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Frosta AG - Defining their own Category the Hard Way

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0. Introduction:

I owned Frosta several times in the past, among others Forsta was part of the initial portfolio and one of the first stocks I had "analyzed" back then. Unfortunately I sold them after bad results in December 2011 at a small loss. If I would have kept Frosta since the beginning, the CAGR would have been 11.2% p.a. plus dividends, so most likely (much) better than my total performance of 11,7%.....

My interest was rejuvenated by the excellent analysis from my friend Jonathan at Abilitato last year. Please read it to get the full picture as I will only concentrate on a few aspects and not do a full write-up..

I had started buying shares back then but just didn't have time to write about it on the blog.

Soundtrack: I had a couple of songs in mind but ended up choosing "Here I go again (on my ow) from Whitesnake to honor the unique path Frosta has taken over the past 20 years. And because I really like that song ;-)

Whitesnake - Here I Go Again '87 (Official Music Video)

1. A few highlights

- majority family owned and run (second generation)
- unique value proposition: Healthy and yummy ready made frozen meals with "pure food" and no additional (hidden) additives - since more than 20 years
- top line revenue growth is hiding much higher growth of the more profitable Frosta brand
- successful market entry and growth in neighbouring countries (Poland, Austria, Switzerland, Italy)
- still margin expansion potential with increasing scale and further reduction of low margin white label business

In this write-up I want to concentrate mainly on 2 aspects that I find especially interesting on top of everything Jonathan had written:

1) **Defining their own category - the hard way**
2) **Comparison to competitor Nomad Food (Iglo)**

I will close with a look at the chart and quick and dirty valuation exercise.

2. Defining their own category - the hard way

Frosta started out as a pretty "normal" frozen food player that initially was focused on fish. Not a surprise when the company is headquartered in Bremerhaven which is Germany's largest port for fish from the North Seas.

However, in the early 2000 they changed their approach quite radically: For their own brand of pre-cooked frozen meals which they had introduced, they eliminated all artificial additives (in Europe mostly named Exxx substances) and started to cook with only the ingredients and spices.

What sounds like a great idea actually almost brought Frosta to its knees. The market and consumers back then were not ready for this, especially as Frosta had to charge more for these meals. Cooking with a lot of additives is just less expensive. The products didn't sell at first and they started to make losses. This is the overview table from the annual report 2003:

GESCHÄFTSJAHR		2001	2002	2003
Mitarbeiter (Durchschnitt)	Anzahl	1.214	1.162	1.118
Umsatz	Mio. €	299	284	262
EBITDA	Mio. €	23,4	19,2	6,0
Abschreibungen auf Sachanlagen und immaterielle Vermögensgegenstände	Mio. €	14,5	10,9	10,7
EBIT	Mio. €	8,9	8,3	–4,7
Ergebnis der gewöhnlichen Geschäftstätigkeit	Mio. €	4,6	5,2	–7,4
Konzernjahresergebnis	Mio. €	2,8	2,3	–7,7
Ergebnis nach DVFA/SG	Mio. €	3,0	2,6	–5,4
Cashflow	Mio. €	17,6	13,2	3,9
Investitionen	Mio. €	8,6	8,4	6,4
Dividende je Aktie	€	0,40	0,40	–

The German grocery and food market is pretty bifurcated into cheap, affordable and mediocre groceries sold by the Discounters and big Supermarket Chains and more recently, "organic" food sold mostly by specialist organic chains that are considered to be much healthier but cost a lot more.

For a larger Corporate, this experiment might have ended right there as the responsible persons might have been fired. But Frosta, being family owned and Northerners being stubborn in general, were convinced that they are on the right track and the family just continued to focus on these "additive free" meals.

Fast forward 20 years and Frosta has effectively established its own category. There are a lot of fads in the Grocery sector (Gluten free, Cholesterol free, vegan, High protein etc.) but somehow Frosta's approach has endured and is prospering.

The negative effects of additives are well documented and can lead to allergies and other health issues. As a general rule, the more processed food is, the more additives it contains. Here is a sample link to some of the more harmful ones. A lot of these additives are used to make things look prettier/tastier or help to preserve food for a longer time (in supermarket shelves).

The family actually runs a small Museum in Hamburg that shows what kind of additional stuff goes into our food. It's on my to do list for the next Hamburg trip.

The Food industry uses many tricks to hide the declaration of additives and finding additive free food in a normal supermarket is really really difficult. One example is "modified starch", which is often in ready made soups etc. It can be called a "natural" component but it is still not really natural and has pretty much the same effect on blood sugar as sugar itself.

"Shock Frozen" food has the advantage that less effort to preserve food id needed by design. Interestingly, shock frozen vegetables keep Vitamin sometimes better than "fresh" vegetables, as the freezing right after harvest is often better than transporting the vegetables only chilled for a couple of days.

The great thing about the Frosta meals is however that they also taste (and look) great. It somehow resembles a typical Peter Lynch investment where you can do the Due Diligence on the product yourself just by walking into the next supermarket.

To my understanding, for a regular food company it is not so easy to switch to additive free production as one has to completely redesign the production approach and process which takes time and costs money.

From a marketing perspective, at least in Germany calling their approach "Reinheitsgebot" was very smart. The "Reinheitsgebot" is one of the first documented food standards and going back to the year 1516 when the rulers of Bavaria decided to define officially what ingredients were allowed to go in to brew beer. Funnily enough, even under the current "Reinheitsgebot", German Beer can contain some additional stuff which is usually not declared.

In any case, Frosta has created and established with their "Reinheitsgebot" a pretty interesting and enduring USP which is hard to copy at large scale for any competitor, especially those that think from quarter to quarter.

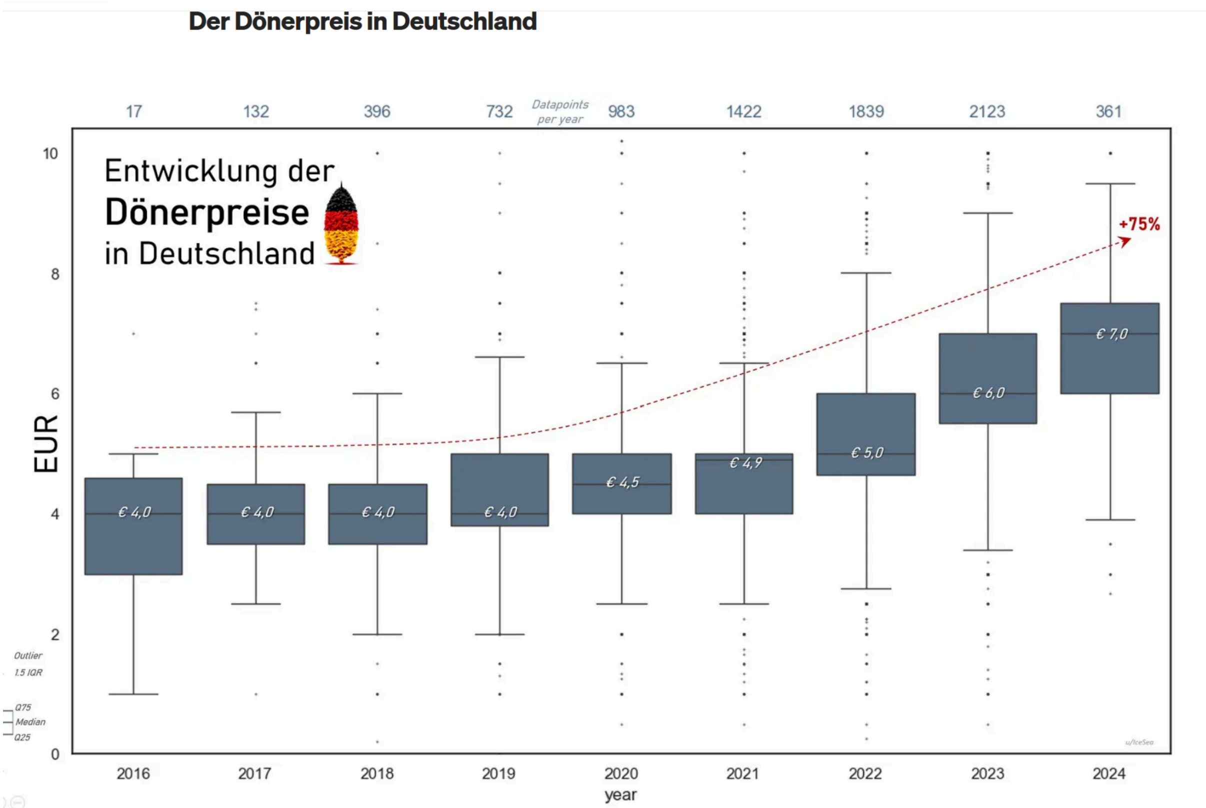
Interestingly, even after 20 years, at least in Germany there is not much competition, rather smaller and sometimes much more expensive niche players. Löwenanteil for instance, offers ready made meals non-chilled in organic quality at a price point of 9,99 EUR and needs to be ordered directly. A Frosta meal in comparison costs between 2,50 EUR and 5 EUR (depending if there is a sale or not) and is available in every supermarket.

The larger players like Iglo (Nomad, see below) and Erasco try to imitate this by claiming "100% "natural" ingredients but as mentioned before, modified starch is usually in there and other not so healthy additives.

Many studies claim that a significant portion of customers are willing to pay at least a little extra 8~10%) for products that are more "sustainable" and/or healthy. The overall "additive free" category is also growing faster than food in general.

One other aspect I want to mention is a “secular tailwind” from rapidly increasing prices in Restaurants, Fastfood and food delivery. Driven mostly by increased minimum wages, prices in Restaurants and fast food have increased significantly.

One of Germany’s most favorite fast foods, Doner Kebap for instance has increased in price on average~+75% as this chart shows:



A pack of a ready made Frosta meal is now significantly cheaper than a Doner Kebap from the street. 10 years ago this was roughly equal as Forsa prices haven’t changed that much.

Germans (and maybe their neighbours, too) are quite cost conscious and are willing to trade convenience for a lower price. I guess this would not work in the US, but here in Germany people definitely will use a frying pan for 10 minutes if that saves them money and if the result is even more healthy.

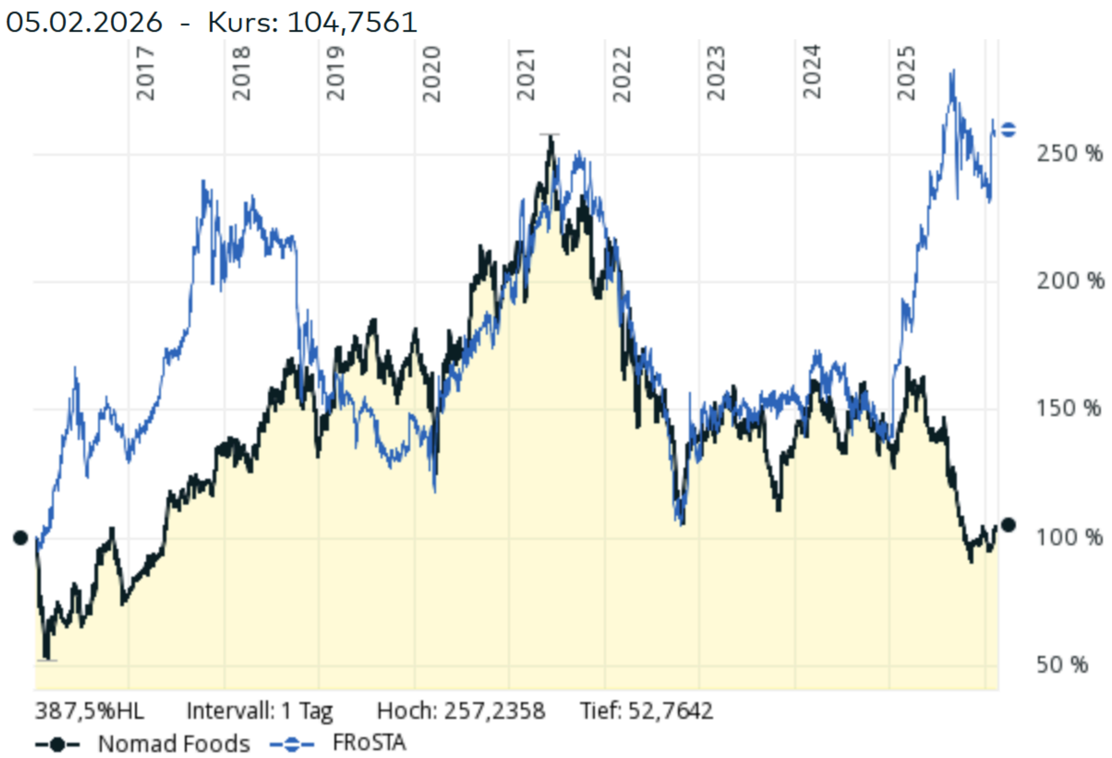
So the takeaway from this section is that Frosta has been digging a kind of “moat” around their Frosta brand for 20 years now and no one has been able to do the same so far. And it looks like that approach also works in neighbouring countries such as Poland, Austria, Switzerland and even Italy.

3. How does this compare to their largest competitor Nomad foods ?

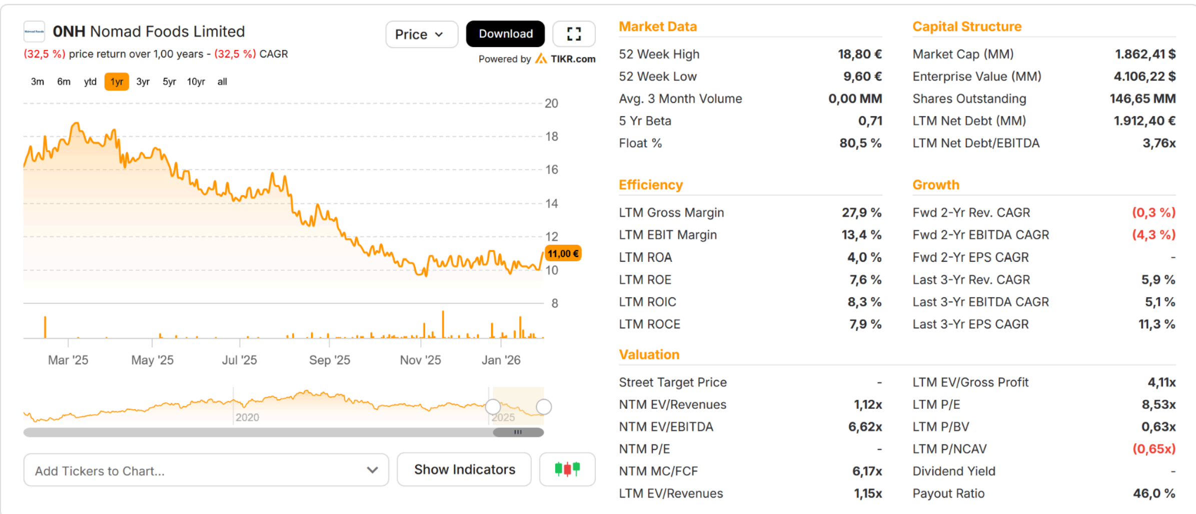
Nomad food was founded on April 1st 2014 as an investment vehicle by the Gentlemen called Noam Gottesman and Martin E. Franklin, both investment bankers/ Hedgefund Managers. The explicit goal was to roll up the European frozen food market through a series of acquisition.Here is an overview I borrowed from a website:

Year	Key Event
2014	Nomad Holdings, the precursor to Nomad Foods, was founded by Noam Gottesman and Martin E. Franklin.
2015	Nomad Holdings acquired the Iglo Group for €2.6 billion and subsequently renamed itself Nomad Foods.
2015	The company acquired the continental European businesses of the Findus Group for approximately £500 million.
2016	Nomad Foods transferred its stock exchange listing to the New York Stock Exchange (NYSE).
2018	Acquisitions of Goodfella's Pizza for €225 million and Aunt Bessie's for €280 million expanded the company's portfolio.
2021	Nomad Foods completed the acquisition of Fortenova Grupa's frozen food business for approximately €615 million.
2024	The company released its seventh annual sustainability report, 'Appetite for a Better World'.
2025	Nomad Foods reported strong fiscal year 2024 results, with revenue of €3.1 billion and Adjusted EBITDA of €565 million.
2025	Q1 2025 financial results showed a revenue decrease to €760 million, leading to adjusted full-year guidance.

Looking at the long term stock chart we can see that the stubborn family from Northern Germany has clearly outperformed the smart bankers especially in th last few years:



Why is that the case ? Looking at the TIKR overview, we can see that for one, Nomad is significantly leveraged with 3,8x Net Debt to Ebitda.



A quick look at the last presentation shows that like any company that has suffered PE ownership, they are reporting mostly adjusted numbers.

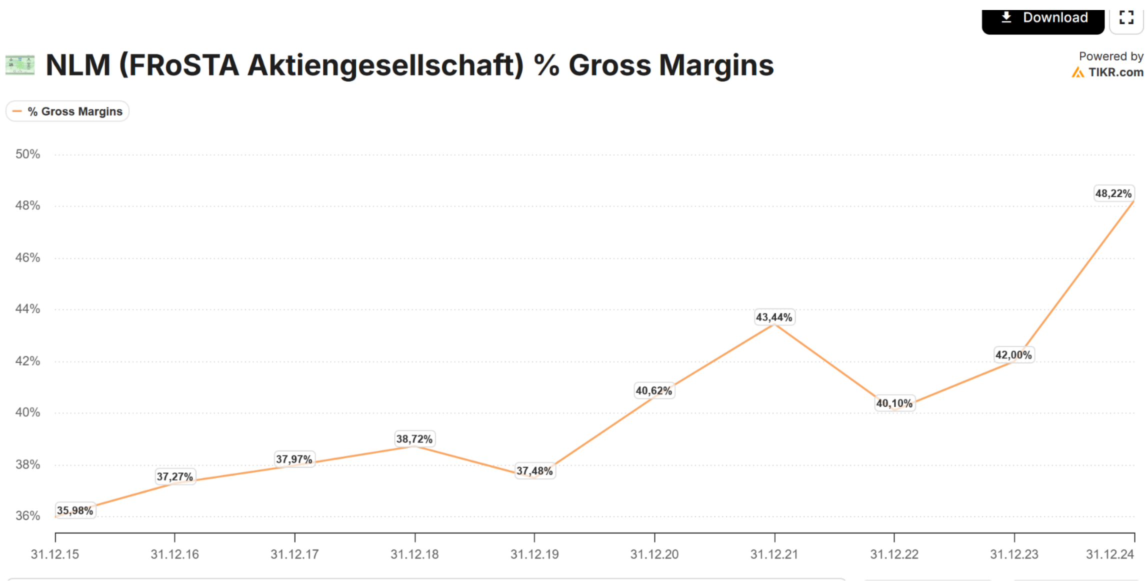
Total net income at Nomad is now lower than 2020, EPS is slightly higher because they have been buying back shares at a pretty rapid pace. In parallel they have been acquiring more business along the way which increased sales but not much else.

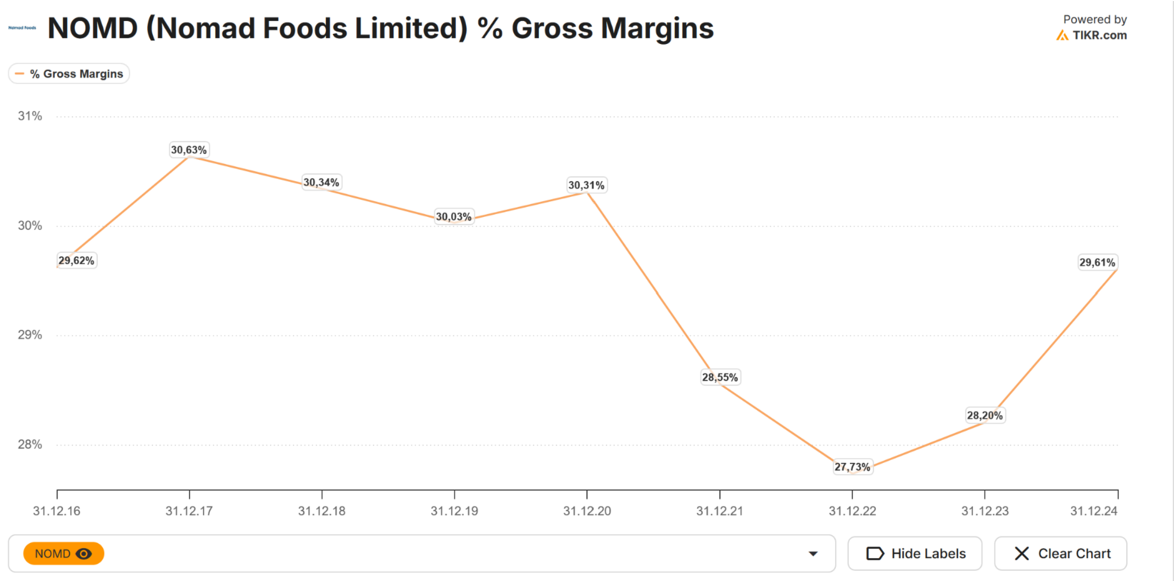
Interestingly, they have better EBIT margins, **but return on capital is a lot weaker than Frosta.** Gross margins have been on a slow decline since 2019. EBIT margins have been kind of stable but net margins are declining because of rising interest cost.

It's also interesting that Iglu seemed to have performed much better under Permira but I guess this is the usual "juicing up" of numbers from the PE guys:

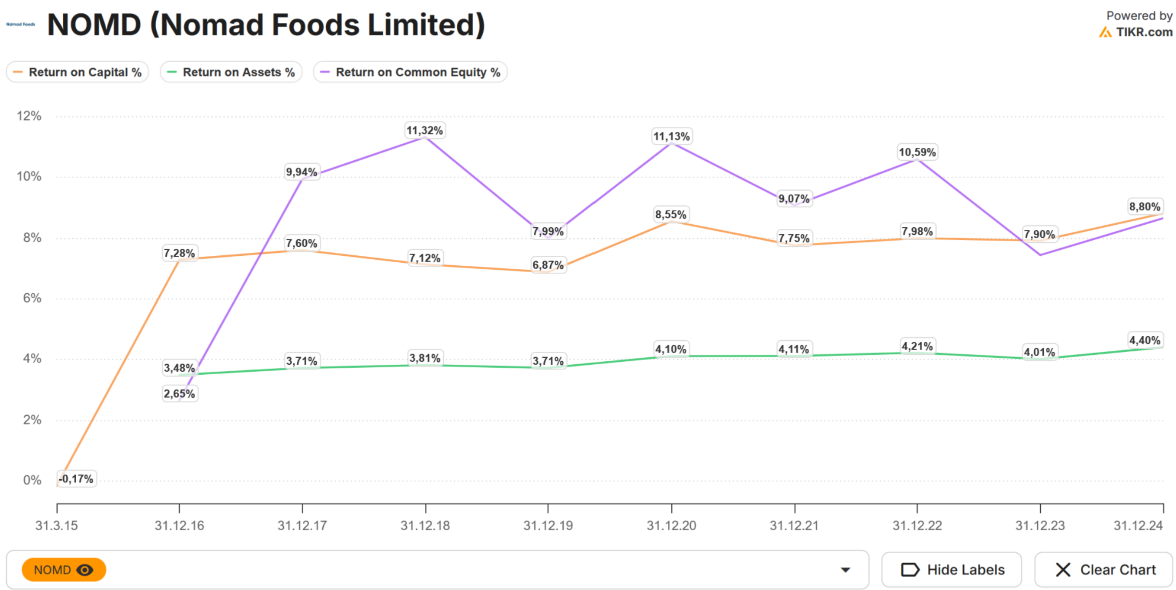
> For the full year 2014, Iglo Group delivered net sales and adjusted EBITDA of €1.5 billion and €306 million, respectively. The Company's gross margin expanded to 35.4% and its adjusted EBITDA margin was 20.4%. Cash generation has been a key focus within Iglo Group as evidenced by the Company's cash conversion level of 90% in 2014.

If we compare Gross margins, Frosta was able to increase Gross margins over the last year despite the hit from spiking Energy prices in 2022 and 2023.

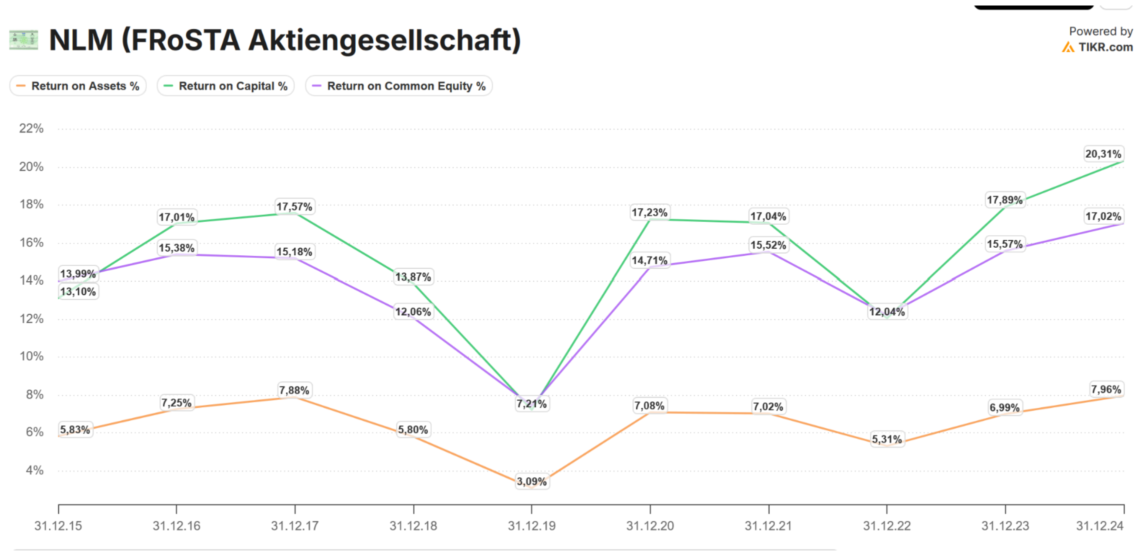




Nomad in comparison is struggling to keep their margins. What I find extremely astonishing how bad returns on capital are at Nomad, especially since they are run by investors:



Frosta has much better returns on capital which is quite surprising, considering that they run now with net cash:



The main difference is clearly that Frosta grew organically and Nomad paid a lot of money for its acquisition and is now carrying a lot of expensive debt. It also seems that the integration of the newly bought companies at Nomad is maybe suboptimal.

I guess this mirrors the fate of the other big "food roll-ups" like Ab Inbev and KraftHeinz and their masters 3G capital.

If we dig a little bit deeper it is interesting to see that Nomad already manages especially working capital quite aggressively:

Asset Turnover:											
Asset Turnover		0,41x	0,43x	0,41x	0,39x	0,45x	0,42x	0,46x	0,47x	0,48x	0,48x
Fixed Assets Turnover		6,25x	6,59x	6,75x	6,03x	5,96x	5,37x	5,38x	5,50x	5,37x	5,30x
Receivables Turnover		23,74x	20,93x	22,52x	19,22x	17,67x	16,09x	14,92x	14,51x	12,62x	7,97x
Inventory Turnover		4,21x	4,30x	4,66x	4,89x	5,25x	4,93x	4,90x	4,84x	4,91x	4,51x
Working Capital Turnover		15,97x	41,45x	22,45x	3,89x	49,04x	(70,26x)	16,85x	22,21x	28,03x	125,11x
Short Term Liquidity:											
Current Ratio	11,50x	1,16x	1,07x	1,12x	1,73x	1,06x	0,96x	1,19x	1,13x	1,10x	1,02x
Quick Ratio	11,50x	0,61x	0,51x	0,59x	1,28x	0,65x	0,49x	0,66x	0,68x	0,68x	0,58x
Dividend Yield %											5,7 %
Op Cash Flow to Current Liab	(0,01x)	0,37x	0,28x	0,38x	0,38x	0,50x	0,32x	0,32x	0,42x	0,39x	0,36x
Avg. Cash Conversion Cycle		22,08	15,95	22,59	22,42	21,27	23,15	27,84	30,61	35,40	(5,18)
Avg. Days Sales Outstanding		15,42	17,44	16,21	18,99	20,72	22,68	24,46	25,15	29,00	45,82
Avg. Days Outstanding Inventory		86,95	84,97	78,30	74,70	69,67	73,98	74,54	75,44	74,47	80,96
Avg. Days Payable Outstanding		80,29	86,46	71,92	71,27	69,12	73,52	71,16	69,97	68,07	131,96

Nomad seems to have "optimized" especially payables excessively in the last period whereas Frosta has much more conservative KPIs. I have read a few writeups that pitch Nomad because of the very high free cash flow but I do think that this kind of Cash flow generation is obviously not sustainable.

And still, Forsta is generating a significantly better return on capital. That's the beauty of long term, mostly organic growth.

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Asset Turnover:											
Asset Turnover	1,80x	1,72x	1,62x	1,55x	1,63x	1,79x	1,62x	1,51x	1,48x	1,39x	1,47x
Fixed Assets Turnover	6,24x	6,23x	5,45x	4,59x	4,49x	4,90x	4,86x	5,43x	5,91x	5,94x	6,44x
Receivables Turnover	6,11x	5,76x	5,77x	5,88x	6,63x	7,61x	7,75x	7,86x	7,88x	7,67x	8,66x
Inventory Turnover	3,96x	3,98x	3,91x	3,66x	3,69x	3,69x	2,85x	2,41x	2,35x	2,28x	2,57x
Working Capital Turnover	5,74x	5,85x	6,39x	7,99x	6,07x	4,65x	4,49x	3,93x	3,57x	3,28x	2,92x
Short Term Liquidity:											
Current Ratio	1,84x	1,78x	1,67x	1,49x	1,83x	2,88x	2,38x	2,32x	2,37x	2,29x	3,06x
Quick Ratio	1,08x	1,02x	0,97x	0,80x	0,87x	1,37x	0,87x	0,73x	1,14x	1,30x	1,74x
Dividend Yield %											2,4 %
Op Cash Flow to Current Liab	0,19x	0,40x	0,27x	0,36x	0,21x	0,87x	0,35x	(0,02x)	0,91x	0,49x	0,68x
Avg. Cash Conversion Cycle	86,42	89,46	81,06	69,97	71,30	88,06	110,89	131,73	105,76	90,49	107,38
Avg. Days Sales Outstanding	59,72	63,52	63,24	62,10	55,03	48,08	47,09	46,44	46,34	47,74	42,14
Avg. Days Outstanding Inventory	92,21	92,00	93,42	99,77	98,91	99,07	128,00	151,41	155,23	160,65	141,98
Avg. Days Payable Outstanding	65,51	66,07	75,60	91,89	82,64	59,08	64,19	66,12	95,81	117,90	76,74

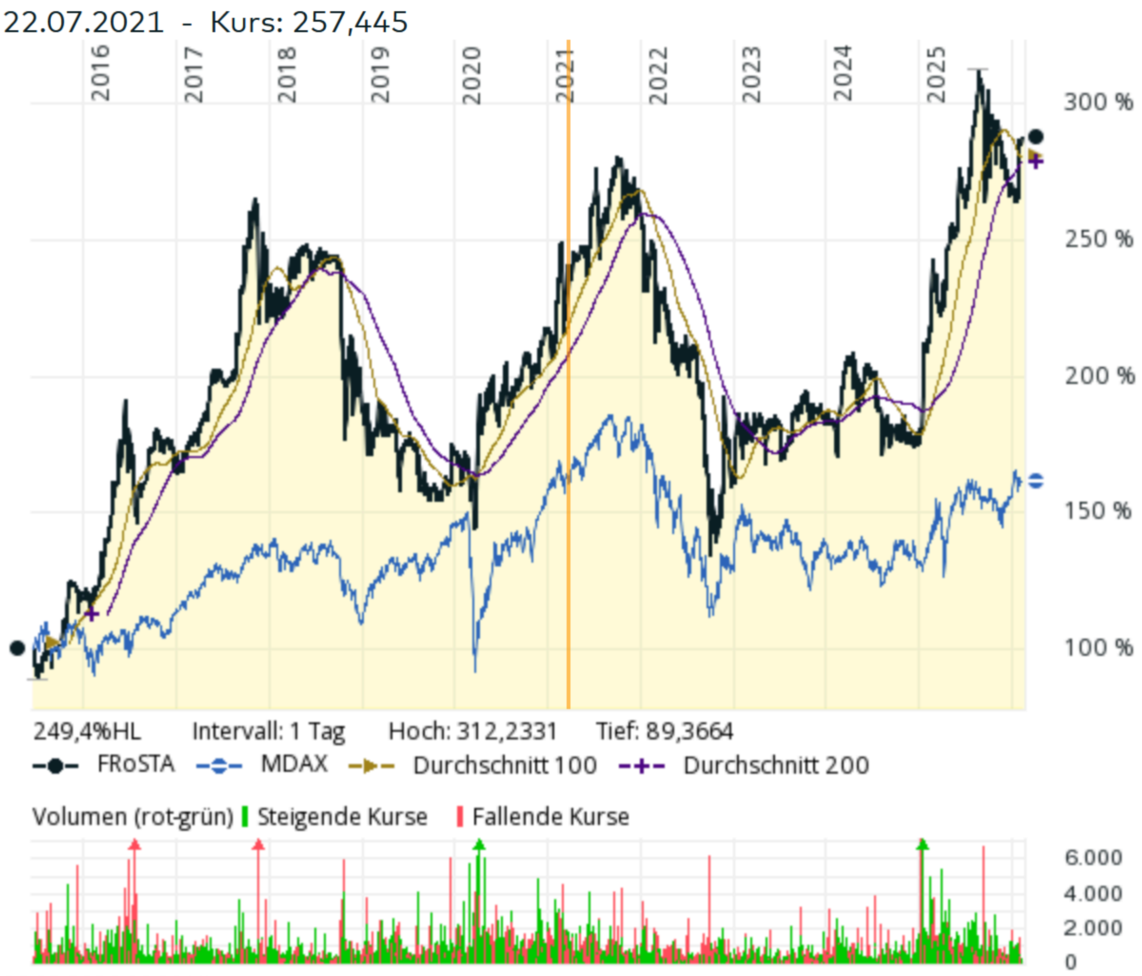
So what is the take away from this comparison ? From my perspective 3 main items:

1. Nomad is a much more aggressively leveraged company with very little room for error. I am pretty sure that they cannot afford to change their production system to truly challenge Frosta in their “additive free” niche.

2. From a margin perspective, I could imagine that over the next 3-5 years, Frosta will get closer to Nomad’s EBIT margins as they are continuing to phase out low margin white label business and the more profitable Frosta Brand keep growing. Also they might be able to scale marketing efforts over a larger amount of sold food.

3. At least for a long term investor, an organic growth strategy is at least equal to a rapid, debt fuelled roll up strategy. Investors of ABInbev adn KraftHeinz know something about that, too.

4. Stock Chart:



For a deep value investor, the stock chart would maybe not so nice, as Frosta is trading close to an all time high. On the other hand, fundamental are really strong and these days I personally prefer to invest into a positive fundamental trend if the stock is still cheap enough.

As we can see in the chart, in the past 10 years, the stock clearly reacted to overall market movements but did outperform for instance the German MDAX quite significantly

5. How does the family treat minority shareholders ?

Frosta unintentionally triggered a really bad development in Germany for minority shareholders. The Background was that they wanted to exit the regulated market in the early 2010s in order to save costs. Before that, any listed company that wanted to delist had to make a formal offer which could be challenged by minority shareholders.

Frosta's lawyers challenged that and went up to Germany's highest court, which in a surprise ruling said that Delisting is not really a negative event and that basically any company can delist anytime. This has been changed again since then a little bit but delistings have now become commonplace in Germany, often as a strategic tool (see Rocket Internet) from majority owners to take over a listed company fully on the cheap..

To be fair to Frosta, they still do report regularly and with decent quality. Their annual results will actually come out on February 12th and the annual report is comprehensive and timely. They don't do quarterly reports but a comprehensive 6M report. That's OK for me.

What I do like however is that they actively support employees to become shareholders. They have an annual program where employees can buy shares at reduced prices. In the last years, every year +500 employees participated in that program.

Additionally, leadership is also partially incentivised via shares.

If the family would try to screw around with minority shareholders, they would also screw around with their employees which I find highly unlikely.

Of course I would prefer that they would trade on the regulated market and maybe even participate in some investor events but I can live with that.

But again here the warning: The stock is very illiquid. Ordering without tight limit will be to your financial disadvantage.

6. Risks

The major negative factors for Frosta are energy cost (yes, freezing stuff is energy intensive) and the price of raw materials, especially fish which is still a very relevant product.

These two factors are clearly the biggest risk in my opinion.

Being a food company clearly exposes them to risk every food company has: Some kind of contamination and related negative press. So far this has not happened to my knowledge.

One risk is clearly succession risk. Felix Ahlers is 59 years old and has been the driving force behind the "purity" effort. I hope he will continue for some years but at some time he clearly needs to pass the leadership to someone else.

Finally, with the increasing cash pile, there is of course the risk what the family will do with it. They might increase the dividend otr maybe try to do a M&A transaction which they haven't ruled out. I'll trust them that they will not become the next Nomad but it is a risk.

7. Quick and Dirty Valuation exercise:

Frosta is currently trading at 96 EUR.

Frosta had around 14 EUR Cash per share at 30.06.2025. I estimate that this will be around 15 EUR by year end 2025 and 17 EUR at year end 2026.

EPS in 2024 was 6,16 EUR per share. I assume that they will reach 7 EUR for 2025 (+10%) and ~7,50 EUR for 2026.

One important thing to understand with Frosta is that t**hey don't try to smooth earnings much, at least not to the upside.** So you might always be in for some surprise either at the 6 month mark or annual report. Their guidance is usually very wide. Sometimes they decide to increase marketing expenses significantly which lowers profit in the current year but boosts revenues in the next year. In the long run, this has turned out very well for shareholders but for "weak hands" this can be a little bt unnerving.

That would be around 14x trailing PE overall or around 12x P/E ex cash.

A "fair" P/E would be 15x NTM earnings in my opinion. Many larger food companies with less growth trade at 17-20x P/E. A 15x P/E would account for the limited liquidity of Frosta.

This would lead to a shorter term price target of 15*7,50 + 16 EUR cash (est. 2026 level) = 128,5 **or an upside of around +34% plus dividends for a period of 2-3 years.**

In the medium term (5-7 years) run, I think that Frosta can continue to grow EPS by 9% p.a. (10 year EPS growth until 2024 9,3%)- Plus the current dividend yield of 2,5%, this would be an expected return of 11,5%.

Not extremely spectacular but very solid and for me very attractive for the low risk.

As mentioned above, I have already bought Frosta some time ago privately, but for my blog portfolio I assume a 2,5% allocation at 96 EUR/share.

The next relevant date will be the (virtual) Press conference for the 2025 results on February 13th. Depending on that I might add to the position cautiously.