

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the  
NOVA – School of Business and Economics.

NOMAD FOODS EQUITY RESEARCH  
GROWTH AMONG COVID-19

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## Abstract

This Work Project presents a Nomad Foods Equity Research with a perspective regarding the company's future performance. Nomad Foods belongs to the European leaders in the frozen food's industry. The company's value was computed based on its expected cash flows. The recent pandemic outbreak and the lockdowns established worldwide, enhanced the company to increase its revenues at an outstanding level since the durability and convenience of its products perfectly met population's needs during the pandemic. Consequently, Nomad Foods valuation depends on COVID-19 evolution. The one year expected return is 8.71%, therefore the final recommendation is to HOLD Nomad Foods' position.

Keywords: Food Industry, Frozen Foods, Meat-Substitutes, Pandemic.

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This report is part of the “Nomad Foods Equity Research – Growth among global crisis” report (annexed) and should be read as an integral part of it.

# Company Overview

## Company Description

Nomad Foods Holdings was founded in 2014 by Noam Gottesman and Martin Franklin. After this, in 2015, the company acquired Iglo Group and saw its name renamed to Nomad Foods – the one that currently stands. In 2015, it proceeded to the acquisition of Findus Group's continental European businesses. On January 13<sup>th</sup> of 2016, Nomad Foods became listed on the New York Stock Exchange (NYSE) under the ticker "NOMD". From this point onwards, it made smaller acquisitions in the frozen food industry, such as Goodfella's and Aunt Bessie's in 2018, dedicated to frozen pizza and potatoes, respectively.

Nowadays, Nomad Foods Limited is among Europe's frozen food leading companies. It is composed of several brands, mainly focused on market niches, with prominent brands all over Europe – Findus, Birds Eye, and Iglo. Its business only comprises sales in the European region, being the United Kingdom, Italy, and Germany, the most important countries in terms of revenue.

## Business Model

Nomad Foods' business model is based on a traditional food manufacturer style. Nomad Foods buys the food ingredients and packaging materials from suppliers, and then transforms these raw materials, selling the final products to several customers, consisting of supermarkets and large chain food retailers all over Europe.

Customers are retailers who receive the final product and sell it in their establishments. Recently, Nomad Foods created an online platform where final customers can see the variety of products the company offers. However, the company's website does not allow the customer to buy their products on the platform. The customer selects the product and then gets redirected to other websites from big retailers such as Asda, Tesco, Carrefour, and other players.

Therefore, one can conclude that Nomad Foods business does not rely on their website to sell products. Instead, on their website, they aim to promote their products' quality and benefits that they bring to their customers, and then redirects these same customers to specific places where they can buy these items. The company only maintains one distribution channel divided into three different categories: Traditional Retail (creating more place for the company's products), Hard Discount Retail (attracting new customers), and E-commerce (driving high growth due to customer migration).

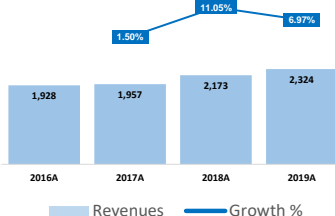
## Financial Overview

Nomad Foods' revenues have been growing since 2016. From 2015 to 2016, the reported income statement showed a considerable leap due to the Findus acquisition in 2016 (for this reason, it was not considered the revenue growth from 2015 to 2016 relevant, as it was due to an inorganic growth). It is important to notice that, from 2017 to 2018, its revenue growth was 11.05%, and 6.97% from 2018 to 2019.

The company opts to segment its revenues by country. The most critical region in terms of

***Iglo and Findus acquisitions were crucial for Nomad Foods' growth, as consumers already recognized them at a European level.***

Figure 1 – Nomad Foods Revenues (€ million)



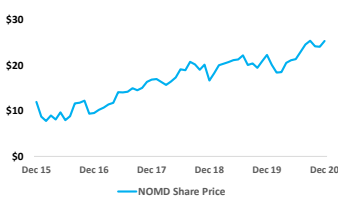
revenues for the company is the United Kingdom, which is gaining more and more importance over the years. In 2016, its weight over the total revenues was 23%, and nowadays, this value stands at 31%. Following this region, the most important markets for Nomad Foods are Italy and Germany, which have been losing revenue share over the years due to the increase in the UK revenue growth.

Moreover, its gross margins have kept constant over the years – 30% in the last four years – as the cost of sales tend to follow the revenue growth. From 2016 to 2019, net income was always positive due to the increase in revenues verified in the same period. 2015 was an exception in terms of net profit due to "Charge related to Founder Preferred Shares Annual Dividend Amount".

In terms of free cash flows, they have been positive over the years, being 2018 an exception due to a significant increase in capital expenditures – related to the acquisition of both Goodfella's and Aunt Bessie's brands.

## Shareholder Structure and Returns

Figure 2 - Nomad Foods Stock Performance (USD)



Despite being founded in the United Kingdom, in January 2016, Nomad Foods was delisted from London Stock Exchange and listed on the New York Stock Exchange under the ticker symbol "NOMD" to reach more investors. Its initial public offering was on April 10th, 2014, with a share price of \$10.00. Since then, the price has ranged between \$6.79 and \$26.41. As of December 31<sup>st</sup>, 2020, Nomad Food's market cap is \$4,998.9 million, which corresponds to 196.65 million common shares outstanding at a price of \$25.42.

Nomad Foods largest investors<sup>1</sup> are:

- Noam Gottesman (Co-Founder): 6.78%
- Wellington Management Company, LLP: 6.71%
- Boston Partners: 5.62%
- Martin E. Franklin (Co-Founder): 5.44%
- Wells Capital Management Inc.: 4.77%

This shareholder structure analysis is important to understand which perspective one should take when valuing Nomad Foods, as doubts could occur whether to consider the marginal investor to be European or American, since the company only operates in Europe, while being listed in the NYSE. Among the top 20 investors in Nomad Foods, 16 are based in the United States. Therefore, it was opted to take the marginal investor as an American one, an aspect that has an important impact on valuation rates. Moreover, the fact that the company moved from the London Stock Exchange to the New York Stock Exchange also supports this decision, as it shows the management team's will of increasing its range of investors to the American side.

In June 2015, Nomad Foods announced its new Chief Executive Officer, Stefán Descheemaeker, who has been on the role since then. Stefán has been working in the food and beverage industry since 1996, when he joined Interbrew (now Anheuser-Busch InBev).

<sup>1</sup> Eikon Thomson Reuters. 2020. Retrieved from Eikon Thomson Reuters database <https://eikon.thomsonreuters.com/index.html>

## Company Listing

As mentioned before, Nomad Foods is a company that only operates in Europe, with no revenues outside this region. However, the company is listed on the New York Stock Exchange (NYSE) since January 2016, when its listing moved from the London Stock Exchange (LSE) to this new market. Therefore, it is essential to analyze the reasons that might have motivated the company to move to another stock market.

The movement from the LSE to the NYSE allowed the company to benefit from several factors. Firstly, the company increased its range of possible investors due to this stock market worldwide exposure. Moreover, companies that belong to the NYSE benefit from lower stock price volatility, based on the combination of several factors (listing day, lock-up expirations, opening, closing)<sup>2</sup>.

Besides this, by thoroughly going through the company's investors, it was possible to notice that this marginal investor is most likely based in America. Therefore, following this fact, it is understandable the movement that the company opted to proceed with, by moving from the LSE to the NYSE, as Nomad Foods increased its exposure to its marginal investors, and consequently, the possibility of investment.

## Company Risks

While assessing whether to invest or not in a company such as Nomad Foods, an investor must know the main risks involved in the company and the industry. Some risks have more relevance and are quantified in the different scenarios, while other risks are less relevant and impossible to quantify:

- Changes in consumer preferences and trends: The frozen food industry is heavily dependent on consumer preferences. Nowadays, life is way too different from what it was some decades ago, due to the fast pace people live their lives. Moreover, as mentioned previously, millennials are turning into the parenthood cycle of their lives and are bringing their preferences with them. The convenience is more and more an appreciated characteristic of a product and, therefore, frozen foods are becoming a trend, and it might stay like this in the foreseeable future. As an example, frozen foods can be stored on a shelf for a longer time than perishable food. However, one must keep in mind that this is what it is – a trend that can change rapidly from one year to another due to unpredictable changes in consumer preferences. Among these preferences in millennials, it is possible to observe: speed, convenience, and ease of food preparation; natural, nutritious, and well-proportioned meals; products that are sustainably sourced and produced, and environmentally friendly; as well as a recent trend towards meat substitutes.
- Promotional strategies and shelf space allocation: The frozen food industry is characterized by players with most of their revenues coming from retail customers. One must also know that most of these retailers also have their private labels, which significantly impacts other companies. According to retailers' promotional strategies, this impact comes from the fact that they can opt to occupy their shelves with their own products, which is certainly a risk for every player in this industry. Moreover, according to each retailer's promotion strategy, they can promote other

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<sup>2</sup> New York Stock Exchange. n.a.. "10 Reasons Companies List on NYSE". Accessed August 25. <https://www.nyse.com/network/article/10-reasons-companies-list-on-nyse>

competitors' products rather than Nomad Foods' products.

- Price fluctuation and quality of raw materials: Since the company is entirely dependent on food ingredients such as fish, poultry, meat, and vegetables, adverse changes in these materials could affect the operations and profits significantly. Seasonality, climate change, and natural disasters are expected to harm these products. Fishing and agricultural policies of the European Union can limit the volume of raw materials. Furthermore, with the most recent COVID-19 outbreak, product distribution was severely affected, either in terms of final products or raw material. Companies might not get their raw materials in time, or even have their final products delivered, which might cause considerable disruptions in their overall functioning.
- Health regulations: Human consumption products are vulnerable to health concerns and safety risks. Product contamination, spoilage, misbranding, or product tampering could negatively impact customers and regulations in the supply chain and production, possibly increasing operations costs and decreasing revenues. Furthermore, food law can change within countries, which makes internal logistics even more complicated. There are many debates regarding the health benefits of frozen food. On the one hand, frozen food is perceived to be a healthy option in people's diets. One of the reasons for this is that it preserves vitamins and nutrients, while fresh food loses them over time<sup>3</sup>. On the other hand, several reports refer to some long-term prejudicial outcomes from eating frozen food. One of them mentions the fact that, by eating frozen foods, one might be increasing his chance of facing problems such as diabetes, heart diseases, excessive calories, or even cancer<sup>4</sup>.
- Brexit: The European region is the one with the highest share in the frozen foods industry. Moreover, with the United Kingdom leaving the European Union, its inhabitants might also retract from buying European companies' products and opt for their national ones. Although this might not be a relevant point as it is merely a hypothesis, it is vital to notice this fact, as the United Kingdom constitutes one of the most important markets for European frozen food companies. Another aspect of Brexit that could affect the frozen food industry is fishing rights. The agreed deal between the EU and the UK established that the total amount of fish caught in the UK by European boats must be cut by 25% over the next 5.5 years. After this period, the UK has permission to fully control its waters, having the capability to impose much deeper cuts. If this happens, EU fishing boats may be compensated for their losses, either by imposing tariffs on fishing products imported from the UK or simply restricting UK fishing boats from operating in EU waters<sup>5</sup>. Currently, more than 60% of the tonnage landed from English waters is caught by foreign boats. Inability to fish for European boats could lead to a shortage of many foods derived from the ocean.
- COVID-19 vaccine: As it was mentioned before, COVID-19 brought nothing but good news in terms of revenues for the frozen food industry. Recent vaccine development and the beginning of its distribution is threatening Nomad Foods' momentum. Both the EU and the UK already started the COVID-19 vaccination in December 2020. If COVID-19 disappears, lockdown will be over and people will return to normal life. Quick distribution of vaccines and great results from it are risks for Nomad Foods, as its business growth relies on people eating at home.

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<sup>3</sup> The US Academy of Nutrition and Dietetics. 2020. "Frozen Foods: Convenient and Nutritious". Accessed November 25. <https://www.eatright.org/food/planning-and-prep/smart-shopping/frozen-foods-convenient-and-nutritious>.

<sup>4</sup> Doctor NDTV. 2018. "Beware! The Truth About Frozen Foods; Their Impact On Health". Accessed September 1. <https://doctor.ndtv.com/living-healthy/beware-the-truth-about-frozen-foods-their-impact-on-health-1903671>

<sup>5</sup> BBC News. 2020 "Brexit deal: What is in it?". Accessed December 28. <https://www.bbc.com/news/55252388>

For this valuation, it was considered the vaccine to be the only relevant risk in terms of business performance for the forecasting period, as its development has a direct impact on the company performance in the short-term. All the remaining risks were not considered relevant for valuation purposes, as these were assumed to be completely manageable by Nomad Foods or impossible to quantify.

## Industry Overview

### Macroeconomic Overview

Nowadays, the world faces a global health crisis that started in early December 2019, with the coronavirus outbreak in China. This COVID-19 outbreak is currently showing severe consequences, not only in terms of global health, where hundreds of thousands of people have already died but also in terms of poor economic performance from countries and businesses all over the world.

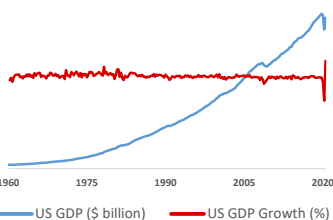
Since the 2008 crisis, the global economy has shown positive growth signs, with positive percentual changes in the global GDP. However, with the actual state of the world due to the pandemic, current expectations point to the worst economic crisis ever registered since World War II<sup>6</sup>, or even since the 1930s depression<sup>7</sup>. Translating previous expectations into real numbers, the US economy has shrunk by 32.9% in the second quarter of 2020<sup>8</sup>, numbers that have not been seen ever since the 1940s.

Even more than the health and economic crisis, this pandemic's social impact is heavily concerning worldwide governments. An analysis conducted among 20 rich democracies showed that at least 12 countries (most of them European) had prevented larger unemployment rates by offering relief to employers, through subsidies to their employees<sup>9</sup>. Nonetheless, the US economy faces several problems regarding unemployment, with more than 30 million Americans making unemployment claims. Other economies such as Canada and the United Kingdom are facing the same issues, with millions of people applying for these unemployment claims<sup>10</sup>.

Still within the social impact of the coronavirus outbreak, projections regarding worldwide poverty are worrying. A World Bank report from June 2020<sup>11</sup> shows that the population in extreme poverty is projected to increase by 71 million in 2020 (in a baseline scenario). In a worst-case scenario, this same increase is expected to be of 100 million people. Another report from the United Nations University<sup>12</sup> also mentions that, for the first time since 1990, the relative incidence of global poverty might show an increase.

The current state of the world is not favorable. As the projected worldwide recovery is still very unclear, this report's analysis will be based on the most agreed long-term outcome of this crisis:

Figure 3 - US GDP & GDP Growth



<sup>6</sup> The World Bank. 2020. "COVID-19 to Plunge Global Economy into Worst Recession since World War II". Accessed July 4. <https://www.worldbank.org/en/news/press-release/2020/06/08/covid-19-to-plunge-global-economy-into-worst-recession-since-world-war-ii>

<sup>7</sup> BBC News. 2020. "Coronavirus: Worst economic crisis since 1930s depression, IMF says". Accessed July 4. <https://www.bbc.com/news/business-52236936>

<sup>8</sup> Pickert Reade. 2020. "U.S. Economy Shrinks at Record 32.9% Pace in Second Quarter". Accessed July 30. <https://www.bloomberg.com/news/articles/2020-07-30/u-s-economy-shrinks-at-record-32-9-pace-in-second-quarter>

<sup>9</sup> Rothwell, Jonathan. 2020. "The effects of COVID-19 on international labor markets: An update". Accessed June 16. <https://www.brookings.edu/research/the-effects-of-covid-19-on-international-labor-markets-an-update/>

<sup>10</sup> Kretchmer, Harry. 2020. "How coronavirus has hit employment in G7 economies". Accessed July 4. <https://www.weforum.org/agenda/2020/05/coronavirus-unemployment-jobs-work-impact-g7-pandemic/>

<sup>11</sup> The World Bank. 2020. "Projected poverty impacts of COVID-19 (coronavirus)". Accessed December 28. <https://www.worldbank.org/en/topic/poverty/brief/projected-poverty-impacts-of-COVID-19>

<sup>12</sup> Sumner, Andy, Ortiz-Juárez, Eduardo and Hoy, Chris. 2020. "COVID-19 and poverty incidence, intensity, and severity in developing countries". United Nations University Working Paper 2020/77.

the biggest worldwide recession since 1930.

Even though the world is currently going through much uncertainty due to the pandemic, many counter-cyclical companies have benefitted from this. Nomad Foods is one of these companies, as the current recession and panic worldwide increased the company's performance due to its specific characteristics. Since people were forbidden to go to restaurants during the emergency states in many countries, other options had to be considered. Therefore, consumers started to look at solutions for many problems: forbidden access to restaurants and gyms, controlled entrance and queues in supermarkets, and increased propensity to ingest fast-food. With this outlook, people started to look into safer options, which would not require constant trips to supermarkets and healthier ones, avoiding fast-food consumption. Frozen foods played, then, a crucial role. They offered the possibility for people to have healthy food at their houses for an extended period, decreasing the frequency and risks of going to the supermarket. Moreover, many of these meals are already prepared, making people even more likely to buy them.

Concluding, even though the economic state is not the most favorable, given that many businesses are facing bankruptcy and many countries face massive recessions, companies such as Nomad Foods have benefitted from it. Its business and products turned out to fulfill people's specific needs – its convenience, its healthy traits, as well as working as a reasonable substitute for restaurant meals.

## Frozen Foods Sector

### Overview

Before going into any analysis of the frozen foods sector, it is important to present an overview of the food market. This market has shown itself as a steady growing one over the last decade, from a total market value of \$6,006 billion in 2014 to a total market value of \$6,954 billion in 2019, representing a CAGR of 2.47% over the period. This sector is expected to grow faster than in previous years, as the pandemic has most likely as its consequence an increase in home-food consumption worldwide, according to the Food Report 2020<sup>13</sup>. According to this same report, the expected growth for 2020 if the pandemic did not happen was 3.77%. With COVID-19, this growth is expected to more than double its number, to 7.68%. Moreover, with the reopening of both restaurants and catering services, this growth is expected to return to 'normal' numbers, synthetic of any COVID-19 impact. However, this forecast is volatile, as it depends on the government's ability to decrease the number of cases, controlling the virus growth worldwide.

Now into the frozen foods sector, this has been growing more than its broader sector (food market) over the last decade. Frozen foods global market value has grown from \$242,914.3 million in 2014 to \$291,784.1 million in 2019<sup>14</sup>, with a CAGR of 3.73% over the last five years. Narrowing it into the core of the analysis (Europe frozen foods sector), this market value also grew over the years, from \$94,834.9 million in 2014 to \$103,667.7 million in 2019, representing a CAGR of 1.80% in this same period.

Several factors are driving this industry growth. First of all, people's habits are changing, either in terms of health concerns or a more fast-paced life. Fast food consumption is increasing year after

Figure 4 - Food Industry Market Size (\$ billion)

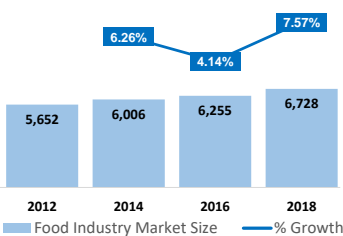
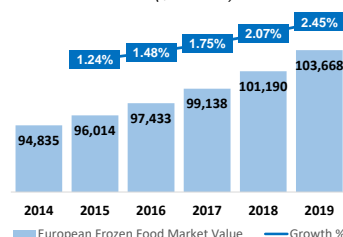


Figure 5 - European Frozen Food Market Size (\$ million)



<sup>13</sup> Statista. 2020. "Food Report 2020". Retrieved from Statista database <https://www.statista.com/>

<sup>14</sup> Allied Market Research. 2020. "World Frozen Foods Market". Retrieved from Allied Market Research <https://www.alliedmarketresearch.com/>

year<sup>15</sup>, which turns out to enhance the frozen foods sector, due to an increase in the demand for frozen pizzas, burgers, or any other ready-to-eat product. On the other hand, healthy habits consciousness also benefits the frozen foods sector, as more and more frozen food companies have been trying to come up with new products that meet customers' needs regarding their healthy habits.

Another factor that contributes to the frozen foods sector growth is the convenience of its products. As millennials are getting older and turning into professionals and building their own families, their habits are starting to become a pattern in society. Moreover, this same group is known to have a busier life nowadays. Therefore, merging their lifestyle with their habits, convenience that frozen food products offer is much appreciated, as a report from the Food Industry Executive<sup>16</sup> suggests.

COVID-19 also took an important role in this last year (2020), and it is expected to impact the foreseeable future. With the pandemic affecting most worldwide businesses, it is handy to mention what Nomad Foods' CEO said – "Out of home food consumption has all but grinded to a halt. This is leading to an unprecedented surge in demand for packaged food and, specifically for our business, frozen food"<sup>17</sup>. As restaurants have been closed for a very long period, and people were not able to eat in any place outside their home due to the confinement most of the world has gone into, the population started to look more into ready-to-eat meals, as well as frozen foods that were convenient and that could substitute, somehow, the experience of going to a restaurant.

#### ▪ Porter's Five Forces

Porter's Five Forces analysis helps to understand a specific industry's strengths and weaknesses and identify what turns it attractive or avoidable to new companies. Frozen foods industry forces were classified in the following way:

- Competition in the industry: **HIGH.**

In this industry, there are two types of competitors – the larger ones and the smaller ones. The larger ones offer aggressive competition between each other, as they compete in a fundamental duality – the balance between price and the quality of its product. On the other hand, there are the smaller players, which are not able to compete with the larger ones in terms of price – they cannot reduce their costs and increase their margins in the same way more prominent players do –, and therefore, they exist in local convenience stores or non-noticeable places in supermarkets shelves'.

- Potential of new entrants into the industry: **LOW.**

There are many barriers to the entrance of new players in the industry. Firstly, the industry is dominated by very large companies, such as Tyson Foods, General Mills, or Kellogg, in the USA. In Europe, the industry is dominated by players such as Nestlé, Nomad Foods, and Orkla. Moreover, another considerable barrier to new players' entrance is the high capital investment required. Companies that want to enter this industry must compete in terms of high product quality, heavily investing in R&D, battling with players

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<sup>15</sup> Boyd, Connor. 2020. "How eating habits have changed in 30 years: Britons are eating far less white bread and red meat but have turned to pizza and ready meals which can lead to obesity and cancer, study finds". Accessed September 8. <https://www.dailymail.co.uk/health/article-8690107/How-eating-habits-changed-30-years-white-bread-red-meat-pizza.html>

<sup>16</sup> Smith, Hilary. 2019. "For Convenience-Driven Customers, Frozen Food Is the Answer". Accessed July 28. <https://foodindustryexecutive.com/2019/05/for-convenience-driven-customers-frozen-food-is-the-answer/>

<sup>17</sup> Nomad Foods Ltd. 2020. 2019 Annual Report. <https://www.nomadfoods.com/wp-content/uploads/2020/05/nomad19.pdf>

doing this for several years.

- Bargaining power of suppliers: **LOW.**

In the frozen foods sector, suppliers do not have much power. As there are plenty of alternatives for which companies can obtain their raw materials (vegetables, meat, seafood, among others), it is with relative ease that a change of supplier can happen. Moreover, buyers often benefit from the bargaining power themselves, as they buy in bulk quantities. In some cases, it also happens reverse bidding, which also decreases supplier bargaining power.

- Bargaining power of customers: **HIGH.**

There are two types of buyers in this industry. On the one hand, big players, such as hotels, food service chains, or supermarkets, benefit from high bargaining power, as they do not have high costs when changing the place/supplier from where they buy, giving them full flexibility regarding this aspect. On the other hand, there are the ordinary householders, which also benefit from high bargaining power, as they can easily switch the place/company from which they buy their products, due to the broad availability of products in local stores or supermarkets.

- The threat of substitute products: **HIGH.**

There are plenty of substitutes for frozen foods in the food market worldwide. Even though some countries rely on more convenient diets, where people tend to opt for a higher amount of frozen food, other countries prefer fresh food over frozen ones. Moreover, fast food is also convenient for people, presenting a wide range of products to choose from and eat right after, avoiding the time spent cooking or preparing frozen products.

- Competitors

Nomad Foods operates exclusively in Europe. Therefore, to assess their competition in the frozen foods industry, companies that only operate outside Europe were not considered. The companies chosen as its competitors were the ones that operate exclusively in Europe or companies that operate both in Europe and outside this region. Moreover, companies that do not compete with Nomad Foods within their products segment were also excluded. The company does not only face competition from frozen food companies but also from packaged non-frozen food and fresh food. Within this range, there are non-listed companies and listed companies. Some of these non-listed companies, recognized by Nomad Foods itself as competitors, are Bofrost, Dr. Oetker, FRoSTA, and McCain Foods. On the other hand, there are names such as Bonduelle, Nestlé, Tyson Foods, and General Mills among the publicly listed companies.

It is important to notice that there are big players within the frozen food market that, at this moment, do not operate in Europe, but in the foreseeable future, their move into this market might be an option. These players include companies such as Conagra Brands, High Liner Foods, and Maple Leaf Foods.

Facing all this competition, Nomad Foods must protect its reputation and position among the frozen food industry, susceptible to changes in customer habits and health regulations. This susceptibility makes each player within the sector conscious about the importance of having efficient operations and quality that meets current industry high standards.

- Peers Financial Comparison

Compared to its peers, Nomad Foods has shown great performance. In terms of revenue, the company has grown at a CAGR of 12.42% in the last three years, while its peers have grown at a 5.42% CAGR. This growth is expected to continue over the next years, as the company continues to adapt to new trends and still have many European markets to discover. Nomad Foods currently operates in only 17 of the 44 European countries.

Regarding profitability, it was decided to compare Nomad Foods with its peers using two indicators: EBITDA margin and ROIC. Nomad Foods' EBITDA margin is 12.8%, comparing with 15.3% from its competitors. However, it is important to mention that this average is heavily affected by competitors that are mature in the market, such as General Mills (21%), Nestlé (21.5%), and Kraft Heinz (24.3%). Comparing with smaller companies, such as Tyson Foods (11.6%) and Bonduelle (7.6%) one can see that Nomad Foods presents a higher EBITDA margin.

Doing the comparison between these companies' ROIC, the average competitor ROIC is 9%, while Nomad Foods stands at 5.8%. However, it is important to mention that the company went through strong advertising and marketing campaigns to promote its new brand, Green Cuisine. To have a better comparison between Nomad Foods' ROIC and its competitors, using its forecasted value for 2020 is a safer choice. With this, in 2020, the company's ROIC is forecasted to be 8.8%, which goes in line with its competitors' average.

It is possible to conclude that, when comparing to its peers, Nomad Foods is in a "safe" position, as its margins and operating indicators are equal or even better than its competitors. It is also important to mention that competitors such as Nestlé, General Mills, and Kraft Heinz are mature companies, and therefore, the probability of presenting better indicators are higher than a growing company such as Nomad Foods.

- International Presence

Nomad Foods is completely focused on the European market. Through its eight different main brands, Nomad Foods is present in 17 different countries across Europe, being UK, Italy, Germany, Sweden, France, and Norway the largest countries by revenue, representing more than 80% of the company's total revenues.

A big part of Nomad Foods' success since 2015 has been due to inorganic growth. To enter new geographic markets, the company has used an acquisition strategy to buy relevant players in the firm's target countries. Firstly, they bought the brands Iglo and Birds Eye, which allowed them to enter the UK, Austria, Germany, Netherlands, and Portugal. After this, they bought Findus from Unilever, which allowed them to enter Italy, France, Sweden, Spain, Norway, and Finland. Following those geographic acquisitions, Nomad Foods decided to use this inorganic growth strategy to enter different industry segments, buying Goodfellas for frozen pizza, Aunt Bessie's and Lutosa for potatoes, and La Cocinera for new ready meals.

Currently, the top 3 countries by revenue for Nomad Foods are the United Kingdom (31%), Italy (17%), and Germany (14%). These three countries represent more than 60% of the company's revenues, while the other 14 countries where Nomad Foods operates represent together less than 40% of its total revenues. It is possible to notice some exposure to a few countries which increases

the risk associated with economic and social threat for a specific location. Lack of international presence also limits customer reach.

## Future Trends and Prospects

For an equity report, it is crucial to point out those factors that are going to stand out in the analyst's perspective in the upcoming years. There are crucial trends that will shape the industry's future, namely the decrease in meat consumption and the increase in vegetables as a protein substitute. This vegetarian and vegan trend is expected to continue in the upcoming years, based on two factors that have an impact in the overall sector (environment and health), as explained in the following paragraphs:

Environment: Nowadays, more and more people are turning into vegan or vegetarian diets, for various reasons. First of all, these types of diets are perceived to be environment-friendly, not only because they reduce the harm animals are exposed to while growing into mature lives to be served as food, but also due to an increase in the excessive amount of CO<sub>2</sub> that is currently produced in the world. In fact, according to Greenpeace, "EU's farm animals produce more emissions than cars and vans combined"<sup>18</sup>. Regarding the first aspect, animals harm, it is crucial to point that animals are usually subject to several drugs to ensure that they grow faster and that they survive in environments that, otherwise, they would die<sup>19</sup>. Both these points are very important when one is considering changing from a common diet to a vegan/vegetarian diet, and the fact that both are verifiable in the modern world helps with the expansion of these types of diets among society.

European developed countries have been decreasing their per capita meat consumption. On the other hand, developing countries have been increasing this same per capita consumption.

A report developed by Statista<sup>20</sup> also suggests that meat consumption is decreasing in developed countries and following the contrary way in developing ones, as one can see in figure 6. The trend that is currently observable in developed countries is that more and more people are becoming aware of vegetarian and vegan diets, and the increase in the number of vegetarians and vegans in these European countries is noticeable. From 2007 to 2014, the number of vegetarians in Sweden rose by 10%. In Germany, from 2009 to 2017, vegetarians rose from 7.4 million to 9.3 million. In Great Britain, from 2006 to 2016, among population above 15, vegetarians and vegans rose 72%, up to 540,000<sup>21</sup>.

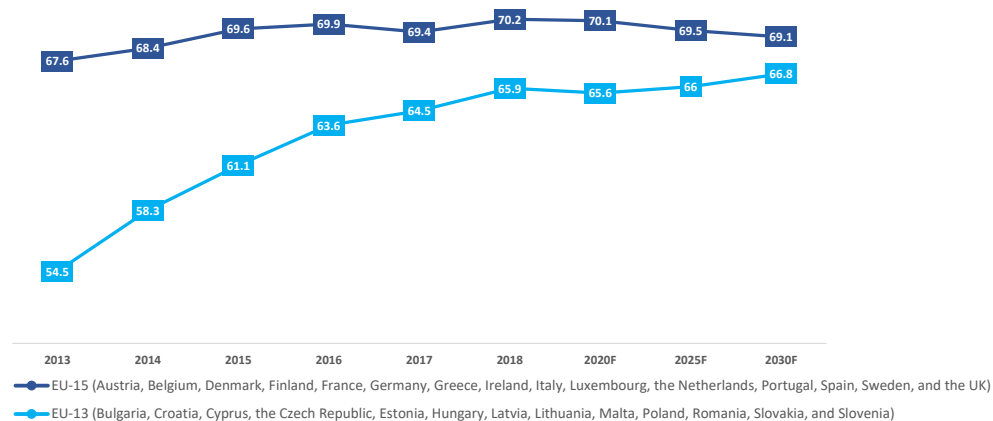


Figure 6 - Per Capita Meat Consumption (kg)

<sup>18</sup> Harvey, Fiona. 2020. "EU's farm animals 'produce more emissions than cars and vans combined'". Accessed October 12.

<https://www.theguardian.com/environment/2020/sep/22/eu-farm-animals-produce-more-emissions-than-cars-and-vans-combined-greenpeace>

<sup>19</sup> Down to Earth. 2019. "Top 10 Reasons Why It's Green to Go Veggie". Accessed October 12. <https://www.downtoearth.org/go-veggie/environment/top-10-reasons>

<sup>20</sup> Statista. 2020. "Meat Trends In Europe". Retrieved from Statista database <https://www.statista.com/>

<sup>21</sup> Vou, Andreas. 2019. "Europe is going veg". Accessed December 2. <https://www.europeandatajournalism.eu/eng/News/Data-news/Europe-is-going-veg>

Health: During the past years, health consciousness has increased. Moreover, with both vegetarian and vegan diets' growth, people got more exposed to these types of eating habits, due to marketing campaigns, advertisements, or simply because they knew someone that was on a vegetarian or vegan diet. These types of foods are known to have beneficial consequences in one's health, due to avoidance of certain types of meals that might harm our body and health. Vegan and vegetarian foods lack a huge offer of fast-food options, while normal diets have it in excess. Moreover, the type of products that compose a vegan diet is healthier than the overall products of a normal diet, as they are most likely biological, or do not have been affected by hormones and drugs to accelerate their development. Vegan and vegetarian diets are also linked with several beneficial factors such as a lower risk of heart disease, loss of excess weight, lower blood levels, improved kidney function, and possible protection against specific types of cancers<sup>22</sup>.

Summing up, food trends are much likely to go in line with nowadays consumer trends, such as the vegetarian and vegan diets, the decreasing offer of meat products, as well as providing products that follow high quality standards that ensure people healthy diets. Nomad Foods is trying to strengthen its market position by following the current and upcoming market trends, with the launch of its new brand, Green Cuisine, which is exclusively related to plant-based meat products, directly aimed not only to vegan and vegetarian consumers, but also to consumers who are trying to shift their diet into a one with reduced or inexistent meat consumption.

Moreover, as it is suggested by Greenpeace<sup>23</sup>, meat consumption is expected to drop by 71% by 2030, and 81% by 2050. These expectations are based on levels that scientists believe would ensure food security, and at the same time preventing environmental changes to keep growing. This recent trend among developed European countries might explain the reduction in meat consumption among these same countries, as people are shifting into a different diet.

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<sup>22</sup> Petre, Alina. 2016. "6 Science-Based Health Benefits of Eating Vegan". Accessed November 15. [https://www.healthline.com/nutrition/vegan-diet-benefits#TOC\\_TITLE\\_HDR\\_6](https://www.healthline.com/nutrition/vegan-diet-benefits#TOC_TITLE_HDR_6)  
<sup>23</sup> Greenpeace European Unit. 2020. "EU climate diet: 71% less meat by 2030". Accessed October 29. <https://www.greenpeace.org/eu-unit/issues/nature-food/2664/eu-climate-diet-71-less-meat-by-2030/>