value and volume are getting very close to each other now, actually.

What you see is, well, Nordics hasn't made any change to the whole picture. It's very much in line with the rest of our numbers. Adriatic was a weather help, definitely. We're doing fine. You may remember Adriatics in Q4 is mostly frozen food as opposed to ice cream. It was a business that was probably less strong in ice cream, but we're making a lot of progress. That's basically the main differences. The Adriatic is a plus, I would put it that way.

Then in Q4, we also have a lot of, let's say, movement between sell-in and sell-out. Most of the time, sell-in at the end of the year is lower than sell-out. Then on top of that, you have food service, for example, did contribute nicely to us. Overall, let's say, interestingly enough, when we see quarter four, I think between—or let's say, Nielsen numbers and the final numbers in terms of sell-in, they're quite similar, but with the series of delta being Adriatic, sell-in, and food service. If you want to have this, let's say, on a monthly basis, same thing in January, but the other way around to some extent.

Amit Sharma

John, remember, it's about two-thirds of our business that's covered in Nielsen. There's always a little bit of a dislocation, but I think directionally it's the right way to look at it.

John Baumgartner

Thanks, everyone.

Stéfan Descheemaeker

Thanks, John.

Amit Sharma

Thank you, John.

Operator

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

Steve Powers

Hey, good morning, everybody. Thank you. There's a quote in the press release and sort of the tone of your prepared remarks talks about playing offense in 2024. I guess maybe just a little bit more detail, if you could, on the cadence of spending as you do that. Then also how quickly you expect to see returns

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on that spending, maybe in terms of the pacing of volume versus price as we go through the year? Any perspective on that would be great.

Stéfan Descheemaeker

Well, to your point, I think we already started, by the way. We started end of Q3 where we started to re-increase our O&P (phon). Q4 was really a double digit in growth and we have all the intent to keep going that way in the course of this year, even faster. Overall, by the way, we think that A&P is going to grow even faster than our sales, which makes total sense. Well, interestingly enough, it was absolutely crucial for us to be able to keep our gross margin, so that we would be able to invest to reinvest behind the brands.

That's starting together with other things, because again, A&P is one component, Steve. But, we have more and more for all our Must Win Battles. We have an integrated view, what we call our flywheel, which is really basically it's A&P. It's also, obviously—it's revenue growth management. Where do we need to invest in pricing or in promotion? How do we need to do this? Innovation, also, pipeline is starting to be better after two years, which were probably a bit more subdued. We expect to see the gradual improvement turning to positive volume growth by second half of the year. But, it's not going to be linear, guys. It's going to be steady, but it's not going to be linear.

But overall, what we see is we are very confident that the growth trajectory is there to stay. But again, combination of a good category to very good category, we're also lapping obviously a very strong pricing, and then all our own initiatives together with our brands.

Steve Powers

Very good. Yes, makes perfect sense. Samy, you talked about openness to M&A, but at the same time, the extent that M&A doesn't present itself, continue leaning towards cash return to shareholders. Is there a way think about the parameters around that in terms of how much dry powder, so to speak, you want to preserve versus how much is too much, and what's the trigger to cash return to shareholders? Is there a level of cash on the balance sheet that is excessive? Is there a leverage ratio that's too low? How do we think about the balance of kind of waiting for the M&A opportunity to present itself versus being proactive in capital return?

Samy Zekhout

Yes. I think we really guided, Steve, I mean, to driving shareholder return from that perspective. We've been using, frankly, fairly actively, I mean, a good arsenal of variables (phon), I mean, there from a capital allocation standpoint. We've focused historically on M&A. We've effectively moved forward on buyback, as you have seen us doing it last year. We are institutionalizing now a dividend, and we're clearly looking at all of these variables together. To be fair, now that we have, and to come back on to your first question, that we are activating effectively a number of the levers that we know within our algorithm are contributing to stronger growth balance between volume and price, I mean, that's going to enable us to continue to fuel further cash. Pending, effectively, a proper balance between buyback, the dividend, we will be effectively looking at opportunity in terms of M&A, for sure.

I mean, at this very stage, what we would want to do is to make sure that we maintain our leverage within the operating band, which we have mentioned, I mean, during the CAGNY presentation, which is our target range, is between 2.5x and 3.5x. Within that, we will try to effectively use our cash to make the maximum return from that perspective.

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M&A is still on the map. I want to be very clear, but we have clearly opportunities, I mean, in the area of buyback, and we as well, I mean, have initiated the dividend there.

Stéfan Descheemaeker

Well, just complementing one or two points to Samy, everything—obviously nothing would be possible without our free cash flow, which is extremely strong, as you know. That gives us the whole thing, gives us all the opportunities available. Quite frankly, when you see the different opportunities between dividend, buyback, I think we've been very disciplined at that. Then, M&A, through its integration, quite frankly, it's also something where all our acquisitions have been very successful. We have all the spectrum of what is available, but based on a very, very strong cash flow.

Steve Powers

Very good. Thank you so much.

Amit Sharma

Thank you, Steve.

Operator

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

Samy Zekhout

Hi, Rob. Good morning.

Robert Dickerson

Good morning. Hello. Look, we touched on this a little bit last week at CAGNY, which was a great presentation. I think there's a lot in there. It also seems like there's kind of a lot of kind of ongoing and forthcoming change occurring at Nomad kind of relative to history, right? It almost seems like it's time to step into the next phase with respect to productivity and then the reinvestment cycle. But, I just wanted to kind of give you another opportunity to kind of talk about your overall conviction on that top line growth target, because the 3% to 4%, frankly, is not kind of what we would consider like a normalized category growth target relative to history.

I think historically you've spoken kind of more to low-single digit or 2% to 3%. Clearly, seems as if there's a lot more confidence and conviction for a little bit faster growth at Nomad as we think forward just probably over the next five years. That's all I have. Thanks so much.

Stéfan Descheemaeker

Thank you, Rob. You're right, by the way. I think it's a slightly different algo to start with the top line. I think it's based on a series of elements. First is, little by little we see that this category, which is a great category, frozen food, is really starting to develop. I think people more and more can see that the category as such is healthy, it's convenient. It's also sustainable. It's nutritious. It ticks all the boxes. Quite frankly, people are starting to see this. That helps a lot. That's the first piece.

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The second piece is, well, after two years of, let's say, a lot of pricing and also with volume impact, we can see obviously that we want—we are in a position to recoup part of the lost volumes. We've also been very selective. We don't want to regain all the volumes, quite frankly that's why we have this concept of Must Win Battle that you're well aware of, which has the best categories with the best margin. We're going to be selective from that standpoint on top of increasing the algorithm, to your point.

The third piece is, yes, we're increasing our A&P back to normal first. Then last but not least, our pipeline of innovation, the last two years was a bit subdued, for a lot of reasons. People were focused on the cost of living. Obviously, we were also trying to really tackle the whole. It was more defensive. Now definitely for the next years and you know that innovation takes more time, but we have the ambition to really create a best-in-class pipeline of new products as category leaders. That's something probably we didn't do enough in the past and that we're going to do really absolutely with an obsession in the coming years.

That's a combination of these elements. By definition, there will be pluses and minuses, Rob. But that's the reason why we think we can increase our algo to your point from 2% to 3%—by 1%, let's make it clear.

Samy Zekhout

Robbie, if I may, the one thing I'd like to emphasize that we talked last week was the fact that the big difference as well is—and I think Stefan used the word, it is the integrated flywheel. We are really activating most of the part of the flywheel together in a synchronized way with the mindset of driving better return. A&P is one. Proper price level is another one with RGM and promo. At the same time, we're increasing our presence and our strategy in-store. The combination of all of that is clearly working, and it's worked in Q4.

We have evidence and it shows in the improvement that we have seen in Q4. That's exactly what we are going to continue with the stepped-up investments we are making. This element of focus, integration, and making sure that we activating all of the parts of the flywheel together, which will enable us, together with productivity that is now, frankly, implemented across the board, enable us to deliver good top line that's going to effectively flow through into bottom line and a strong EPS growth moving forward.

Robert Dickerson

All right, super. Thank you, both. I really appreciate it.

Stéfan Descheemaeker

Thank you, Rob.

Samy Zekhout

Thank you.

Operator

Thank you. (Operator Instructions)

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

Jon Tanwanteng

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Hi. Good morning. Thank you for taking my questions, and congrats on the nice improvements you're seeing there. I was wondering if you could first address the competitive environment and how you see that evolve in the last quarter and through Q1. Are you seeing any response to your new strategy at all, either from branded or private label competition? Have you seen the price gap continue to close with the private label side?

Stéfan Descheemaeker

I think it's a great question, Jon. I think the Company has remained about the same. I think we first very pleased to have closed most of negotiations with the customers, which was, as you know, a bit of a drag in Q4. That's helping a lot and it's going to help us gradually in some of our countries. Private label price gap is still a bit wider than historical level, which is normal. We're not surprised by that. That's why instead of going down, let's say, drastically, we more—in terms of, we go into more to surgical promotion intervention.

We've learned a lot with the revenue growth management. We've invested a lot, and quite frankly, the level of science that we've put together is a real plus. We mentioned an example last week in Italy in fish, and it's a great example and we see the results. It's a great investment. The price gaps remain important. But I think it goes just beyond that managing this gap. We really focused now on highlighting why our brand is at a premium. We haven't done that enough in the last couple of years. We know that.

Now we're going to be ramping up our A&P spend, which is a big thing. Obviously, something that is a great answer to the private label, and more long term, obviously the innovation, which is what expected from a category leader like us.

Jon Tanwanteng

Got it. Thank you. Then I don't know if you addressed this earlier, I apologize if I missed it. But did you mention how much capital allocation is built into your EPS guidance for the year? What the balance is weighted more towards it if it is included?

Samy Zekhout

No, we have not mentioned any of that. I think we just provided the guidance as mentioned, I mean, in the guidance.

Amit Sharma

Jon, we spent $82 million in 2023 in our CapEx.

Operator

Thank you. Our next question is a follow-up from the line of John Baumgartner with Mizuho Securities. Please proceed with your question.

John Baumgartner

Hey, good morning. Thanks for the follow-up. Just wanted to ask a bigger-picture question. Stefan, at CAGNY, you mentioned kind of whittling down some of your focus brands or geographies in the Must Win Battles relative to a couple of years ago. I'm curious what sort of went into that? How did you decide how

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to whittle? Is it certain categories, certain brands, or have returns changed over the last couple of years? I'm curious to hear more about that.

Then related, you also talked about geographic expansions and cross-selling opportunities in markets where the brands are live, but not just in all the categories. I'm curious, as you pursue more of that cross-selling going forward, how do we think about the incremental resource investment required? Because these aren't new brands and I imagine you already have leverage with local sales force and distribution. Thank you.

Stéfan Descheemaeker

Okay. Let's try to be—well, I'll spend a bit more time on that one because it's kind of topic I love, which is the Must Win Battles. You remember, John, we started in 2016 where we came to the conclusion that the Company was not focused at all and it was absolutely time to focus behind the key categories per country. Because we didn't necessarily have all the money to go behind 100% of our sales. By the way, strategy is about deciding where you're going to allocate your resources. It's exactly what we did with the Must Win Battles.

We decide to focus on A&P or innovation money or in-store activation or flywheel actually behind two-thirds of categories based on basically growth potential, gross margin, and market share, to make it simple. As a result, I think these two-thirds received, obviously, almost everything. Surprisingly, it grew much faster than the rest, something like around 5%, the rest went to zero and sometimes even declined, which is absolutely acceptable. We like the idea that we were very selective.

Unsurprisingly, after a few years, these two-thirds became 90%. Then we're back to square one, which is basically where are we going to reallocate our money? That's why we decided, okay, now we're going to be even more selective behind the best and brightest Must Win Battles. We've decided to then deemphasize around 25% of our Must Win Battles to really focus on the best and brightest, especially in terms of gross margin and then gross profit potential.

That's what we're doing right now. Just as an information, 20 of our Must Win Battles represent around 50% of our sales and more in terms of gross profit, it is 20 out of around 80. That gives you a bit of the idea what we're doing right now. We remain very logical and consequent with what we did in the past, but again, with more resources. At the same time, as you know, we're investing more in A&P. You can imagine these brands are really going to receive more money because first we're more selective. On top of that, we're increasing A&P. That's a big boost for these categories.

The second piece about your concept of pollination, which is basically we have something which is unique in frozen foods. We have a unique assortment, when you think about all the different range of products we have across all different countries, 22 countries in Europe. At the same time, we're also unique to be present in all these countries.

This combination allows us to see, okay, fine, we have fantastic—for example, we have a fantastic product of, let's say, fish and chips in the U.K. We think—and obviously, consumers prove this, we think it can work in France. With very little money, we started something like five, six years ago and it has moved from $5 million to $40 million in six years, quite frankly, with very little A&P, which shows the strength of the product, obviously presented the right way.

That's the best example of what the things we can do, and there are many more. Just focusing on this example of fish and chips, we're going to do it in Switzerland, we're going to do it in Adriatics. Because people demonstrated that the concept can work.

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It's definitely what I would qualify some sort of, let's say, very low-risk innovation when you think about it, because we're taking a product that exists in the country, that is very successful, and we're testing with the other countries adjacent or not and we can move. You remove the innovation process, which unavoidably comes with, let's say, a certain level of failure and unavoidable, it's normal. I think we're substantially reducing this failure rate with this approach. As we said, think about it, fantastic assortment in an amazing number of countries. Then you can see what the extent of this lift and shift can represent for us.

John Baumgartner

Thanks, Stefan.

Amit Sharma

Thank you, John.

Stefan Descheemaeker

Thank you, John.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Descheemaeker for any final comments.

Stéfan Descheemaeker

Thank you very much, Operator. Thank you for your participation on today's call. Twenty-twenty-three was a good year, and I'm even more pleased with our good momentum as we enter 2024. Nomad Foods team has shown incredible nimbleness and agility in the last two, three years, and I believe that we are now well-prepared to deliver accelerated growth. Our revised long-term growth algo puts us amongst the top tier of our food peers, which combined with our very attractive valuation, positions us to deliver superior returns for our shareholders.

Thank you very much, Operator.

Operator

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

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