



Nomad Foods Limited
First Quarter 2024 Earnings Call
May 9, 2024

CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Rob Dickerson, *Jefferies*

Steve Powers, *Deutsche Bank*

Jon Tanwanteng, *CJS Securities*

John Baumgartner, *Mizuho Securities*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Nomad Foods' First Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. To give everyone the opportunity to participate, please limit yourself to one question and one follow up. If you should require Operator assistance, please press star, zero on your telephone keypad. Please note that this conference is being recorded.

I'd now like to turn the conference over to Amit Sharma. Please go ahead, sir.

Amit Sharma

Hello, and welcome to Nomad Foods' first quarter 2024 earnings call. I'm Amit Sharma, Head of Investor Relations. I'm joined on the call by Stefan Descheemaeker, our CEO; and Samy Zekhout, our CFO.

By now, everyone should have access to the earnings release for the period ended March 31, 2024 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, which are discussed in our press release, our filings with the SEC and 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. Investors can find the IFRS to non-IFRS reconciliation 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 2023 and 2024. All adjusted figures have been adjusted primarily for share based payment expenses and related employee payroll taxes, non-operating M&A related costs, acquisition purchase price adjustments, exceptional items and foreign currency translation charges and gains. Unless otherwise noted, comments from here on will refer to those adjusted numbers.

With that, I will hand the call over to Stefan.

Stefan Descheemaeker

Thank you, Amit. I would like to begin by offering a few highlights from our first quarter as we made a solid start of the year. I would then offer a few comments on our accelerated growth outlook as we deploy our growth flywheel before handing it over to Samy for a detailed review of our quarterly financial results and 2024 outlook.

Nomad Foods delivered another quarter of solid top and bottom-line performance. First quarter net sales increased by 1.1%, including organic sales growth of 0.3%, our seventh consecutive quarter of positive organic sales growth. Our volume trends improve substantially, both sequentially and on a year-over-over year basis, which is very encouraging given our clear focus on returning back to positive volume growth in 2024.

Our accelerating volume trends during the quarter validate the difficult choices we made over the past 18 months to 24 months to protect the long-term health and growth potential for brands. We made targeted investments during the quarter to further boost this recovery. These investments are being fueled by favorable cost and or productivity agenda, which we believe will position us to deliver higher margins and strong profit growth through the rest of the year.

We paid our first quarterly cash dividend during the quarter and remain opportunistic buyers of our stock supported by our strong cash generation. I'm excited about building momentum as our initiatives to drive sustained profitable growth begin to take hold and our volume recovery begins to accelerate. As a result, we are reiterating our 2024 guidance, including net sales growth of 3% to 4% with positive volume and share growth. Adjusted EBITDA growth of 4% to 6% and adjusted EPS in the range of €1.75 to €1.8, which implies 9% to 12% growth.

With that, let me provide a few highlights on our first quarter performance. First quarter net sales increased by 1.1% as favorable Forex complemented organic growth of 0.3%. Quarterly volume declines moderated significantly from last quarter, accompanied with strong products and customer mix as we begin to deploy our revenue growth management toolkit across key markets and categories. As expected contribution from pricing moderated as we lapped strong year ago pricing actions.

First quarter gross margins declined by 200 basis points to 26.9% as the expected one time margin headwind due to balance sheet inventory evaluation more than offset higher underlying margins. Samy will provide more details about the revaluation impact, but I'm pleased with the improving trajectory of our underlying margins, which is being driven by clear focus on lower cost, productivity, favorable mix, and optimized promotions. Given our expectations of a more favorable cost environment ahead, we remain confident in delivering high gross margins for the full-year, enabling us to continue to invest in our brands.

Adjusted EBITDA of €122 million and adjusted EPS of €0.37 per share both declined from the year-ago quarter. We generated nearly €49 million of adjusted free cash flow in the first quarter. A significant improvement from €25 million in the year ago quarter.

As a retail, sales level as reported by NielsenIQ of volume and shared trajectory continues to show significant improvement and even turn positive in many of our key markets during the quarter, including U.K. and Austria. This recovery is being driven by the full activation of our renewed and upgraded flywheel to bring consumers back to the frozen aisle and to drive greater engagement with our brands.

Winning with consumers, winning with our brands and winning with customers are the key pillars of our flywheel, and we made the intended investment in the first quarter achieve it. Our A&P spending increased by more than 20%, as we expanded our master brand campaign to additional markets to drive greater engagements with consumers and to remind them of the most relevant and loved aspects of their relationship with our iconic brands.

We timed our first quarter pricing and promotion activities to maximize benefit from favorable seasonality and to align it with greater consumer interest in the frozen aisle. At the same time, our ongoing investments in data analytics capabilities in people helped us execute better at shelf. Enabled by our ongoing business transformation project, our center of excellence are delivering deeper data-driven insights to our local markets to optimize the promotion spent, reallocating resource to the largest potential opportunities and winning additional merchandising events in stores.

Our comprehensive revenue growth management toolkit is enabling us to fine-tune our promotional frequencies and depth at a much more granular level. We are customizing our strategy that country and category level to support our consumers and deliver attractive price points to bring them back to the frozen aisle into a brand.

As I discussed at the recent CAGNY presentation, a key driver for anticipated volume recovery is our increasing focus on our best and biggest opportunities. The top 25 of these must-win-battles accounted for nearly two-thirds of our sales and an even greater share of our gross profits in the quarter.

As planned, these top must-win-battles received a disproportionately large share of our growth investments. As expected, delivered sales growth and gross margin far in excess of overall business, including positive volume growth in 15 of the top 25 must-win-battles.

Let me highlight a few of these success stories from the quarter. The first one is a strong rebound in our fish finger business in Italy. After difficult 2023, we deployed all elements of our growth flywheel to regain volume growth and drive greater penetration. The initial results from this initiative have been outstanding. Findus, our frozen fish brand in Italy delivered a strong turnaround in all key performance metrics including a material improvement in our value and volume growth trends. Our market share is rebounding along with improving rate of sale. In fact, Findus is lifting the velocity and penetration of the entire frozen fish segment by bringing consumers back to the category.

Our strong performance in our largest market, U.K., is another example of a focused approach as our first quarter volumes in UK were up strongly and we even gained volume share. Our positive momentum was driven by a number of strategic promotions backed by strong media activation to drive consumer awareness. We supported our U.K. vegetable portfolio with the continuation of our (inaudible) guarantee campaign to highlight the superiority of our piece (phon). We launched a series of influencer led content highlighting the great relative value of frozen as part of the 100-years of frozen celebration and we highlighted poultry as a lean, affordable protein for consumers with our chicken worth dipping campaign.

My final success story to highlight is Austria where Iglo brand is showing an outstanding turnaround leading to a nearly 80 basis points volume share expansion and stabilizing value share in the first quarter. Our value and volume sales growth in Austria meaningfully outperformed our overall portfolio as we secured more promotion slots while leveraging our Life Well Fed campaign to drive greater consumer engagement. Our strong performance in these high priority of opportunities is a testament to the power of our growth flywheel and gives us greater confidence in our outlook as our flywheel starts to spin faster.

Our renewed growth flywheel is enabled by our productivity agenda particularly across our supply chain, which continues to operate in a highly effective manner. We are operating with greater agility and nimbleness and building even greater flexibility in our coverage plants to remain well positioned to take advantage of the underlying volatility in many of our key commodities. At the same time, we continue to raise the bar in terms of meeting our customers demand with our service levels rising to record highs during the quarter.

We are accomplishing it with increasing focus on efficiencies and productivity across our supply chain. We are optimizing our manufacturing warehouse and logistic network. We are reevaluating many of our COPAC relationships and reducing complexities throughout our supply chain. Our supply chain has been a key enabler for productivity savings and we expect it to deliver even greater contribution in 2024, particularly as the expected volume recovery lifts or fixed cost absorption.

In conclusion, 2024 is off to a solid start. Our quarterly volume and share trends improved sequentially and as I reflect on our performance, we believe it's clear that we are positioned for even better trajectory ahead. Our growth flywheel is working and we are fueling it to spin even faster by making disciplined investments in our brands, in our capabilities, in our operations and in our people, we are reiterating our full year guidance.

Over the longer term, Nomad Foods is well positioned to deliver attractive top and bottom line growth, which coupled with our balanced capital allocation strategy, will lead to superior returns for our shareholders.

With that let me hand the call over to Samy to review our first quarter results in greater detail. 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 first quarter, reported net revenues increased by 1.1% to €784 million. Organic sales increased by 0.3% while favorable effects contributed 0.8% to quarterly sales. Higher price mix contributed 2.5% during the quarter as we lapped year ago pricing and benefited from favorable customer and product mix.

Quarterly volume were down 2.2%, a marked improvement from down 8% in the fourth quarter as we returned to volume growth in many of our key markets and remained on track to deliver positive volume growth for the full year. First quarter gross profits declined by 5.9% to €211 million. As expected first quarter gross margin decreased by 200 basis points from the year-ago quarter to 26.9%.

Let me spend a few minutes on our gross margin performance during the quarter. As I mentioned on our last earnings call, our first quarter gross margins were pressured by the anticipated impact from balance sheet inventory revaluation to account for year-over-year changes in inflation. This change is purely mechanical and impacts only our first quarter margins as we reset our inventory unit cost in January.

On the underlying basis, our gross margin benefited from moderating costs, increasing productivity, higher margin mix and optimized promotions. We expect these drivers to continue through the rest of the year and enable us to deliver a higher gross margin for the full-year.

Adjusted EBITDA decreased by 16.4% to €122 million in the quarter due to lower gross profits and higher operating expenses. Our adjusted operating expense increased by 11.5% from the year-ago quarter due to the planned step up in our A&P investments, which increased by more than 20%. First quarter indirect expenses increased by 6.4% including 2% FX headwind as we continue to invest to upgrade our capabilities and absorb wage and other non-commodity inflation.

Adjusted net income declined by 25% and adjusted earnings per share declined by €0.09 to €0.37 largely due to the margin dynamic I described earlier. We repurchased a little less than 0.5 million of our ordinary shares for nearly \$8 million. We have \$492 million left under our current \$500 million share buyback authorization.

Our cash flows are off to a very strong start in 2024. We generated €49 million of adjusted free cash during the quarter as our strong working capital improvements more than offset higher cash interest. Specifically, working capital was a €76 million benefit to the quarterly cash flows as our days of inventory declined substantially. Business transformation project driven capabilities have enabled a much more robust inventory management even as our volumes improved and our service level increased to record high levels.

On the other hand, phasing of our cash interest expense was a nearly €30 million headwind, driven mainly by the timing of our term loan repricing. CapEx of €19 million decreased modestly from last year as we deliver 81% free cash flow conversion during the quarter. We declared our second quarterly cash dividend of €0.15 share last week, highlighting our strong, consistent cash flows and our commitment to effective capital allocation to deliver enhanced shareholder return.

Turning to our guidance for 2024, we are pleased with our first quarter performance and are building momentum enabling us to reiterate our full year guidance. We continue to expect net revenue growth of 3% to 4%, Adjusted EBITDA growth of 4% to 6% and adjusted EPS of €1.75 to €1.80 per share and adjusted free cash flow conversion in the 90% to 95% range. Our 3% to 4% net sales growth in 2024 is expected to be relatively balanced between price mix and volume, with positive volume growth for the full-year. We expect continued sequential improvements in the second quarter and consolidated volumes to turn positive by the second half as our renewed growth flywheel begins to turn faster in response to our investments.

As I mentioned earlier, our underlying gross margins are tracking well to deliver full year expansion. We continue to expect relatively flat to modestly lower inflation for the full-year and are building greater flexibility in our coverage plans to potentially benefit from lower costs in some of our key commodities. Our improving volume trajectory reinforce our commitment to continue to invest behind growth. We continue to expect our A&P spending to remain elevated in 2024, particularly in the first half. At U.S. dollar-Euro exchange rates as of May 1, our adjusted EPS guidance translates into \$1.89 to \$1.95 earnings per share and implies 9% to 12% year-over-year growth.

We are on track to deliver 90% to 95% adjusted free cash flow conversion for the full-year and remain committed to returning capital to shareholders through highly effective capital allocation, including quarterly dividends and opportunistic share repurchases. I am pleased with our momentum in the first quarter. It's a testament to the hard work and dedication of our talented workforce. Our growth strategies are working and we are even more confident in delivering top tier, top and bottom line growth in 2024 and beyond.

I will now turn the call over to the operator for your questions.

Operator

Thank you, sir. Ladies and gentlemen, we will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star, two to leave the question queue. For participants making use of speaker equipment, it may be necessary to pick up your handset before pressing the star keys. To give everyone the opportunity to participate, please limit yourself to one question and one follow-up.

Our first question comes from Rob Dickerson of Jefferies. Please go ahead.

Rob Dickerson

Thank you so much. Good morning, everyone.

Stefan Descheemaeker

Good morning, Rob.

Samy Zekhout

Hi Rob.

Rob Dickerson

Hello, Stefan. Just a quick question. I just heard Samy speak to positive volume growth for the year, and then also volumes turning positive year-over-year in the back half of the year. If we go back in a couple of quarters, originally I think the expectation was maybe sometime, let's say, late Q1, it seemed like maybe it could go into Q2; maybe volumes could wind-up still being positive toward the end of Q2. It just feels like it's moved forward a little bit, and I'm assuming that's just based upon kind of the timing of deployment. I'm curious, one, is that correct? Then two, when would you say you expect to be fully deployed in terms of your brand building initiatives? Thanks.

Stefan Descheemaeker

Well, let me start with the data, Rob. I think the trajectory of volume is interesting in itself. Q3 last year minus 13%, Q4 minus 8%, Q1 this quarter is minus 2%, this is the first piece. The trajectory is very interesting. I would put it that way.

The second piece is what we said at CAGNY, which is really the key point for us and we said, yes, we should expect a volume growth, but crossing the line during H2 and being positive overall on a full-year basis. Well, you see the trajectory. By the way we also pleased with the way the trajectory continues in before, that's where we are.

In terms of resources to your point, it's really interesting because it's a full deployment of all the elements of the flywheel. It started really end of Q3 with A&P last year. We really raised the game. We continued in Q4. We continued in Q1 plus something like more than plus 20% versus last year, and it's going to be even higher, by the way, versus last year in Q2. You can see that it's really starting to do well, and it has by the way, a very positive impact in the must-win-battles, and I'll come back on that later. That's a big piece.

The second big piece is RGM, and the first two months were really promo-based and it was deliberate. We wanted to make sure that all the consumers would come back in a milder environment in terms of cost of living that the consumers would come back to us and that was really the point. We wanted them to come

back and then at some stage, obviously, the other components of the flywheel like quality, superiority and innovation and A&P obviously would start to kick in, and that's exactly what we're seeing.

From that standpoint, nothing has changed compared to CAGNY. We are just reiterating what we said, and we're pleased with this trajectory, not only in terms—by the way in terms of volume minus 13, minus eight, minus two, but also in terms of mix because when we see the mix within these volumes we see that there are different categories. Let's say, to make it simple, the Top 25 must-win-battles which is really what matters for us—the big things in terms of market share, in terms of gross margin is obviously goes faster to say the least, then, for example, or private label components. That's the combination of what we see right now and that's also what we're going to see in Q2 and beyond.

Rob Dickerson

Okay, super. Then for my one follow-up, Samy, just on the gross margin side—clearly I understand the dynamics occurring in this Q1, I do believe there should be gross margin expansion forthcoming—I think you said for the rest of the year applying each of the quarters Q2 to Q4. At the same time you usually do have a nice seasonal dynamic in the Q2 to Q3 period relative to the other quarters. I'm just curious as we move through the year, including Q2 relative to Q1, it sounds like there should be a fairly material step up in that gross margin just on a seasonal basis in Q2 relative to Q1. But then in the back half, the year-over-year improvement is driven partially by seasonality, but maybe also what you're speaking to on the productivity side. I'm just trying to gauge essentially gross margin cadence and the year-over-year expansion potential for the rest of the year. Thank you.

Samy Zekhout

Rob, your interpretation is absolutely correct. I mean, that's exactly the pattern we're going to have. We've taken this one-time adjustments in Q1, but the dynamic is such that between effective intervention we are making on the top line, and particularly with RGM, and the recognition (phon) of volume growth, which is helping from a scale standpoint as well, combined with cost savings and intervention we made from a productivity standpoint, is gearing us effectively together with let's say stabilizing moderately low if you want inflation prices. I mean, there and potentially even declining on some category.

We're getting to a point where gross margin is intended to grow for the year. We will have that point effectively in Q2 and Q3 for the seasonality factor that you mentioned. We will see a step up in Q2 and Q3, let's a bit lower in Q4, and then leading the whole year to a growth in gross margin that would be effectively our commitment for the year.

Rob Dickerson

Super. Thank you.

Stefan Descheemaeker

Thank you, Rob.

Samy Zekhout

Thank you, Rob.

Operator

Our next question comes from Steve Powers of Deutsche Bank. Please go ahead.

Steve Powers

Hey, thanks for the questions. The first question, Stefan you just spoke again in response to Rob's first question on the sequential improvement you've seen quarter-over-quarter volumetrically and market share wise. I guess when I look at the data, at least that we see from the outside it looks like the month of March was somewhat of a step back from where you were in January, February and perhaps that corresponds to the recalibration on promotional investments. But maybe you could talk a little bit about what you've seen through the first-third of the year month-over-month that gives you the confidence that that quarterly progression of improvement will continue as we go into 2Q and then 2H?

Stefan Descheemaeker

Well, I think to your point, I think it's—we knew that it's never linear these things, that's very clear. I think what you need to see the trends and also the actions that come with it. We knew that Q1—P1, P2 were very solid promo driven in line with the way the revenue growth management, and that's exactly what we wanted to do. Then there is a bit of, I wouldn't say pause, but at least a lighter phase in terms of promo in P3; that was expected. That piece is obviously we're going to go month-by-month, depending on where we stand. We're going to have higher promos, sometimes-lighter promos.

The big difference with the past is everything now is very much driven by revenue growth management. In the past, it was probably a bit more, let's say, what the country think and all these things; that's very different. Now, it's really the full utilization of the flywheel between promo one thing A&P really coming starting to kick in big time now, obviously, innovations coming back. We talk about innovation a bit later, hopefully.

Then obviously the rest of the flywheel for us, that's the piece. What you need to see the projection, you're talking about the first third of the year to your point, I think we like the trajectory. In other words, April is we like what we see in terms of trajectory in P4. That's—I think the minus 13, minus eight, minus two is what you need to see. Nothing has changed, quite the contrary, compared to CAGNY and what we said in terms of not only the volume—by the way, volume is absolutely key and that's why by the way, we give—we never provide these elements volume, but we know it's absolutely fundamental; we see this. But let's not forget the other piece, which is price and mix and we like what we see in terms of mix within our portfolio.

Steve Powers

Very good. Actually that leads to part of my next question. As we go forward, I think your full-year guidance, which calls for relative balance between volume mix and pricing on the year. It implies less price contribution as we go forward, and I'm curious from here, is that just more cycling prior year pricing or do you expect sort of net above the line investments and promotion from here, perhaps time with innovation to your point, earlier or otherwise, how do we think about? You've been very clear about the advertising investments you foresee, but I'm curious as to how we think about incremental investments above the line in promotion and price?

Sanjiv Das

Steve, just one point of clarification, just to be super clear there. We have, let's say adjusted net sales, let's say comments and perspective by highlighting volume and price mix together. For the main reason that effectively the focus on volume, it was important for us to clearly highlight that variable, hence the numbers that you are, let's say that Stefan has been sharing with you earlier, because you are mentioning volume mix. I think we're looking at volume and we're looking at price mix. We have provided actually in the addendum, a reconciliation of the two but just so that you have the perspective there. That enables us to really see the huge dynamic that we see now, volume and the strong momentum Stefan was alluding to.

What we are seeing right now, effectively as we lap now, last year into this year, and the fact that the environment is becoming moderately, if you want to slightly declining on some of the commodities, we will see less pricing impact year-over-year. I mean, from that standpoint on the other side, by the sheer fact of focusing our investments behind, must-win-battle, meaning, let's say last category, big countries, highly profitable businesses and that are growing. We will have likely if you want stronger mix effect as we move forward.

What you will see, we see this gradual positive development on the volume side. But at the same time, if you want while pricing starts to moderate, it's not going to be zero, it's going to be just moderating because we will do some pricing on those areas where we will see some form of inflation, but we'll have to do it in a very surgical way. At the same time, we will be promoting through RGM, as Stefan was alluding to, and making leveraging all of the legs of RGM. But the one thing that is going to come across in a stronger is mix. You have volume starting to clearly develop positively and price mix that will be skewed more towards mix than pricing overall.

Steve Powers

Okay, very good. Thank you so much. I will pass it on. I appreciate it.

Stefan Descheemaeker

You are welcome.

Samy Zekhout

Thank you, Steve.

Operator

The next question comes from Jon Tanwanteng of CJS Securities. Please go ahead.

Jon Tanwanteng

Hi, thanks for taking the questions. Stefan, I was wondering if you could talk about the must-win-battles. It was nice to hear that you grew in 15 out of, I think, 25 of them. I was wondering if you could talk about the other 10 out of the 25. We haven't seen the volume growth yet. Is that just because they haven't been activated or maybe a little bit later to start, or do you have to make any adjustments there as we go forward?

Stefan Descheemaeker

Well, to your point, I think we are—we know we are classifying things between A, B and C. The must-win-battles, you may remember, we started, obviously, we started with something like around 70% of our sales. By the very definition of the focus on these must-win-battles, the 70% has become 80%, 85%, 90%, which means by definition, you have to do the exercise again.

Now we're doing it again and we more—much more focused again. We have A, B and C. And let's say A represents around two-thirds of our sales. And obviously they have the highest margin. They have obviously the highest market share and also the highest progression. Within these 1.1% of sales and also minus 2% in terms of volume, obviously, you can imagine that's where we're doing the best by far.

The others, the B private, let's say must-win-battles are smaller, in terms something like probably 20% of these numbers. They're doing in line, I would say, with the rest of the business and well, which is fine, but that's also just very reflective of where we're putting our money and in promotion, but also A&P. In terms of A&P, it's interesting to see we're not only increasing big time the A&P, but also with this increased amount. We're focusing this increased amount to the a brand, to the—a must-win-battles, which is a double increase and that's a big difference.

In a nutshell, it doesn't mean that we neglecting the B, the B must-win-battles. They represent around 20% of the A must-win-battles. They're doing, let's say, to make it simple, as in line with the rest of the business, I would put that way, the total business. There is a difference. That's exactly what allocation of resources is. That's very clear.

Samy Zekhout

But in the—just to compliment Stefan, I think in the context of what you're saying on the execution of the flywheel, and when we talk about spinning and accelerating the flywheel in there, we indeed start by the big one, the most profitable. Little by little, we'll have the coverage of the 25. That's very clear. There's an element of sequencing there. What's really important for us was to continue on the momentum we established in Q4, continuing in Q1, and for the rest of the quarter. But prioritization of the must-win-battles doesn't mean we are not investing and not considering the rest. It's a very important part of the portfolio. But when you allocate your assets effectively and your advertising assets, you really want to do it where the growth potential is the highest and where the profitability is maximized.

Jon Tanwanteng

Got it. That's very helpful. Thank you. Then both Stefan or Samy, I think you mentioned that you've seen lower commodities or inputs in your prepared remarks. How much decline have you seen so far this year? Or are you seeing the future? Kind of compare that, how much—what percent of your inputs have you secured so far and how much room does that leave you to benefit from lower prices as we go through the year?

Stefan Descheemaeker

We have at this stage covered about 80% of our full year commodities. That helps us, if you agree, let's say, keep some flexibility, balancing effectively the supply requirement. We have to make sure that we can produce what we want at the best possible price. But we are left with about 20% uncovered in a context of effectively moderated to effectively slightly declining prices on some of the commodities. That puts us in a quite good position if you want to enable us now to frankly even manage our RGM intervention, promo intervention and margin development to allow us at the same time to reinvest and to improve our performance overall.

Jon Tanwanteng

Great. Thank you very much.

Stefan Descheemaeker

Welcome. Thank you, Jon.

Operator

Ladies and gentlemen, just a reminder, if you'd like to ask a question, you're welcome to press star and then one to place yourself in the question queue. The next question comes from John Baumgartner of Mizuho Securities. Please go ahead.

John Baumgartner

Good morning. Thanks for the question.

Stefan Descheemaeker

Hi, John.

Samy Zekhout

Hi, John.

John Baumgartner

Maybe first for Stefan, I wanted to touch on promotion and specifically non-price promotion and the lift from display and the portable freezers that you're placing outside the aisle. With frozen fish demand sort of coming off seasonally for the summer, should we expect that non-price promo also becomes less of a support and price promo increases in the mix? I guess patented demand drivers change seasonally to sustain the volume recovery that we're seeing until you get to Q4.

Stefan Descheemaeker

Well, no, I don't think there is going to be a material change. The difference is now it's more structured than it used to be in the past. The flywheel is really a great tool. We should show this to you one of these days because it's really a great tool that is not only used at the center, but it's really used at the regional level. Then depending on where the situation is, trade wise, and then, let's say category wise, they may decide to go with non-promo or promo. It's very different country-by-country a little bit (phon). But the difference is, no, it's really structured the right way.

There are countries where, quite frankly, non-promo is still working absolutely. The way it's working, I can tell you where we're using it. There are some countries I can mention, obviously, the Adriatics, for example. The non-promo side is very big. Then we're also testing in some of the countries, in other regions and we are quite pleased with the results.

John Baumgartner

Great. Then, Samy, on the operating expense line, I think Stefan mentioned Q1 A&P spending was up 20%, but total OpEx was only up about 12%. What was the offset there that blunted the rate of total OpEx growth? Was it productivity? Was there a timing shift at all? If it is efficiencies, what are your expectations for those to sustain for the duration of 2024?

Samy Zekhout

There has been definitely, I mean, efficiencies, I would say overall that we have seen operating, I would say from that end. A bit of phasing, I mean, there in a way that effectively we are frankly trying to shift our spending where with event, I mean, and one of the elements within the flywheel that we're trying to do is synchronization of the different elements there, which is at the same time we synchronize RGM, A&P and as well the in-store activities, from that standpoint, the whole flywheel is being exactly synchronized.

Hence the point of the fact that the trend will be good, but then you may have effective some month-to-month, I mean, differentiation there. But from a productivity standpoint, effectively we see now a step up, gradual step up across the year. Now, as we have in our programs both from, let's say on the gross profit side with our cost saving program from a manufacturing standpoint, but as well, we are seeing the same effect on below the line, effective on operating expense as we move forward.

The ramp-up of the marketing expense, I mean, of the A&P is clear, let's say above 20% increase in Q1 and even more so in Q2 and Q3. Over the year, there will be a step change. I mean, as we have alluded to that point. From an indirect standpoint, if there's a combo of investments combined together with them in some productivity intervention as we look at the total year.

John Baumgartner

Thanks, Samy. Thanks, Stefan.

Stefan Descheemaeker

Thanks, John.

Samy Zekhout

Thanks, John.

Operator

Our next question comes from Jon Tanwanteng of CJS Securities.

Jon Tanwanteng

Hi. Thanks for the follow-up. Not to focus too much on the month-to-month, as you spoke before, but could you give us a snapshot of volumes in April and how that's trended and if we should be taking anything with that?

Stefan Descheemaeker

I would say it follows that—it follows an interesting trajectory. I hate to come up with, obviously, monthly results, but we're pleased with what we've seen. I would put it that way. It's very much in line with what we said at CAGNY.

Jon Tanwanteng

Okay, fair enough. Then just as you head into the seasonally stronger quarters at Adriatics, are there any puts and takes as we think about the year-over-year comparisons there? You've had two very strong years in a row from there. Does it make it a difficult comp?

Stefan Descheemaeker

Well, it's a great question. I would put it that way. When you see Adriatics, it's a business of two sides. You have, let's say, the ice cream, which is to your point, it's quite seasonal, high margin, and quite frankly, they're really doing well and they have really performed well during Q1—end of Q1, starting already in April as well. Then you also have the rest of the business, which is frozen food as such, which is fish, which is

veg, and all these things. What we've seen in this business over the last two years--and it's on its way to be finalized—we deliberately have switched the business from commoditized, let's say, categories in fish, in vegetable, to something which is much more in line with the rest of our business in terms of fish fingers, in terms of coated fish, and also prepared veg and all these things. Which, in a nutshell, we're switching the volumes, but we're also increasing the margin. That's a big piece because it was really a business to your point, where Q2, Q3, big margin and then Q3—Q4, end the Q1, let's say low margin because it was more commoditized frozen food. We're changing this.

First, what we see is we are trying to expand the seasonality of ice cream. That's one thing, starting earlier, finishing later. Second, within the frozen food business, we are really switching from low margin to higher margin. It's a switch, takes time. You have to change. It doesn't mean that we are gaining volumes, but we have better volumes, and that's what matters. From that standpoint, what's great, by the way, is we don't have to reinvent the wheel. We just have—the people in Serbia and Croatia, they just have to check, what's available in the rest of the business. We have great, as you know, we have great fish fingers. We have great-coated fish. We have great base business. That's a—in a nutshell, it's a really, it's a quick launch. It's a lift and it's a shift and lift and launch. It's innovation, but it's low risk innovation. We like the trajectory. We don't think that they have reached, they have maxed out, quite the contrary.

Samy Zekhout

But it's important to note as well that the margin progress you will see in Q2, in Q3 are not only coming from the mix of the Adriatics, but they're coming effectively from the base business that is benefiting from the point I was making earlier on the gross margin impact that you saw in Q1. That is actually, let's say, moving, let's say, translating over for the rest of the year into quite, let's say, important gross margin improvement given the dynamic that we have on the top line, and on the cost as well.

Jon Tanwanteng

Got it. That's very helpful. Thank you.

Samy Zekhout

Thank you, John.

Stefan Descheemaeker

You're welcome.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session.

I will now hand over to Stefan for closing remarks.

Stefan Descheemaeker

Thank you, Judith. Thank you for your participation on today's call. We have a proven track record of delivering uninterrupted growth. Our growth flywheel is beginning to spin faster, making me even more confident about the outlook. I'm excited by the opportunities ahead of us and look forward to meeting many of you in the coming weeks.

Operator

Thank you very much, sir.

Ladies and gentlemen, that concludes today's event. Thank you for attending and you may now disconnect your lines.