Nomad Foods Limited

Second Quarter 2025 Earnings Results - Recorded Remarks

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CORPORATE PARTICIPANTS

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P R E S E N T A T I O N

Jason English

Hello and welcome to the pre-recorded discussion of Nomad Foods Second Quarter 2025 Earnings Results.

We have posted the accompanying press release and investor presentation on Nomad Foods' website at nomadfoods.com.

I am Jason English, Head of Investor Relations, and I am joined l by Stefan Descheemaeker, our CEO and Ruben Baldew, our CFO.

In addition to these remarks, we will host an analyst Q&A-only session today at 8:30 a.m. Eastern. A replay of this webcast and our subsequent Q&A session will be available on the Investor Relations section of our website.

These prepared remarks 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. Users can find the IFRS to non-IFRS reconciliations within our earnings release and in the appendices at the end of the slide presentation available on our website. Please note that certain financial information within this presentation represents adjusted figures for the first half and second quarter of 2024 and 2025. All adjusted figures have been adjusted primarily for, when applicable, share-based payment expenses and related employer payroll taxes, 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.

After nine years of uninterrupted growth, 2025 is proving to be a more challenging year.

During the first half of the year, the successes we achieved, including the stabilization of our market share, were more than offset by several external headwinds affecting our industry and causing us to fall short of our expectations.

In the second quarter, our organic sales declined 1%. This was weaker than we expected, and I will elaborate on the drivers in a moment. This top-line shortfall was compounded by the price-cost lag that we discussed last quarter and caused our profit margins to compress and our EBITDA and EPS to decline.

Assuming normalization of weather, we expect to return to organic sales growth in the second half of the fiscal year, but we do not expect this improvement to offset the top- and bottom-line shortfall experienced in the first half. As Ruben will discuss in more detail later in the call, we have lowered our full-year revenue and earnings expectations. This is something that I am certainly not pleased with.

As you can see on Slide 4, value growth for our category has remained relatively healthy at plus 1%. Volume, however, weakened from roughly plus 1% in the first quarter to minus 1% in the second quarter. This is based on retail sales data through mid-June.

While we do not have more recent data for all of our markets, in our key Western European markets we have seen a sharper decline through the end of June and into mid-July. Weaker consumer demand in the U.K. due to cycling elevated frozen food promotions is one contributor to this, but we discussed this with you last quarter and have not been surprised by it. What we have been surprised by, however, is the unusually long duration of exceptionally warm weather across Western Europe.

Spring came early in many Western European markets, and it has temporarily changed consumer behavior. Circana reports that there was 73% more sunshine and 58% less rainfall than last year this Spring in the U.K. and that the average temperature was 18% warmer than the long-term-average Spring temperature. In France, Circana estimates that weather had a negative impact of 1% on Frozen Food sales year-to-date through May due to the early onset of Spring.

We saw weather related headwinds building in the quarter and then June came, which ended up being the hottest month on record in Western Europe, from Spain, France, Italy, and up to through the U.K. This unusually warm weather continued across Western Europe into July.

As a result, it has been a good time for selling beverages, frozen desserts, or barbecue foods in Europe, but a difficult time to be selling savory frozen food. For example, in the four-week period ending mid-June we saw ice cream volume growth accelerate to plus 8% year-on-year in our top four markets while salad dressing volume also rose 8% and frozen fruit volume growth accelerated to plus 17%, and that was before the most recent heat wave.

While these categories have benefited, our own analysis in our top five markets where we have linear regression models for weather indicates that the headwind to our category's volume growth was negative 2% for the 12-weeks period through mid-June. The analysis indicated that the impact was closer to negative 3% for our business given that we over index to food that is typically baked at home, such as coated fish and frozen vegetables which saw larger negative impacts from weather. This is why our organic net sales fell short of our forecast in Quarter 2, declining by 1.1% despite our retail sales growing by 1.1% in the quarter through mid-June. But while it is unfortunate, we must also recognize that it is unusual.

We cannot lose sight of our longer-term goals and the reality that we compete in an advantaged category with long-term growth opportunities. The Frozen category has outgrown the overall food industry by nearly one percentage point over the past decade, and in our top four markets where we can access total industry data, not just frozen food data, we saw the Frozen category outpace overall Food volume sales last quarter by 60 basis points, despite the unfavorable weather.

The category continues to benefit from the secular trends of convenience, sustainability, value, and great tasting food. We remain excited about the long-term growth opportunities in our category, and we continue to maintain the leading brands in this category.

As a reminder, two-thirds of our revenue is generated from lean proteins and vegetables and over 90% of our U.K. and Western European revenue is generated from products deemed a healthy meal choice by the U.K. government. We believe we are well positioned to meet consumers' evolving nutritional needs. That said, we recognize that category growth can be choppy, as we are currently seeing, and our focus must remain on what we can control.

Year-to-date, we have continued to invest in our business with strong advertising, impactful merchandising, and an accelerating pace of innovation and renovation. As a result, we've been able to grow our retail sales by nearly one percentage point year-to-date and, as you can see on Slide 5, this investment has helped us to improve our market share. We achieved this improvement despite facing a greater weather impact than our overall category, given our strong position in frozen vegetables. In fact, analysis from our insights team indicates that we faced a 30-basis point volume share headwind related to weather in our top five markets last quarter. I'm pleased with our team's ability to stabilize our market share despite this headwind.

Innovation, such as our expansion into the snacking occasion with our Fish Bar brand in Italy is paying off. Our investment in our growth platforms is generating strong results. Our growth platforms grew net sales by 47% in Quarter 2 and 43% across the first half of the fiscal year. For example, our expansion into the Prepared Poultry category in Italy has been very successful. Our chicken portfolio retail sales grew 52% in the market last quarter and our market share has now reached 18%, five percentage points higher than last year's second quarter as we continue in year two of our expansion.

In Germany, where chicken is also a growth platform, our retail sales in the quarter more than doubled versus the prior year, and our share, while twice what it was this time last year, is still only 2.5%. This illustrates both the substantial size of the market and our long runway for growth.

Potatoes has been another important lift and launch growth platform that we've been highlighting. I'm happy to share that our success has continued. In the U.K. our frozen potato retail sales rose 21% year-over-year as we gained 180 basis points of market share. In France, our year-to-date retail sales are up double-digits, and our share is up 110 basis points despite lapping big gains in the prior year. Our investment is paying off and we have more to come.

Last quarter we shared some of our key initiatives supporting our fish portfolio beginning in Q2 and continuing through the remaining of this year, such as our new Captain Discoveries fish line which gained strong distribution at retail last quarter.

On Slide 6 you can see some of our second half initiatives supporting our pizza and meals portfolio. We are excited to launch our new Get Real Protein Bowls in the third quarter. These bowls bring a unique approach to ingredient selection and recipe construction to maximize the protein content while having a much cleaner ingredient label versus competition. We are targeting younger, health-conscious consumers, which we expect to be highly incremental to our portfolio.

In the U.K., where our presence in meals is small, this will be a new growth platform for us. In markets such as Belgium and Netherlands, this supports our must-win battles in meals where we already have a substantial category presence in these markets.

On the right-hand side of the slide, you see our new and improved Goodfella's pizza line. These will hit store shelves beginning in September and will be supported with a number of in-store initiatives to drive trial. I can say from first-hand experience that these new products are much better than what we had before, and our research tells us that consumers feel the same way. These are great examples of how we're balancing the prioritization of taste and nutrition across our portfolio as we lean into both innovation and renovation.

These are just two of our many examples. Last year, innovation and renovation initiatives accounted for approximately 10% of sales. This year, we are on track to reach 16% to 17% of our sales. In addition, we will be launching our new Masterbrand advertising campaign in the U.K. later this quarter which will coincide with 360-degree activation. These are the reasons that we are confident that we'll return to organic sales growth in the second half of the year, assuming the unusual weather does not persist.

While driving profitable sales growth is critical to our long-term success, it is not the only area where we have undertaken self-help actions to better control our own destiny. Our supply-chain team is working diligently to drive cost savings this year while building a robust pipeline of initiatives to deliver savings in the years to come. As you can see in the SG&A line of our P&L, we already have taken steps to reduce our costs across the organization this year to shrink our overhead expenses.

Let's not lose sight of our ultimate goal. Our pursuit of profitable sales growth and relentless focus on productivity is aimed at maximizing our cash flow so we can pursue strategic opportunities or return cash to shareholders. We remain on track to achieve our free-cash-flow conversion targets, and I'm happy to report that we have returned substantial cash to shareholders year-to-date.

Through the first six months of this year, we have repurchased 100 million euros of shares and paid out more than 48 million euros of dividends. This collective return of cash to shareholders through the first six months of this year marks a 132% increase versus the first half of last year.

Our priorities are aligned to enhance long-term shareholder value, and while we have faced numerous external headwinds, we continue to have an advantaged portfolio in an advanced category. Furthermore, we have robust plans to drive improved performance in the second half of 2025 and beyond.

On the top line, we successfully stabilized our market share in the first half of the year and achieved nearly 1% retail sales growth. We have even more robust innovation plans for the back half of the year. Baring more extreme weather, we expect our organic sales to return to growth beginning in the third quarter.

Going forward, we're taking steps to ensure that we can take advantage of unusually warm conditions if they occur again. We can change our merchandising and consumer communication to emphasize different parts of our portfolio, like natural or recipe fish as well as potatoes which perform better in warm weather. We can also provide recipe inspirations with barbecue solutions for our products, and we believe we can introduce more seasonal relevant innovation. We're learning from this and getting stronger as a result. These initiatives will support near-term and long-term sales growth.

On the bottom line, our price-cost spread should begin to narrow as we execute select pricing actions in the second half of this year, and then we expect to more materially close the gap beginning in 2026 when our broader pricing actions take effect. We're taking several self-help actions to enhance our profitability. We have been aggressively analyzing our cost base, and while we have already taken some action this year, we believe we can do more. We're not in a position to go into detail today, but Ruben and I are eager to share more with you later this year.

While I am not pleased with our first half performance, I am excited about what lies ahead. Prior to this year we have overcome numerous headwinds and successfully delivered nine consecutive years of uninterrupted growth. We suffered a setback earlier this year, but we have detailed and compelling plans to deliver more robust results beginning in Q3 and continuing beyond this year.

With that, let me turn it to Ruben to take you through our results and near-term outlook in more detail. Ruben?

Ruben Baldew

Thank you, Stefan, and good morning, everyone. Let me get right into the results.

As you can see on Slides 7 and 8, for the second quarter, reported net revenues decreased by 0.8% to 747 million euros. Organic sales declined 1.1% with volume declining 1% with price mix slightly negative. As Stefan mentioned, volume in the category was minus 1% in the quarter through mid-June and softened further since then.

In the most recent four-week period through mid-July we have seen our category post high single digit volume declines in the U.K., France, Belgium and others. This was driven by the unusually warm weather and the transitory impact it has had on consumer behavior and retailer merchandising that Stefan discussed. It has remained a headwind early in our third quarter, especially in the U.K., and is reflected in our revised outlook where we are now assuming an approximately 1.5% negative impact from the weather on our full-year outlook.

While this is unfortunate, we expect it to be temporary, and as Stefan mentioned, we are happy to have successfully stabilized value share and gain volume share in the quarter while achieving year-to-date retail sales growth of nearly 1%.

Turning to gross margin, the weaker top line equated to greater adjusted gross margin pressure than we expected given lower fixed cost utilization in our plants. This compounded the price-cost lag that we spoke about last quarter and caused our adjusted gross margin to contract by 310 basis points year-on-year. The largest driver of this decrease was higher cost inflation that more than offset our productivity gains and RGM benefits.

As a reminder, we have seen a number of input costs move higher year-to-date with poultry prices among the most notable increases. We will take select pricing actions in the second half to help offset this impact, but most of the offsetting price increases are not expected to come until next year. While the headwinds are having an impact on our ’25 results, we do not believe they are material enough to push through an overall off cycle increase in markets where we historically revisit prices annually. We will pursue these price increases in early ’26 and are confident that we will ultimately recover the cost increases, as we have done in the past.

Moving down to P&L. Adjusted operated expense declined by 11% year-on-year in the second quarter. A&P expenses were down low single-digits in the quarter and rose mid-single-digits through the first half of the year. Overhead expenses shrank by 15% year-on-year in the quarter as productivity offset underlying inflation and we reduced our bonus accrual given first half results. But despite the lower SG&A, our Adjusted EBITDA decreased by 7% year-on-year to 129 million euros while adjusted EPS fell 9% to 40 euro cents.

Turning to cashflow on Slide 9. Despite our lower profit, our year-to-date free cash flow has grown 17% year-on-year with our conversion ratio at 43% through the first six months of this year versus 32% in the same period as last year. The improvement was driven by lower working capital versus last year. As a reminder, it’s common to see our mid-year cash delivery in the 30% to 50% range. This is due to seasonal factors, namely the start of harvest-related inventory builds for our vegetables and higher revenue contribution from our Southeastern European business which typically has longer collection terms versus the rest of our business.

Turning to the use of cash. As Stefan mentioned, we continue to return cash to shareholders. Through the first six months of this year, we have repurchased 100 million euros of shares and paid out more than 48 million euros in dividends. This collective return of cash to shareholders through the first six months of this year is a 132% increase compared to the first half of last year. Last week, we declared a quarterly dividend of $0.17, which is 13% higher than the same dividend last year.

Turning to our guidance for ’25 on Slide 10. As Stefan previously mentioned, assuming normal weather, we expect organic sales to return to growth in the second half but we do not expect to recover the top- and bottom-line shortfall we experienced in the first half of the year. Our focus now is on delivering on our commitments for the second half of the year and laying the foundation for 2026.

Weather disrupted growth for us and our category in the second quarter, and the headwind has continued in July. As a result, we now expect full year organic sales to be flat to minus 2% versus our prior expectation of flat to plus 2%. The associated sales deleverage will pressure our bottom line, and we are also seeing slightly higher cost pressure related to the weather.

Agricultural crops have been negatively impacted by the hot dry weather in Western Europe, and we expect this to result in higher than previously expected cost of goods sold inflation. We plan to recover this with price increases, but do not expect most of the increases to take effect until ’26, following annual price negotiation cycles with many of our retailers. We have also chosen to protect key A&P initiatives behind our brands to set the foundation for ’26.

As a result, we now expect our Adjusted EBITDA to decline by 3% to 7% year-on-year versus our previous expectation of flat to plus 2%. The higher end of the range assumes that the negative weather impact does not persist and that we face no other external or executional headwinds. The low end of the range is intended to create some buffer and enable us to avoid another negative guidance revision even if we face incremental headwinds.

The impact of the lower Adjusted EBITDA outlook is partially offset at the EPS line by share repurchases. As a result, we now expect adjusted EPS in the range of 1.64 euros to 1.76 euros compared to our prior outlook of 1.82 euros to 1.89 euros. At recent exchange rates, our revised adjusted EPS guidance for the full year translated into approximately $1.89 to $2.02.

Turning to free cash flow. We continue to expect a conversion ratio of 90% or greater.

All in, while we face some incremental headwinds that we had not expected at the start of the year, we continue to feel good about the underlying health of our business. Our market share has improved, and our category is healthy, absent the transitory weather disruption. We are focused on controlling what we can control and have a number of initiatives underway to drive profitable sales growth, increase productivity, and improve free cash flow conversion.

I look forward to sharing more detail behind these initiatives as we get closer to ’26.

Thank you for your time and interest in Nomad Foods.