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Nomad Foods Limited

Third Quarter 2024 Earnings Conference Call

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CONFERENCE CALL PARTICIPANTS

Andrew Lazar, *Barclays*

Steve Powers, *Deutsche Bank*

Rob Dickerson, *Jefferies*

John Baumgartner*, Mizuho Securities*

Jon Tanwanteng, *CJS Securities*

Peter Saleh*, BTIG*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Nomad Foods Third Quarter 2024 Earnings Conference Call.

At this time, all participant lines are in the listen-only mode. A question-and-answer session will follow the formal presentation. Please note that this conference is being recorded.

I would now like to turn the conference over to Jason English, Head of Investor Relations. Please go ahead.

Jason English

Hello, and welcome to Nomad Foods third quarter 2024 earnings call.

I'm Jason English, Head of Investor Relations. 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 ended September 30, 2024 that was published at approximately 6:45 a.m. 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 that 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 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 the 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 will refer to those adjusted numbers.

With that, I will hand it over to Stefan.

Stefan Descheemaeker

Thank you, Jason.

Nomad Foods delivered another quarter of solid top and bottom line performance. I'm pleased with the progress our teams continue to make in accelerating profitable volume growth. The third quarter was our ninth consecutive quarter of organic sales growth and our second consecutive quarter of volume growth. The growth continues to be concentrated behind our profitable Must Win Battles and growth platforms which are yielding healthy margin mix benefits.

The mix tailwinds, combined with productivity and price-net-of cost benefits due to promotional timing favorability drove our gross margin up 390 basis points year-over-year to a new all-time quarterly high of 32.3%. Adjusted EBITDA rose 19% year-over-year and Adjusted EPS rose 28% year-over-year to EUR 0.55 as a result. This solid margin performance gives us the fuel we need to reinvest back into the business to keep the commercial flywheel that we first introduced to you last year spinning. The investments associated with the flywheel are beginning to bear fruit, validated by our return to market share growth this quarter.

The third quarter results are even more impressive when put in context of greater-than-expected temporary headwinds related to our ERP implementation that we faced in the quarter. Our service levels suffered for a period of time and caused us to reduce in-market support to dampen demand and limit out of stocks. I'm proud of our team's ability to overcome these obstacles and happy to report that our service levels are returning to near-normal levels.

We were able to nimbly adapt to the challenges and deliver strong bottom line results this quarter as we pulled back promotions and changed the volume/price mix at the topline. The impact, however, has caused us to lower our full revenue outlook. We will not cut down on the investments on our brands and business and have therefore modestly lowered our full year EBITDA and EPS outlook as a result. We will continue to fuel our growth for both the short and the long term.

Our recovery to positive market share in the third quarter is a result of our commitment to invest behind our categories, brands, products and people. Our volume sales and share growth have accelerated further so far in the fourth quarter. We are seeing improved momentum in market now and are committed to spending behind that momentum to ensure that it translates into more robust organic sales growth in the fourth quarter and into 2025.

As we detailed at a recent conference, our portfolio remains growth advantaged. First, we are in a relatively healthy market. Unlike the U.S., European consumers pulled back meaningfully during the cost-of-living crisis, which weighed on industry volume and boosted private-label share. The European consumer is now rebounding off that pullback. Volume for the FMCG industry is growing across all major European markets year-to-date and private-label gains have slowed as brands have accelerated. This backdrop becomes even more favorable when you zoom into our frozen category.

As we illustrate on Slide 4, volume growth for the frozen category continues to outpace the overall food industry. While we saw category volume growth slow in the quarter against tougher prior year comparisons, we are beginning to see re-acceleration in the fourth quarter. Category volume and value growth was up 2% and 2.6% respectively at retail in the most recent four-week period. And our brands are driving much of this growth while private-label share is now contracting across our aggregate market footprint.

As we illustrate on Slide 5, our actions have returned our market share to growth in the third quarter. We show value share on this chart and the story is the same through a volume line. Our marketing, merchandising and innovation efforts are driving these results and the improvement is even more impressive given that we curtailed in-market activity in the U.K. and Ireland this quarter to limit out-of-stocks as a result of the ERP disruption.

We're achieving this success with concentrated marketing, merchandising and innovation efforts behind our growth platforms, which grew net sales by 11% in the third quarter, and our Must Win Battles where sales rose 2% this quarter despite the ERP disruption in the U.K. and Ireland.

On Slide 6, you can see a handful of innovations that have just recently been launched across our Western European markets. The team continues to build on our successful Must Win Poultry Battle in U.K. with new Chicken Shop items while investing in our potato Growth Platform with the launch of new BirdsEye Chips. And while potatoes are growth platforms in the U.K., they are a Must-Win Battle in France. And here you can see the seasonal items we are bringing to market under the Findus brand.

In Italy, we're building on our early poultry success with the launch of new Chicken Crunchies in the third quarter while also expanding our range of premium fish products, which is a growth platform for us in this market. And in Germany where fish is a Must-Win Battle, we are investing behind our recently launched regional inspired varieties such as Mediterrana and Mexicana crusted fish.

In Belgium we are launching exciting vegetable rich meal products in a bowl and launching Wok-based vegetable meal solutions in Portugal. This twin engine of innovation behind Must-Win Battles and Growth Platforms is speeding up in our South Eastern European markets as well. As a reminder, we entered South Eastern Europe with the acquisition of Fortenova Group's frozen food business in late 2021. Like our prior M&A, this has proven to be a great deal for us.

Our full year ‘24 sales and Adjusted EBITDA in South Eastern Europe are tracking high-teens above our forecast at the time of the acquisition. Momentum has sustained with net sales up 8% year-to-date, fueled in part by our innovation.

We highlight some of these new products on slide 7. We command leading share of the ice cream market in the region and our focus earlier this year was on maintaining that strength into the peak summer season.

Our team has achieved just that. The KING brand hit a record high share of the impulse ice cream category in Croatia driven by innovation and a highly effective marketing campaign. And we are seeing great growth behind the brand in Serbia as well with a similar playbook. Innovation is driving this growth and getting recognized more broadly.

At this year's International Ice Cream Consortium conference, the King Supreme in Layers won first place in the Best Ice Cream category, while the King Obsession in Layers won second place for Most Innovative Ice Cream. We are winning awards and, more importantly, winning more sales. And our differentiated innovation behind our Quatro brand is driving share in the multi-serve segment as well. We are successfully growing our business in South Eastern Europe with new premium offerings and gaining share from brands like Ben & Jerry's, Haagen Dazs and Magnum.

And our investment is not isolated to ice cream. Premium fish and prepared vegetables are two of our growth platforms in this market where we are lifting out product concepts and capabilities from other markets to launch here. For context, the average household penetration for fish fingers in Serbia and Croatia is half of what it is in Germany while being only a third for coated fish. The frozen fish segment in this market has historically been dependent on lower-margin natural fish and we are changing that with innovation.

Over the past year, we have invested in a full 360-degree campaign centered around premium innovation and it has yielded results. Year-to-date our fish sales in Croatia are plus 16% year-over-year and plus 30% in Serbia. In the fourth quarter we will leverage our South Eastern European moat, our Direct-Store-Delivery network and over 120,000 owned freezers at retail, to replicate this success in vegetables. Prepared vegetables account for more than one-quarter of the frozen vegetable market in Western Europe but are virtually non-existent in South Eastern Europe.

Our research tells us that the demand is there and we intend to unlock it with marketing and innovation, including the new products you see on the slide. These products began to hit store shelves in October. This could become more than a EUR30 million new segment in the category if it evolves to look like Western Europe over time. We have a lot of actions underway to keep our momentum in South Eastern Europe going.

These are just some of the examples that have made me excited about our future. We are in a great category with leading brands that are aligned with secular convenience, nutrition, value and taste trends.

We are investing to maximize that growth potential and I'm pleased to see the commercial flywheel delivering market share growth. Our marketing and merchandising is improving and our innovation framework is only just beginning to deliver a multi-year pipeline of products to market.

I am pleased with the progress we are making and confident in our growth trajectory.

With that, let me turn it to our CFO, Ruben Baldew, to walk through our quarterly results and outlook in more detail.

Ruben Baldew

Thank you, Stefan and good morning, everyone.

I am approaching my five-month anniversary with the Company and can honestly say that I am increasingly confident that I made the right decision to join Nomad. We are in a great category with fantastic nutritional credentials and a great team of top-tier talent. Our brands are strong and our plans to drive growth with compelling innovation, impactful marketing and the leveraging of our platform are robust. We are well positioned to continue delivering strong results in a sustainable manner.

Before I go too deep into results, let me address the transitory headwind we faced this quarter. As we discussed last quarter, we began to upgrade our ERP system to S4 Hana at our U.K. and Ireland businesses, including at four factories in August. As with all major ERP transformations we had a planned shutdown of operations. However, we faced some challenges with the system change-over and related ramping up again of our production capability. To minimize out-of-stocks we began to curtail in-market promotional activity. I am happy to say that we have successfully been working through these problems. Our service levels are getting back to near normal levels and we see progress on various processes week after week, so we believe we have worked through this. Let's also be absolutely clear that we are capturing the learnings of this to prevent a repetition in the future.

First of all, albeit painful, we have gone live on our ERP system in our biggest businesses, including four factories. Future waves will be smaller.

Secondly, the learnings we are seeing on the system and processes will be of great value for the implementation of the rest of the plan allowing us to improve on various processes and system application. We know the system much better now and this will help us enormously.

Lastly, we will replan go-live of waves of other countries and factories in a way that we believe will help us to ensure that the transition goes more smoothly in the future.

In short, we have suffered some growing pains with the first wave of upgrade implementation but have worked through them and taken steps to ensure we learn from them.

Turning to results now, as you can see on Slides 8 and 9, for the third quarter, reported net revenues increased by 0.8% to EUR770 million. Organic growth was 0.3%, which marked our ninth consecutive quarter of organic growth despite an estimated 2.5% headwind related to our ERP implementation. The underlying growth therefore of nearly 3% shows that our strategy in the market is successful and working.

Volume growth remained positive for the second consecutive quarter, rising plus 0.7%, while price/mix was a minus 0.4% to volume growth. The ERP transition caused us to rebalance promotions, resulting in less of a price/mix headwind than we had initially expected.

The lower promotional support combined with favorable mix and ongoing net-productivity to drive gross margin plus 390 basis points year-on-year to a new quarterly record high of 32.3%. Roughly 200 basis points of our gross margin expansion this quarter came from more favorable price-net-of-costs than we had expected as we curtailed promotional support to mitigate the ERP disruption. The remainder was driven by a combination of mix benefits as we win our Must-Win Battles and also from our supply chain productivity efforts.

This quarter's robust gross margin drove a 15% increase in gross profit which was amplified by a more modest 7% year-on-year increase in SG&A to drive a 19% increase in Adjusted EBITDA. A&P was roughly flat year-on-year as some of our planned investment was deferred to fourth quarter while indirect expenses rose less than expected due in part to a bonus accrual adjustment given weaker than expected revenue growth and various other cost control efforts. Adjusted net income rose 22% year-on-year while adjusted EPS rose 28% to 55 Euro cents as our diluted share count shrunk 5% year-on-year.

Turning to Slide 10, our strong profit performance continues to translate into healthy cash flow that we have increasingly returned to shareholders in the form of our recently established dividend. Year to date adjusted free cash flow was EUR105 million, which was down year-on-year mainly due to higher working capital. Working capital seasonally rose as we acquired what proved to be strong harvest inventory and began to rebuild production inventory late in the quarter ahead of fourth quarter sales.

We also saw a drag on our receivables due to shipment timing. August sales in certain markets were negatively impacted by ERP and we began to catch up later in September, which caused some timing distortion in receivables. Both of these working capital dynamics are expected to reverse in the fourth quarter.

Turning to our guidance for 2024 on Slide 11. We are pleased with the progress the team has made improving in-market results and restoring our market share to growth. We, however, do not expect to recover the ERP-related sales which we lost in third quarter, which combined with some disruption that carried over into the fourth quarter and slightly more conservative growth assumptions has caused us to lower our full year organic sales forecast to plus 1% to plus 2%, from the 3% to 4% previously anticipated.

As Stefan mentioned, we remain committed to investing behind our business and have not pulled back on investments resulting in a modest reduction in our profit outlook. We believe that the decision to maintain our investment level will prove to be the right one over time. We now expect full year Adjusted EBITDA growth to be within a 3% to 5% growth range and Adjusted EPS of EUR1.72 to EUR1.77, implying growth of 7% to 10%. Based on U.S. dollar-Euro exchange rate as of November 7, this translates into '24 Adjusted EPS of $1.86 to $1.91.

In regards to the fourth quarter, the guidance implies a meaningful sequential acceleration in sales growth, but also a sequential step-down in profit margin. As a reminder, our fourth-quarter has a seasonally lower gross margin than our full year average given a smaller contribution from our high margin South Eastern European business. The favorable gross margin benefits of promotional timing are also expected to reverse in the fourth quarter and we expect the combination of sequentially higher A&P and indirects, due to some effects of bonus accruals and phasing of activities, to translate into a low-single-digit year-on-year increase in total SG&A expense for the quarter.

Still, at the mid-point our guidance implies EBITDA and EPS growth of roughly 10% and 19% respectively in the fourth quarter, which I am sure you will agree are healthy growth rates.

Turning to cash flow, 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 EUR110 million to investors as we have now returned EUR67 million year-to-date through our newly established dividend and EUR43 million through our share repurchase program. We declared our fourth quarterly cash dividend of $0.15 per share two weeks ago, highlighting our strong, consistent cash flow and our commitment to consistently deploy cash in value-creating ways for our shareholders.

Overall, I am pleased with the progress we are making. Our teams did a fantastic job overcoming hurdles this quarter and I want to personally thank them for their hard work and accomplishments. We exited the quarter on more firm footing and are off to a strong start to the fourth quarter.

With that, I will now turn the call back to the Operator to open the line to questions.

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, you may press star, then one on your telephone keypad. If you are using a speakerphone please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star, and two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Andrew Lazar with Barclays. Please go ahead.

Andrew Lazar

Great. Good morning, everybody. Can you hear me, Stefan?

Stefan Descheemaeker

Yes, we can hear you, loud and clear, Andrew. Thank you very much.

Andrew Lazar

Excellent. Thank you. I guess in the past few weeks, a bunch of packaged food companies, while not providing detailed guidance yet for 2025 have sort of said they already know enough to know that next year is still going to be a sort of below-algorithm year for a lot of them. At Nomad, excluding the ERP impact in 3Q, and looking at your implied organic sales guidance for 4Q, your organic growth would already be within your 3% to 4% long-term algorithm in the back half of this year.

I guess my question is, does that give you sort of the visibility that this sort of trajectory can continue into next year, even though I know you're not likely prepared to give sort of formal ‘25 guidance yet?

Stefan Descheemaeker

Well, let me start by with your final words, Andrew. I will stay away from giving any guidance. The fact is frozen food in Europe is a great category and it has delivered nice sales growth year-after-year. You take the last 10 years, obviously with pluses and minuses, it's been around 3%. Obviously, when inflation is higher, it's a bit higher with lower volume and vice versa. We're getting out of this high inflation, so we're more in the subdued inflation.

Probably, the market is slightly below this 3%. But on top of that, to your point, on top of that, we have all our programs. They're delivering well. To your point, I think there was this one-off. But you see what we're doing for the last four months, we started to regain market share, and in terms of value and in terms of volume in P8, which is equivalent of mid-July and mid-August, we started in that in P8, we increased this in P9 around 30 basis points, P10, 40 basis points. We just received well around 95% of our P11, two smaller markets missing and we have something which is equivalent.

By the way, interesting to see, Andrew, that even including U.K., despite our issues. Obviously, it's a testament to a program with our Must-Win Battles, with our Growth Platforms. Obviously, now we can see that innovation after a lower level last year, which is normal by the way, during this time (phon) I think we're really starting to come back. We're doing well. Lift and launch in many countries, poultry doing well. Yes, we're very pleased with what we see and how we can see the next year. But to your point, and then I'm stealing your final words, I stay clear, obviously off any guidance for 2025.

Andrew Lazar

Yes, understand that. Then one last one, you did mention, and Ruben mentioned it, in addition to just the ERP issue, which I know you're largely through, you did talk in the release about a little bit more of a more conservative growth assumption for the rest of the year. That's kind of separate from anything ERP-related. I'm just curious what's sort of underpinning that. Thanks so much.

Stefan Descheemaeker

Well, the thing is when you break it down and you take P4, yes, it's a range between three and seven, but I think everybody will agree that these are very healthy numbers. I think that's the way I would start. We are very encouraged with what we see for the first six weeks, as I said, because it's not only market share gain, but it's also the sellouts are doing well in P8, in P9, P10 and now P11. That's good. We still have a bit of spillover of ERP. Then the thing is, and I think it happens all the time, we prefer to be a bit cautious because every time we're getting out of the crisis, the markets are more volatile.

We prefer to get to be that way and to be comfortable with the numbers we're providing, as you know, a broader range, still a very healthy range, by the way.

Andrew Lazar

Yes, makes sense. Thanks so much. Appreciate it.

Stefan Descheemaeker

You're welcome.

Operator

Thank you. The next question comes from Steve Powers with Deutsche Bank. Please go ahead.

Steve Powers

Great. Thank you so much. I guess building on that a little bit, just as you described the ERP experience this past quarter, it does sound like things are getting back on track with learnings being applied to future waves, which is all great. But I'm curious just, talk about them as a transitory step back, but when you step back and look at it, is it truly transitory or do you think there's been some more lasting impacts such that it's going to take you a little bit longer to get on the acceleration plan and program that you had laid out for yourselves back in July and August. I'm trying to figure out how much of this is really just a one-and-done thing or it really has altered the go-forward planning.

Perhaps related to that, if you could give us an update on what the overall timeline to roll out S/4 HANA is enterprise-wide from here. That would be great.

Ruben Baldew

Yes. The short answer is no. This has not altered our plans. Also just take a step back to clarify what happened and where we are now to what Stefan said and what myself said is we are getting out of this. Stefan just shared the P11 shares. We've gained market shares in U.K. in P11. Now that wouldn't be happening if we still would have major issues. Week after week, as I said, we're improving, our service levels are getting back to the near-normal levels we had before. We're getting out of this. I think that's one point.

Then to your question into 2025, there are two, three elements there. The first element is we have gone live like I said on a business and you see in our interim statement we disclosed that U.K. business is sized but they can say it's roughly a third of a business, the size of a billion with four factories, out of which a couple of big factories.

Future waves will be smaller. Just in terms of the size and the risk profile, that will be a different size, quite a different size. That's the first one. The second point, this was the first go-live, and with all go-lives and I think you've also seen other companies with ERP, this is where you really learn how the ERP works and we really have learned now how the system works and we will apply, albeit painful, but we will apply these lessons for future waves. That's the second point.

The third point is that we will also plan, and it links to your question, the future waves in such a way that we can prepare, do testing, do design properly. That also lowers the risk. Now, that means that there will be a longer transition. This ERP waves won't end in 2025. I think it's not here in this call to say and give an exact date, but we will do this properly and make sure there's no disruption.

I think the other point you raised, will this alter our plans? No. You've heard Stefan talked about our performance in the market. Things we've already done and we have continued to do so, like RGM plans, we will continue to drive those into ‘25, into ‘26. Our CRM tooling, allowing us to have better execution at shop floor. We will just continue to do that. Cost competitiveness, look at elements at factories. We will just continue to do that. We don't see an impact on any plans.

Steve Powers

Okay, that's very helpful, and maybe a little bit of a build on that, so the 200 basis points of price net of cost favorability that you saw this quarter, we think about the fourth quarter, is that—do we just now shift back to normal, or do you anticipate like some makeup where you're going to invest a bit more in the pricing line, promotion line to kind of make up for some of the 3Q fall off?

Stefan Descheemaeker

Yes, that's a good question. Just if you compare quarter four versus quarter three, so you look at margin sequentially, you have to and probably you noticed, but just for the avoidance of doubt, that over the last three years there's roughly 200 basis points decrease in quarter four versus quarter three, which has to do with mix because there's a lower element of our ice cream business which is higher gross margin. There's around 200 basis points drop on average, which you will see in the last three years. That's the first point.

The other point is exactly what you said, we had 200 basis points net of cost benefit. Out of that, 100 basis points goes over different base promo (phon). We don't expect that to continue into quarter four. You're right on that point.

Steve Powers

Okay, very good. Thanks so much.

Operator

Thank you. The next question is from the line of Rob Dickerson with Jefferies. Please go ahead.

Rob Dickerson

Great. Thanks so much. Stefan, I just wanted to go back to the chart. You guys have been kind of showing at least the past couple quarters just around frozen, it kind of continues to outpace total food within Europe. Then I think you made a comment earlier where you said all European markets were actually growing. Then the commentary just kind of around seems like the consumer is getting a little bit better. Kind of while I understand there's kind of a shift in Q3 to Q4, ERP seems to be clearly better in Q4 and you're not guiding, for next year. When you step back though kind of more on that macro basis where the consumer is, do you feel like there should be some kind of clear momentum and just consumption rates kind of as we get through, I mean, sorry, the next six weeks, right, until we hit ‘25, such that, yes, there should be some momentum just on the base ex-ERP, kind of ex-expansion markets, new products, just kind of getting back to a normal level of consumption growth given all the pricing and the volume pressure over the past couple of years.

Stefan Descheemaeker

Well, to your point, let me stand back, because that's exactly your question, Rob. When you're taking the category, the frozen food category in Europe and we are the category, we mostly very healthy protein, chicken, fish and then veg. Two-thirds of our business is this, which is quite different from what you see in the U.S. That's the first piece. We definitely represent between frozen food and what we are, we have really good food. I think this good food comes together with, I mean affordability, together with healthy and tasty, it's really becoming a competitive advantage. I think, we mentioned that the frozen food has been doing well over the last 10 years, has been outperforming food and I think we keep it that way. When you see the fundamentals.

Then again, back to comparison with the U.S., well, U.S. is we have a long way to go in Europe. When you compare, let's say the per capita consumption, which is pretty high in the U.S., U.K. is midway, then you have all the other countries which are probably something like 50% lower than what you have in the U.S. and it's definitely, we've seen this. It's definitely considered a category that is expandable. People are planning less frozen food, planning more other food. The combination of all these things. Yes, we love frozen food.

I think we love the fact that we are focused behind this category, and obviously, we think we are the leader. We definitely want to lead the category. Then on top of that, you obviously have all our programs in terms of Must-Win Battles, in terms of growth platforms, including chicken, which is a big thing for us. Then something that we're really lifting up now, which is innovations. For all these reasons, we are the category leader in the green category. Yes, we are very positive about this category in the future.

Rob Dickerson

Okay, okay, good enough. Then I guess just coming back to the ERP conversation for a second, it sounds like maybe there were some out of stocks, right? There's some dislocation demand relative to kind of your shipment ability. Just pretty simplistically, we think about Q4, maybe even early part of next year, like is there a need for any kind of inventory build, I guess especially it sounds like kind of more focused on the U.K. or maybe more in chicken? That's all. Thanks.

Stefan Descheemaeker

No, I don't think it is an inventory build. What you've seen and what we've seen in quarter three was the impact on the supply, and as advertised that's also the reason why we lowered promotion. We're getting out of that. Week after week, we have positive shares, but the mix is not fully yet where we want it to be. We see that in the year-to-date. We've quite some margin mix benefit. Maybe quarter four will be a bit different because we're getting out of there. But we expect that into the next year to be normalized.

Rob Dickerson

Okay, great. Yes, makes sense. Thank you so much.

Operator

Thank you. Again if you wish to ask a question you may please press star, then one. The next question is from John Baumgartner with Mizuho. Please go ahead.

John Baumgartner

Hey, good morning. Thanks for the question. Stefan, I wanted to come back to the retail sales. You're still on a positive trajectory. The market share is growing, as you noted. I'm curious, as you now lap the increase in reinvestment that you began Q3, Q4 last year, how does the execution change? Is the plan that brought you to this point in the recovery, are those same initiatives poised to continue? Are there changes you have to make in terms of programming, size or type of investment that we should expect going forward for this next phase of recovery? How do you think about the marketing investments from here?

Stefan Descheemaeker

Well, I think, we said that we're going to grow A&P. We started Q4 last year and we keep doing it. We have all the intent obviously to make sure that we're going to keep it that way, end of the year, but also obviously more importantly, even in 2025. So far, year-to-date A&P is up something like 17%, which is significant. What we want to do is obviously to keep this pipeline of A&P for next year.

The rest is very much in line with the flywheel. A great example is Italy in fish. We've been through the whole flywheel. We knew that our fish fingers were probably a bit too high. We've reduced pro in price. That's one thing. We also came with a big increase in terms of A&P with renovation, with activation at the store level and we see the numbers. It's really responding extremely well. It's facts based. Then it's basically the same model that we repeat and repeat and repeat it again based on this flywheel and the Must-Win Battles and the growth platform, which are doing extremely well as you may have seen.

John Baumgartner

Is there anything, Stefan, in terms of the lift on promotion? Are you doing different things now, putting the shelving into the fresh produce part of the store? Thinking back to 2016 when you had the last big increase in marketing in the Must-Win Battles, has anything changed in terms of lift on promotion or lift on investment, anything stand out that's possibly surprised you over the past year? Just curious how you think about that in terms of the lifts on a relative basis.

Stefan Descheemaeker

Well, I think what we've done is little by little, year after year we have completed the program. For example, revenue growth management was very much limited to promo activation when we started back in 2016, John. I think now it's the full story between obviously price promo price points, obviously trade margin. It's again—I think it's not that you will see something significant. However, we can see that the I's (phon) are in a better shape than before. That's absolutely clear. But I think it's more fundamentally this flywheel covering all the elements that we're tackling.

They might be different, by the way, category by category, even, let's say Must-Win Battle by Must-Win Battle. The requirements are different. I think that's the strength of our model, by the way. I think the clusters, the countries or the regions are really applying this quite rigorously.

John Baumgartner

Okay. Thank you.

Stefan Descheemaeker

You're welcome.

Operator

Thank you. The next question is from the line of Jon Tanwanteng with CJS Securities. Please go ahead.

Jon Tanwanteng

Hi, good morning. Thank you for taking my question.

Ruben Baldew

Hi, Jon.

Jon Tanwanteng

Hi, I was wondering if you could talk a little bit more about the nature of the ERP headwind and did you incur significant costs to fix it? Are there any elements of your contracts or SLAs or anything that covers offsets, any costs that might be there?

Ruben Baldew

No, there were no material additional costs versus what we had planned. I think what we've seen is that the ramping-up took longer than planned. You go live with the new system. I don't want to go in all details, but you learn a system and I can give one example. For example, how the system interacts with third parties, with suppliers and what that means in terms of onboarding suppliers and third party. That took a bit longer. That took longer than expected in the ramping up again. That is an example. It comes back to the point it's only when you really turn on the new engine in the car that you learn how that engine works.

We prepared quite a lot, but that's where we got a couple of those learnings. Let me also be clear, we wouldn't have been gaining market share in P11 if we're now not overcoming this. Back to your point. There were a couple of learnings like how do you onboard the third parties? But nothing out of the ordinary and also in terms of cost, that is still aligned with what was planned.

Jon Tanwanteng

Okay, great. Then I was wondering if you could preview a little bit just your thoughts on pricing, both your negotiations with your retail customers and from an input pricing perspective heading into next year, especially as we're seeing a little bit more currency movement in the dollar and how that impacts seafood?

Stefan Descheemaeker

Well, I can start and please, Ruben.

Ruben Baldew

Yes.

Stefan Descheemaeker

At this stage where traditionally we always have one or two disruptions here and there with retailers, we're not in that position at this stage, which is a good thing. The second piece is obviously in a subdued inflation environment, you always have negotiations. That would be almost strange not to expect a negotiation with the retailers. But definitely when inflation is lower, these conversations are obviously a bit different. I think on top of that, when we as retail, as suppliers, we come in with more innovation, with more NP, I think that the conversation is changing because it's not limited.

You remember back in '22 and '23, it was all about price, price and price and people were not interested in innovation and the A&P was a bit lower. I think we're changing this and that makes the whole thing much more obviously manageable, I would put that way.

Ruben Baldew

Yes, and building on that, so the dollar-euro, which mainly has an impact on fish, is an impact with all the European suppliers and customers also buying private label will know about. But then for us, concretely, we have a hedging policy and I can share here, we are sufficiently hedged. On the short term, we don't expect an impact and actually can look at it from an opportunity perspective because the dollar is increasing. We will have a look what private label is doing or competitors doing and take it step by step. But your question concretely on will it hit our bottom line in the short term? The answer is no, since we're hedged.

Jon Tanwanteng

Perfect. Thank you.

Operator

Thank you. The next question is from Peter Saleh with BTIG. Please go ahead.

Peter Saleh

Great. Thanks for taking the question. I was hoping maybe you could just comment. I don't know if I missed this on just the health of the consumer and some of your key markets. I know that consumer has been under some pressure over the past several years, but I think last quarter you mentioned you're starting to see some of that ease and starting to see some modest mix shift towards some more premium products. Can you just give us an update there? Are you still seeing some mix shift towards more premium products? What's the health of the consumer looking like in some of those key markets? That would be helpful. Thank you.

Stefan Descheemaeker

Yes, you're welcome. Well, the thing is, when you think about this inflation caused growth crisis, I think it's—it probably started earlier in Europe and then we had an impact definitely in '22, '23. Then what we can see is we're getting out probably faster. We see this not only in terms of a global market, which is doing better. You've seen the numbers. Let's say the sellout is in the region of 4% to 5% at this stage, which is fine with low inflation, but it's also within the market. We also see private label losing market share, which is for us a good news.

Again, it's exactly in line with what I said, which is we come in with more innovation, we come in with more NP. Sometimes we're tweaking a bit the price the way we did in Italy, but we did it in the full, taking to kind of full flywheel with all the other elements and that's working. That's the reason. On top of that, as I said, frozen food in Europe with a lot of veg, a lot of poultry, a lot of fish, there we have the protein. It's a very good combination.

Peter Saleh

Great, thanks for that. Then I think you mentioned A&P Investments up about 17% for this year. Any thoughts on 2025? Just the rate of investment next year. I'm not sure if you're ready to provide that.

Stefan Descheemaeker

Well, we're not going to provide a number, but definitely, A&P is definitely something that, I think it's the bread and butter of, let's say, of a brand leader. I think if we don't come up with the right level of innovation, the right level of A&P and the right flywheel, quite frankly, market is there to remind us that we can't be complacent. A&P is part of the component and we will keep that way. We are the product, the brand leader, and we know that it's an important component, not only for us, by the way, but also for the category.

Peter Saleh

Understood. Thank you very much.

Stefan Descheemaeker

You're welcome.

Operator

Thank you. This concludes our question-and-answer session. I would like to turn the conference back over to Stefan Descheemaeker for any closing remarks.

Stefan Descheemaeker

Thank you, Operator. As we committed to you at the start of the year, our growth flywheel is beginning to spin faster, as evidenced by our return to positive volume growth this year. Our market share has favorably inflected in the third quarter, and we are seeing acceleration in retail and net sales growth so far in the fourth quarter. We believe we are on track to finish 2024 with strong sales growth and are excited about the momentum we are building into 2025.

Thank you for your time, and I will now turn it back to you, Operator, for obviously finalizing the conversation.

Operator

Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.