Nomad Foods Limited

Second Quarter 2024 Earnings Call

August 7, 2024

CORPORATE PARTICIPANTS

Jason English, *Head-Investor Relations*

Stefan Descheemaeker, *Chief Executive Officer*

Ruben Baldew, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Andrew Lazar, *Barclays*

Rob Dickerson, *Jefferies*

John Baumgartner*, Mizuho Securities*

Steve Powers, *Deutsche Bank*

Jon Tanwanteng, *CJS Securities*

Peter Saleh*, BTIG*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Nomad Foods' Second 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 yourselves to one question and one follow up. Please note that this conference is being recorded.

I would now like to turn the conference over to Jason English. Please go ahead.

Jason English

Hello folks, and welcome to Nomad Foods' Second Quarter 2024 Earnings Call. I'm Jason English, interim head of Investor Relations and I'm joined on the call by Stefan Descheemaeker, our CEO, and Ruben Baldew, our CFO.

By now, everyone should have access to the earnings release for the period ending June 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 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 risk and uncertainties, which are discussed in our press release, our filings with the SEC and 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 our presentation represents adjusted figures for 2023 and 2024. All adjusted figures have been adjusted primarily for share based payment expenses and related employer payroll taxes, non-operating M&A-related costs, acquisition purchase price adjustments, exceptional items and foreign currency translation charges or gains. Unless otherwise noted, comments from here refer to those adjusted numbers.

With that, let me hand over to Stefan.

Stefan Descheemaeker

Thank you, Jason. Nomad Foods' delivered another quarter of solid top and bottom line performance. I'm pleased to report that the volume inflection we previously forecasted has come to fruition with volume growth of 1.6% this quarter. This is the first period of volume growth since quarter three 2021, but certainly not the last.

Net sales increased by 1.1%, including a 0.6% benefit from FX, as the positive volume growth was only partially mitigated by the surgical price investments we made to drive profitable growth. This marked our eighth consecutive quarter of positive organic sales growth and we are pleased that we have been able to amplify the top line growth throughout our P&L.

Gross margin expanded by a robust 270 basis points on two primary drivers: our team's continued success driving supply chain productivity savings and our favorable mix, as we are winning our Must-Win Battles. This gross margin expansion is funding our reinvestment into driving category growth with a material increase in A&P this year. But despite this reinvestment, we were still able to deliver 5% Adjusted EBITDA growth in the quarter and a 10% increase in adjusted EPS.

And while the top line improvement seen this quarter has been a bit slower and more gradual to materialize than we first expected at the start of the year, the evidence that the inflection has now begun and that our investments are generating increasing returns bolsters our confidence in our ability to achieve the profitable volume growth acceleration that our second half outlook is based on.

Let me elaborate a bit more on what gives us this confidence.

First, while the European consumer remains pressured, the headwinds from the cost of living crisis that they were under have begun to ease. Consumer confidence is inching up and price sensitivity appears to be lessening, as evidenced by the modest mix shift we are beginning to see toward premium products. The environment is still challenging, but a bit less challenging than we have seen in recent years, and while it is happening, we are reminded that we play in a great category.

As we illustrate on Slide 4, while growth can vary period to period, volume growth for frozen food has generally outpaced total food for the last 18 months, and that relative outperformance has only grown of late with frozen food posting a robust 6% volume increase in the most recent period. The early read in July suggests that the momentum has continued, and while we do not show it on the slide for simplicity sake, the story of relative outperformance is the same through a value lens.

We are leaning in to drive this growth with our retail partners, and on Slide 5, we illustrate a few of these investments. Our A&P spend rose 30% year-on-year this quarter as we supported our Must-Win Battles and growth platforms. An example of this is in our chicken portfolio, where we have been executing behind a full 360-degree campaign in the U.K., and we will be bringing compelling innovation under the Birdseye Chicken Shop brand in quarter three with the launch of new loaded burgers, chicken wings and buttermilk tenders. This is resulting in strong and accelerating growth in this Must-Win Battle.

And in Germany and Italy, where chicken is an early development growth platform for us, we have a fully integrated advertising, promotion and merchandising plan that have been supported by innovations such as the Quarter 1 launch of Chicken Burgers under the Findus brand in Italy and the upcoming Quarter 3 launch of Iglo branded Safari Mix Chicken Nuggets in Germany.

We love this subcategory. It is large, profitable, and we have a clear right to win. Our brands, which have legacy heritage in breaded fish, have proven that they can extend into breaded chicken and we like the competitive dynamics. We are the only manufacturer investing with this level of advertising and innovation, and the actions we are taking to modernize and premiumize the category are driving revenue and margin growth for both us and our retail partners.

Volume for our overall chicken platform is up double digits year-to-date, and gross profit growth for the platform is outpacing volume and revenue as our premium innovation mixes or margins higher. This is one of many examples we have of our investments bearing fruit, and we're excited about the innovation and distribution expansion plans that we have secured in the second half. It is because of this that we are confident that the positive volume inflection and improving market share performance seen in this quarter is just the beginning.

We will deliver further acceleration and expect our exit rate this year to be especially strong due to the timing of our initiatives. We are confident in our ability to deliver on our reiterated guidance and excited about the momentum that we will build into 2025.

With that, let me turn it to our new CFO, Ruben Baldew, to walk through our quarterly results and outlook in more detail. But before I do so, I want to thank Samy Zekhout for all the accomplishments he achieved in getting our Company at this point during his tenure as our CFO. I also want to thank him for generously committing his time and energy to ensure a smooth hand off in recent months. This has helped Ruben hit the ground running, and I'm pleased to see Ruben already making a positive impact on the business.

Ruben?

Ruben Baldew

Thank you, Stefan, and good morning, everyone.

I'm pleased to be presenting here today for the first time as the Company CFO. I joined the organization for various reasons. First, I believe in the frozen food category. The benefit this category delivers both from a nutritional perspective as well as the positive impact on the environment because of lower waste align with macro consumer trends. And I believe those strong benefits will continue to drive future category growth.

Secondly, I believe in the role Nomad has been playing and will continue to play as category leader with a diverse portfolio that spans vegetables, fish, poultry and healthy meals.

Lastly, I love the quality of its brand, the strength of Nomad's supply chain and the level of talent among the people at the company.

Now that I've been at the seat for nearly two months, I'm even more confident that I made the right decision. As second quarter results illustrate, I've joined the Company at the beginning of an important inflection point, and I'm excited about the contribution I will be able to make to accelerate profitable growth in the quarters ahead while generating outsized shareholder value.

As you can see on Slides 6 and 7, for the second quarter, reported net revenues increased by 1.1% to €753 million. Organic growth improved further to 0.5%, while favorable FX contributed 0.6% to the quarterly sales. Volume growth accelerated to +1.6% year-on-year from a decline of 2.2% last quarter and was partially offset by -1.1 price/mix as we retained the vast majority of the 20.6% price/mix increase we achieved in the same quarter last year while surgically reinvesting a small portion of the prior increase to support growth.

In this context and despite the surgical investment, second quarter gross profit rose by nearly 11% year-on-year with gross margin climbing to 30.9%, a 270 basis point increase from the year-ago quarter. Let me spend a few minutes on our gross margin performance during the quarter.

While pockets of inflation sustained, the outsized cost pressures seen in recent years have eased, which is allowing the strong mix benefit of our RGM efforts and Must-Win Battles to become more evident. Roughly two-thirds of our gross margin expansion this quarter came from mix as we win our Must-Win Battles and scale our growth platforms.

The remainder of our gross margin expansion is primarily coming from our supply chain productivity effort. Our organization has worked hard to unlock cost savings and the success seen year-to-date is accompanied by a large pipeline of programs that will support future efficiency gains. As Stefan mentioned, the strong gross margin is giving the organization the fuel it needs to reinvest in our growth flywheel.

Adjusted operating expenses rose 15% year-on-year in the quarter as we funded a 30% increase in A&P while investing in organizational capabilities. Despite the reinvestment, we were able to deliver robust Adjusted EBITDA growth of 5.3% and a healthy year-on-year adjusted net income increase of 5%. A lower share count as we continue to return cash to shareholders amplified that growth to 10% at the adjusted EPS line, yielding an EPS figure of €0.44.

Turning to Slide 8. Our strong profit performance continues to translate in healthy cash flow that we have increasingly returned cash to shareholders in the form of our recently established dividend. Year-to-date adjusted free cash flow was €42 million, which was down year-on-year mainly due to higher working capital needs and cash interest. The timing of receivable phasing was a headwind in the quarter, but one that we expect to reverse as we progress through the year and the same holds for cash interest expenses, which were more front-end loaded this year and will be a more moderate use of cash in the second half.

Turning to our guidance for '24 on Slide 9. We are pleased with our first half performance and our building momentum, enabling us to reiterate our full year guidance. Our organic revenue growth is accelerating on the back of a powerful volume inflection, and while the organic sales acceleration has taken a bit longer than we expected, we remain confident in achieving our full year net revenue growth range of 3% to 4%.

This revenue outlook implies acceleration in H2, where we will be cycling much lower organic growth than we faced in the first half while reinvesting our H1 profit over delivery to support this growth. We have line of sight to strong retail programs and distribution gains behind our robust pipeline of innovation, promising growth platforms and Must-Win Battles. We will be leaning in during Quarter 3 to strengthen this momentum and expect the returns on that investment to be most evident as in Quarter 4 as we exit the year and build strong momentum into ‘25.

Despite this investment, we remain confident in delivering our full year Adjusted EBITDA growth guidance of 4% to 6% and adjusted EPS of €1.75 to €1.80 per share. At USD/EURO exchange rates as of August 1, our adjusted EPS guidance translates into $1.89 to $1.94 adjusted 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. Year-to-date, we have returned €64 million to investors, up €12 million year-on-year, as we have now returned €45 million year-to-date through our newly established dividend. We declared our third quarterly cash dividend of $0.15 per share last week, highlighting our strong, consistent cash flows and our commitment to consistently return cash to shareholders.

I'm pleased with our momentum in the first half. 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 ’24 and beyond.

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

Operator

Thank you. Ladies and gentlemen, we will now be conducting the question-and-answer session. If you would like to ask a question, please press star, then one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star, and then 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. Just a reminder, to give everyone the opportunity to participate, please limit yourself to one question and one follow up.

Our first question comes from Andrew Lazar of Barclays. Please go ahead.

Andrew Lazar

Great, thanks so much. Hi Stefan. Nice to meet you, Ruben, and great to hear from you, Jason.

Stefan Descheemaeker

Morning Andrew.

Ruben Baldew

Good morning.

Andrew Lazar

I wanted to come back to organic growth expectations for the back half. I think that's where obviously a lot of the focus will be. To hit the low end of the 3% to 4% organic sales growth range for the full year, organic sales would need to accelerate from, call it 0.4% in the first half to more than 5% in 2H. To the extent that price continues to be a modest drag, given some of the surgical reinvestment, it would mean obviously an even greater acceleration in volume to hit that target. Obviously, you saw a nice sequential improvement in volume from 1Q to 2Q, but the full year guide certainly requires a whole lot more and I realize you have better momentum, easy comps and some margin flexibility to reinvest, but I was hoping maybe you could come back to maybe a little bit more depth around why you held that range and what gives you that level of visibility to get there.

Stefan Descheemaeker

Thanks, Andrew. Well, we will agree that Q2 is some sort of inflection point in terms of volume. You talked about 0.5% to 5.5%. But you may remember that Q3 last year, we were at minus 13%. We moved to minus 8%, to minus 2% in Q1, and then we had positive volume territory a bit ahead of what we announced last time, so that's the first piece.

Second piece is you see that the gross margin is doing fine, so it gives us obviously space and ammunition to invest behind our top-line programs. In terms of top-line programs, we've a lot in terms of innovation. We also have a new what we call the growth platform like poultry platform in Germany and Italy that are really starting now.

Together with A&P, I think we are increasing the level of A&P, and that's going to be on a full year basis. It's much, much higher than it used to be. All of these elements, what we call the flywheel between price if needed or promo more specifically, together with innovation, growth platform, A&P and obviously also the right momentum that we see with the category, yes, we think we can do it. As we said, we think it's going to be probably more challenging to get to the high end of the range, but to get to this with the range is the range, and the 3% to 4% is really something we think we can achieve based on what we see obviously ahead of us and also the encouraging results of July.

Andrew Lazar

Then, if I heard you right, it sounds like a bigger step-up in investment would be 3Q, and then you'd expect a further or a greater acceleration in organic top line really in 4Q, if I heard that right.

Stefan Descheemaeker

That's correct. We are going to keep investing on a full year basis, but to your point, I think Q3 is going to still be in terms of flywheel and starting with A&P is going to be a quarter of investment. But also based on the strong margin which allows us obviously to go that way. Don't forget ice cream is really booming and the Q3 is a good quarter for this. All these things indeed is leading us to a strong Q4 and then leading obviously—which should help us obviously to start the year next year obviously on a very, very healthy footing.

Andrew Lazar

Then last, I'd love to get a better sense of what's happening in the marketplace in terms of the frozen category in your key geographies in terms of consumer behavior, competitive environment with respect to private label, where price gaps are. It seems like maybe you've done a lot of work, obviously, to bring those back to, I think, what are closer to more normal ranges. But just, you mentioned that there's been some shifting to premium, which is encouraging. A little bit of a better sense on the competitive environment and what you're seeing in terms of consumer behavior. Thanks a lot.

Stefan Descheemaeker

Well, I think, to your point, I think it's good to see Europe doing well, by the way. I remember at some stage in the past where it was not so nice to be in Europe. I think it doesn't mean that it's easy. Nothing is easy, and the environment is still challenging, but we're starting to see the things that are easing across the base;

again, country-by-country. But overall, if you take Europe as a global market, it's definitely making progress from that standpoint, so that's what we see.

We see also that the category as such, as you have seen from the presentation, is moving ahead of global foods. We love it because definitely we think that frozen food is great food; it's good food, from the nutrition standpoint, it's great. It's affordable as well. Let's not forget, I think we're premiumizing things. But at the same time, it still remains affordable. It has all the attributes of a great category not only short-term but also in the long-term, and with the margins we have and the capacity to reinvest in innovation, and also, in terms of A&P, we think we have the right recipes.

Anything else from your side? Okay. That's where we stand, and after two interesting years, we're starting to see some interesting green shoots.

Andrew Lazar

Thank you. See you in a couple of weeks.

Stefan Descheemaeker

Yes, absolutely. Looking forward very soon, Andrew.

Operator

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

Rob Dickerson

Thanks so much. Maybe just a question on the volume side, just maybe in the markets that aren't doing as well, right? I did hear it sounds like Must-Win Battles, which are a decent percent, I believe, of the business grew volumes 4%. I heard chicken portfolio, double-digit, and then some of the growth platforms maybe around 20%, so, clearly a little bit of a disconnect in some of the focus areas maybe relative to some of the less focused areas. If you could just touch on that, that would be great.

Stefan Descheemaeker

Okay. Well, thanks, Rob. But you know us for quite a few years now and you remember that we always have been focused on Must-Win Battles. That's where it matters, so we really want to win there, which the first 25 Must-Win Battles represent around 50% of our business and more in terms of margin and that's where we want to invest.

We did it years and years ago during the turnaround. We have never stopped, and obviously now, all of this crisis it's the kind of things we're going to do. On top of also the growth platform, which are the platform that two, three, four years down the road will also become new Must-Win Battles like poultry, for example, in other countries. Great example is the U.K.; it used to be a 150 million category; two years, now it's 150 million with great margin, so that's exactly what we want to do.

Now, if you're talking about the difference, to your point, when I'm taking, for example, H1, Must-Win Battles in terms of volume—Must Win Battles which are the key Must-Win Battles the way I defined it, it's around just 2.6%, so as opposed to obviously a lower number for the global business. It means that, yes, we're losing volume, for example, in private label. You know that we still have a bit of private label; well, we're losing it. Well, that doesn't wake me up at night.

Rob Dickerson

Fair enough. It sounds like the areas you're focused on are doing well, which then guides momentum in the back half. Maybe you could also now touch on the—when we talk about the new market and the opportunity of the growth platform, I heard you mention, I believe chicken nuggets in Germany.

Stefan Descheemaeker

Yes.

Rob Dickerson

This morning.

Stefan Descheemaeker

Yes.

Rob Dickerson

I heard you speak previously about maybe there is an outsized opportunity. We're thinking longer term here, just given even earlier this year, you had raised that top-line growth algo, right? In the back half, that's even above long-term new algo.

Then, as you think forward, it's, okay, well, if we can stabilize the portfolio, win the battles, but then clearly, there needs to be that other bucket, which is what is also driving outsized growth relative to food. Maybe if you could just touch on Germany as a proxy as to what could happen with chicken entering a new country? Thanks a lot.

Stefan Descheemaeker

Yes. Well, as I said, chicken is a fantastic category. Today, we have around €1.1 billion of our sales is fish, and then around €0.3 billion is poultry, most in the U.K., by the way; a bit in others, but mostly U.K., with great margins. We consider this as an interesting innovation for other countries; it's innovation with a low risk because it's a proven model. It's a proven obviously platform, and so with all the experience from the U.K., we've worked a lot with the different countries, mostly Italy and Germany, which are the countries number two and number three and we have delivered a great innovation platform for poultry based on what we have in the U.K., but also with sometimes adaptation; sometimes, not always, adaptation to the local taste.

Then with Italy is ahead of Germany, which was expected, by the way, and so we've launched it and what we've seen is very encouraging. The story is a bit different in Italy, if you are developing a new category because it's mostly chilled and fresh. In Germany, it's mostly in the hands of private label, and what we want to do, and we're going to do it. We're doing it. It's extremely well received by the trade, is we want to premiumize the category, which is going to be good for everybody. For us, for the retailers, and for the consumers at an affordable price. This is a great example, already proven in Italy, and what we see in early stage in Germany is also very good.

Rob Dickerson

All right. Great. Thanks, Stefan, and welcome, Ruben. Good to hear from you, Jason. Bye-bye.

Stefan Descheemaeker

Thank you.

Ruben Baldew

Thank you, Rob.

Operator

The next question comes from John Baumgartner of Mizuho Securities. Please go ahead.

John Baumgartner

Hey. Good morning. Thanks for the question.

Stefan Descheemaeker

Hi, John.

John Baumgartner

Hey, Stefan.

I wanted to go back to Q2, the retail data. The quarter started off fairly soft and then the June data was really strong. Can you speak to any nuances there? Was there something that occurred in the transition from winter to summer where there was a temporary dip in promo activity or ROI, where maybe you transitioned from supporting fish to vegetables, and was there anything in terms of shipment timing moving into these new distribution points that started to be realized in the takeaway data as you closed the quarter?

Stefan Descheemaeker

Well, it's a bit of all these points, by the way, because by definition, when you see this inflection, it can never be one only as opposed to the others. Yes, we saw during Q1, Q2 that we had some space in terms of our margin to further invest in promo and we've done it. It's something that can be done faster in some countries, and we have the space. Also, compared to the past, with all the RGM expertise that we built, we can be much, much, much more surgical in terms of promo from one quarter to another, so that's the kind of thing that you can do, and that definitely has had an impact.

At the same time, the rest is, well, I would say, as expected. We're investing. A&P, by definition, takes more time than promo, thats the right thing to do however. You've seen that we already started to invest A&P late Q3 last year, Q4, Q1, and at some stage, you'll see things are starting to ramp up.

Then also, we're also starting to come up with, again, innovation programs, the one I mentioned to Rob, like the poultry in Italy, so all these things, obviously, at some stage, are starting to ramp up and that's what we've seen.

Ruben Baldew

Yes. Maybe just to build on that. Stefan spoke a couple of times on our Must-Win Battles. You've also seen our gross margin up 270 basis points. Big part, two-thirds of that, is a consequence of our strategy to drive profitable Must-Win Battles. By the way, Stefan said, not only for ourselves but also the retailers and to drive RGM. We've used that to reinvest, and as reinvestment, as you can see, it's mainly in A&P, but it can also be a bit surgical on the shop floor.

Then, to your question over the evolution in Quarter 2. The big drivers for H2, as Stefan said, are A, this reinvestment; B is the distribution gains linked to innovation; and C is the fact that we have a softer comparator. H1 last year was around 8%. H2 last year was below 2%. We see the buildup of also Quarter 2, and if you look at external data that also this reinvestment as well, this pushes points gain, and we see a recovery of that more in the back half of this month.

John Baumgartner

Thanks for that. Then, just a follow-up. Just sticking with Italy and your existing portfolio there, that was a market that comprised the bulk of your volume decline, I think, prior to the revitalization you instituted in the fourth quarter. You've invested in pricing, the retail programming, and I'm curious, as you go into the back half now, how do you see Italy at this point? Are you comfortable with where the price gaps are, the in-store activity? Is that where you'd like it? Just trying to get a sense to how much more incremental investment you think Italy still needs at this point. Thank you.

Stefan Descheemaeker

The answer is yes, we do feel comfortable with what we done. It's been a bit of a reset in Italy. I think, as you know, the margins in Italy are among the big (phon). The large countries are one of the best margins overall independently from the category. We gave the conclusion, especially during this, let's say, inflation war, inflation prices, especially in fish, we came to the conclusion, yes, in some fish categories, we were just too high, and it's never nice to come to that conclusion. But you have also to be fact-based and that's what we've seen.

Despite that, it's very interesting to see that our RGM helped us because then we've been very surgical again in terms of price elasticity, see what we need to do in promo, in price, price points in terms of fish, and it has responded extremely well.

At this stage, obviously, it's a very dynamic environment. But at this stage, I don't see the necessity to invest further in price in Italy. Our margins remain obviously quite very good, so that's that. What we've seen is, yes, we're gaining market, we're gaining volume and market share as well in Italy, now in (inaudible) which is extremely encouraging.

John Baumgartner

Thanks, Stefan. Thanks, Ruben.

Stefan Descheemaeker

Thanks, John.

Operator

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

Steve Powers

Hello everybody. Hi Stefan. Welcome, Ruben.

Stefan Descheemaeker

Steve.

Steve Powers

Hello Jason.

Ruben Baldew

Thank you.

Jason English

Hi Steve.

Steve Powers

Great. I wanted to pick up a little bit more on the second-half inflection. Over the past couple of quarters, we've talked about the year from your perspective originally, at least, being—the goal being a nice balance between volume on the one hand and price mix on the other. I'm curious, as you go into the back half, do you see price mix through RGM becoming a bigger contributor, or is the back half composition going to look more like we saw in 2Q, where it's really a heavier lean on volume?

Ruben Baldew

Yes. Maybe to answer that, it's good to give context a bit on the price mix, what happened in the last quarter because I think that will also help looking forward. A bit of context and I think it was also spoken earlier. We delivered the volume recovery, and the price, although it was negative, it needs to be seen in the comparator where last year in Quarter 2, we took 20.6% price. Well, not only the percentage. In absolute terms, that's €144 million comparator. Out of that €144 million, we held 95%. I think that comes to maybe more important points rather than the context is what we will continue to do in Quarter 3 and Quarter 4. We will continue to drive positive mix because, again, big part of our margin increase was a result of us driving Must-Win Battles with more profitable margins and driving RGM.

That is what we will continue to do, and we chose in Quarter 2 to say okay some of that we reinvested, the shop floor, some of that to 30% A&P. We invest in A&P; could also be that we invest in the organization. The output of that has been clear with what Stefan said, the minus 13% Quarter 3 volume, minus 8%, minus 2.1%, and now plus 1.6%. That's also how we will look at that in Quarter 3 and Quarter 4 to continue to drive margin mix and to reinvest some of that potentially in shop floor and in our brands.

Steve Powers

Okay. That's very helpful. Maybe as a follow-on to that, Ruben, for you. When I talked to Stefan a few months ago with Samy about your arrival, one of the topics we talked a lot about was revenue growth management and not only the progress made over the past several years, but also the potential going forward and really the idea of taking it to the next level. I think Stefan can validate. He felt like your arrival was going to be a big catalyst for that. Maybe your perspective on where revenue growth management disciplines are today as you come into Nomad, and what your objectives are over the next couple of years?

Ruben Baldew

Yes. Let me be clear on the objective is really to continue the great work which was done both by Stefan and also by Samy on the RGM. The experience I have here coming from Unilever, a smaller company, but especially Unilever. I would say RGM is a very high level. But as with always, with everything you do, there's still opportunities. I think great progress has been made on mix, on promotional effectiveness. Now, it's also what we looked at surgically to see how we can optimize, but there are more drivers of RGM, so what can you do with the overall trade term and optimize there? We will definitely continue to drive that. I think it's at a good level, but it doesn't mean we're out of opportunities, and there are more levers to pull here. That's all I can say after the first six, seven weeks now.

Steve Powers

Okay. Very good. Thank you so much.

Stefan Descheemaeker

The good news, Steve, is perfection doesn't exist. There is always a way to improve.

Steve Powers

Yes, indeed. Thank you very much.

Operator

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

Jon Tanwanteng

Good morning. Hi, Stefan, and welcome, Ruben. It's great to see the return of volume growth and also healthy margins underneath. My question to you is could you break out what percentage of revenue was Must-Win products in the quarter? Then following that, what is the margin differential between an A-grade Must-Win product, maybe a B-grade one and then maybe the rest that you're defocusing, if you could?

Stefan Descheemaeker

Yes, Jon, can you do me a favor? Can you repeat the first part of the question?

Jon Tanwanteng

Yes. What percentage of your revenue today is Must-Win products?

Stefan Descheemaeker

Okay. Well, as we said, you take the top 25 Must-Win Battles and they represent just short of something like 50% of our sales. Now, if you're adding, let's say, the really Must-Win Battles, we're in the region of two-thirds. It's a never-ending story, Jon, because when we started this journey, there was no Must-Win Battles, so everything was strategic, which is in and of itself an aberration. We started by defining, okay, we're going to go with all Must-Win Battles; the biggest, the largest, the most profitable in margin. We decided, okay, we're going to allocate our resources to A&P, price, innovation—it's in two-thirds of our business.

Then, for years, what we've seen is this business, and surprisingly, went up by something like 4%, 5%, which means that the last one-third, obviously was zero or even declining, which is fine because it came up also with an improvement of the gross margin.

Well, you know what, after six, seven, eight, nine years, if you notice when the two-third, the two-third is becoming in of itself 90% of the business, and so you have to do it again, and that's what we just did this year is to take the most profitable Must-Win Battles and start again from two-thirds to make sure that the resources we have are going to be properly allocated.

Well, we think that between this two-third and the growth platform, this is going to quickly become again 85%, 90%. Then again and again and again, I think that's allocation in action.

Jon Tanwanteng

Got it. No, that's helpful. Then I was just wondering, on the margins in each of those categories and maybe a little bit further. As you go through the year, did you expect most of the margin contribution to be from the improving mix there or underlying margin improvement? Or is it just volume leverage off of all of that?

Ruben Baldew

Yes. What you've seen in Quarter 2 is a big benefit of mix. But it's also worthwhile to notice that with ease in inflation, the benefits of our supply chain team, about what they're doing in factories as well as logistics becoming more evident. That would have been actually already more evident in Quarter 1 were it not for the inventory revaluation, and that is what we'll continue to drive. We will continue to drive those mix benefits, and we'll continue to drive the benefits in the supply chain.

We have pretty good line of sight now because at this moment we're covered around 90% in terms of cost outlook. As I said, we see that inflation has eased. There are some pockets, but you always have with some inflation like a cow, but it's not the biggest part. It's only for (inaudible) and ice cream. We will continue to drive benefits in mix and in the supply chain contributions. Then again, how we will use those, it could be that some of that, again, we will use surgically for shop floor investment, promotion or in A&P or in the capabilities in terms of the organization.

Jon Tanwanteng

Great. Thank you. Then, last one, if I could. Are you expecting to regain share in the back half, just given the growth of the category being as strong as it is?

Stefan Descheemaeker

The answer is yes. Again, very much back to our focus behind Must-Win Battles. Overall, yes, the answer is, yes, but obviously more in Must-Win battles than in the other categories.

Ruben Baldew

Yes. To build, and that's driven by our ability to invest, linked to distribution gains.

Jon Tanwanteng

Understood. Thank you.

Stefan Descheemaeker

You're welcome.

Operator

Our next question comes from Peter Saleh of BTIG. Please go ahead.

Peter Saleh

Great. Thanks for taking the question. Good morning to everyone.

Stefan Descheemaeker

Good morning.

Peter Saleh

I did want to ask if you could just elaborate a little bit on your comments on the European consumer in general. It sounded like they're still pressured but those pressures have eased, and that just seems like a little bit of a tone shift from what you heard a quarter or two ago and the modest shift to more premium items. Can you just elaborate on what you're seeing and maybe what's changed for the European consumer over the past couple of months?

Stefan Descheemaeker

Well, I think, again, without being too micro, because you have a lot of different situations, but overall, what we see is interest rate is going down a bit. That's one thing. Inflation obviously easing, especially in Europe compared to the U.S. Well, I think it has immediately an impact in terms of consumer confidence, especially with, let's say, the most important items like food, for example.

We've seen this, but again, what I think we've calibrated our words in the right way, which is improvement, but it's less challenging. That's the word we're using because we're not fully out of the woods yet. But let's say because people have to digest something like a 20% inflation, so that's not nothing, sorry. But at the same time, yes, ahead of us, ahead of what people see, obviously salaries are increasing in the meantime. The salaries are always coming after the first inflation. People are seeing this, and then they see the disposable income improving in that way. That's the situation overall that we see in Europe. And again with a category that is doing well during these uncertain times.

Peter Saleh

Understood. Then, can you just give us an update on what you're expecting for inflation for the balance of this year. I believe you're probably mostly contracted at this point for the rest of this year. Any thoughts on early for 2025 at this point?

Ruben Baldew

Yes. As I said, we're covered now around 90%, 91%, 92%, so we've pretty good line of sight of what will happen this year. Again, we will continue to drive mix and supply chain efficiencies and then look at the best way of investing, and also in the context of driving our flywheel. I think it's still a bit too early to give first line of sight for 2025. As Stefan said, the inflation, the big heavy increases overall are behind us, but there are still some buckets where we see inflation. I think it's too early to comment on that at this point in time.

Peter Saleh

Thank you very much.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session. I will now hand over to Stefan Descheemaeker for closing remarks.

Stefan Descheemaeker

Thank you very much, and thank you for your participation on today's call. As we committed to you at the start of the year, our growth flywheel is beginning to spin faster, as evidenced by the positive volume inflection seen this quarter and the commitment to accelerating organic sales growth through the second half of the year. This, in turn, will set us up to sustain momentum in 2025 and deliver top-tier top and bottom line growth while continuing to return cash to shareholders.

Thank you for your time and I look forward to engaging with many of you in the days and weeks ahead.

Operator

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