

NESTLÉ S.A.

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FIRESIDE CHAT TRANSCRIPT**

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Speaker:

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.

Bruno Monteyne, Bernstein

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Bruno Monteyne, Bernstein:

Good morning everybody. François, good to have you again here.

Question on: Sustainability of the level of organic growth

Bruno Monteyne, Bernstein:

The biggest question on my mind really is the sustainability of the organic growth of Nestlé, between you and Mark an amazing job going from the 3 – 3.5% to the 5 – 5.5%. I would argue most investors are convinced you can remain here now you have achieved that transition. Now anything in life tends to slow down, me particularly, but definitely most product categories. You have a big dependence on premium coffee, premium pet foods. Very big, very high growth, sort of naturally slowing down.

So, a sort of two-part question. Do you need to keep doing deals to avoid slowing down? And actually, given the importance of premium coffee and premium pet food is it even feasible to find enough deals to avoid the slowdown in the Nestlé organic growth expectations?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

Good morning, Bruno, good morning, everyone. I would have said yes, a few years ago, that we needed clearly to address our portfolio in order to secure what we call mid-single digit growth which is between 4% and 6%, because we did not have a portfolio at that time that was geared for mid-single digit growth. I think we have done a lot, as we know, we have rotated about 22% of our portfolio in such a way, with significant disposals and significant acquisition as well. And by the way, the amount for both of them is equivalent; CHF 22 billion of acquisition CHF 22 billion of disposal, which gives us today a portfolio where we are confident that we have the portfolio which is geared for mid-single digit growth. Can we improve the portfolio further? Yes, so we can continue being active and we will continue being active. I think we have a duty by the way to look at opportunities without being forced to do anything. I don't want to be arrogant or complacent but at Nestlé to a large extent most of the deals we are looking at, are, to a certain extent, nice to have. Very few are must-haves because we have a good geographic footprint, we have good leadership positions in our categories. So we can do some add-ons, but most of the deals we are looking at we should not make a desperate move to get them at any price. We need to be very disciplined as well, which is what we have done in the past. So we don't need really to go for M&A in order to secure that mid-single digit growth. But it could help us, it could complement a little bit and strengthen some of our positions in some of our businesses. Maybe if I go one step further Bruno. I think that we had exceptional growth: we and the entire industry over the last couple of years. Obviously inflated by pricing, which is relatively artificial, there is no value there anyway because we just pass through whatever we

received in terms of input cost inflation without creating any value. So we are not really necessarily interested in pricing. We are much more interested in RIG, because this is where we create value through volume, through mix. And we believe that going forward, as it was the case before the pandemic, the bulk of our growth, probably a good two thirds of our growth, maybe more, should come from RIG, as a combination of volume and predominantly mix, where we create value.

Question on: Maintenance of organic growth without M&A

Bruno Monteyne, Bernstein:

Now mid-single digit 4 to 6% is obviously quite a wide band François. So I just want to re-ask, so do you think without any deals, there will be no slowdown in organic growth at Nestlé over the next three to five years. You could still stay within the four to six but I feel surely in most categories over time tend to have a slow-down impact, but you don't think that's necessarily the case?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

No, because most of our categories are growing structurally at mid-single digit growth. There will be a slowdown from the current level and where we are, today we are at 8% but we can go down to around 5%. If you look at our main categories PetCare, Coffee, most of these categories, Water, Confectionery, most of these categories are structurally growing without any significant tailwind from pricing at a mid-single digit level. We have some categories that are probably growing at a slightly lower level. Take Frozen for example in the U.S., that's not a mid-single digit category, that's a low-single digit category but it's a smaller part of our business. By the way don't conclude from that that shouldn't stay within that category because we can assign a different role to such a category, which is about margin improvement, which is about cash flow generation as well. But the vast majority of our portfolio is structurally growing at mid-single digit level and we aim at doing better than these categories market share wise.

Question on: "Third leg of growth" category

Bruno Monteyne, Bernstein:

My interpretation was always that the Aimmune deal was an attempt at having a third leg of growth. Some of the other legs tend slow down and therefore if the Aimmune deal didn't happen, you were short of a third leg of growth. You would not agree on that?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

No, it was not to substitute slowing growth in some of our categories. I mean, it's true that we have created a new leg to a certain extent with VMS, not necessarily with allergies but with VMS; Vitamins, Minerals and Supplements, which is there again a category that is structurally growing in the mid-single digit space.

We are not running out of growth opportunities. Take in Coffee for example, this is a category that responds superbly well to innovation, this is a category where we still have a low level of consumption in many markets. Take the example of China, India, you could tell me François you are nice, but these are tea markets. I read in the press recently that, I think here in the UK, coffee consumption, UK is a tea market by origin, but I understand that at the beginning of this year, actually coffee exceeded tea in terms of consumption in the UK. I think Japan is probably close to that stage as well, which was traditionally a tea market. And so, we see really a pent-up demand and an accelerated demand for coffee consumption in India, in China, which are huge markets.

Take PetCare, this is a market that we will go probably this year for a fourth consecutive year of double-digit growth. We won't be able to maintain double-digit growth, which is there again partly fuelled by pricing, but we are very confident on the fact that we will be able to maintain high single digit growth in PetCare through innovation, market share gain, e-commerce and so forth. So don't believe that we are running out of growth on most of our categories and that we need to do investments in order to substitute the growth.

Question on: A&P spend
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Bruno Monteyne, Bernstein:

Thinking about A&P you disclosed it for the first time, I think it was 6.9% in 2022, but you also suggested it was a low point because whatever the specific dynamics in 2022. What was the level of A&P pre-COVID and can you get back to that level?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

We can get back to the level, so we were at 6.9% last year, we are going to be probably around 7.5% this year. We will continue investing even further in 2024, so it will be most probably in '24 above 7.5%. And we like investing in marketing. The level pre-COVID is it the right benchmark? Yes and no. At the end of the day, we look less at the amount in absolute value as a percentage of sales, we look at the quality of what we do. So what matters is what shall we do in order to support our brands and what should we do in order to support our sales, which is not necessarily a precise number, either by value or as a percentage of sales. We will continue investing for sure. We hesitated a little bit in the past to disclose that amount because

we know that numbers disclosed by some of our peers are not necessarily consistent in terms of content, which is a reason why it's always difficult to compare. But from what we could see in terms of comparison, we are relatively well positioned in terms of investment in our industry, let's be careful maybe from time to time comparing with other industries. But in our industry we are reasonably well positioned. Let's not forget either that because of our scale the amount that we are putting on the advertising markets are quite significant in the end because we have scale.

Question on: EBIT margin model and cost of sustainability
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Bruno Monteyne, Bernstein:

Next thinking about EBIT margin, I think François, a few years ago before we went to this commodity peak, you argued that the rate of margin expansion at Nestlé would slow down, largely because the cost of transitioning to a sustainable world would be higher and you needed to invest in that. If I'm not mistaken you used to say - look, historically we had about 40 basis points annual EBIT margin expansion, that'll probably be more like 10 to 15 because of that.

Now, a lot has happened since then, you know there's a cost of commodities, the cost of sustainability. Looking at some of your reports on sustainability progress, some of this is harder than people planned. Has that cost, moving to your sustainability targets, increased since that first discussion two years ago.

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

Not, really actually. If you look at it when we started that exercise three years ago, we said that for the first five years '20 to '25 we would spend about 5 billion, roughly speaking a billion a year, obviously ramping up. We will spend this year probably around a billion, but I can tell you over the first five years, we will be probably maybe a bit below what we expected to do in terms of investments. We call that an investment even if everything goes to the P&L.

So we will probably spend a little bit less than this 5 billion, while achieving our objectives. So I would say the cost of this sustainability investment is pretty much in line with what we thought, and I would say probably a bit lower than what we thought. The reason being that we have learned a lot, we have improved a lot, to develop our own way, to spend wisely and with a view of getting a return. The return is not necessarily what we expect to get in terms of additional sales, because it is very difficult to measure. Even if we know that 70% of consumers take sustainability as an important attribute in their purchasing decision but that doesn't mean

necessarily pay a higher price to start with. But we have developed methodologies in order to be more efficient and more effective in what we do.

We look at a concept which we call internally, net impact value, which is, on the one hand minimise the investments or the costs, and on the other hand, maximise the output. Maximise the output means reduce as many carbon tonnes as we can, reduce as many cubic metres of water as we can, eliminate as much as we can in terms of non-recyclable and non-reusable plastic, for example. And we put ourselves in a position to make choices, to make arbitrage. So, for example today, there are some specific geographies where the cost of this investment, with a better impact is lower, in some emerging markets for example. There are some categories today where we do have the solutions that allow us to reach our sustainability investment at a reasonable cost. In some other categories, we better wait because technology or science is not necessarily ready today. So, we do select the projects that we go for by geography, by category, by nature of project as well. And as a consequence of that we are more efficient than we thought initially. The other thing is that technology and science is evolving very quickly and do help us. So, we don't see the sustainability case as something that is tougher than it was, and we have learned a lot, so it's pretty much in line or even slightly better than we thought.

Question on: 2025 & 2030 sustainability targets
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Bruno Monteyne, Bernstein:

Now there's a few public targets that investors tend to remember. It is a 2025 plastics and packaging target. 2030 you have your first big greenhouse gas emission reduction target as well. We are getting closer and closer, any risk to any of those 2025 and 2030 targets at the moment?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

It's not in the bag yet, but we are reasonably confident in the fact that we will achieve most of these targets. If you look at greenhouse gas emissions, we will reach the 20% reduction of our 2018 base by 2025.

Don't forget one thing is that there is a time delay of about two years with these projects. So, it may look like what we have achieved in 2022 is a bit far away from what we need to achieve in 2025. But since a lot of the investment that we have done last year, for example will pay off usually next year so what we do now will materialize, in terms of impact, in 2025. There is about a two-year delay, so don't be worried if you don't see a very strong takeoff at the beginning. So, we are very confident that we will get there for the greenhouse gas emissions.

If you look at designed for recycle plastic for example. We are currently at 82% rate of designed for recycling. We will be with our objective of more than 95% by 2025.

If I look at all of our KPIs and I could give you some other ones, we are basically on track to get there. So no, we don't see any major challenges. It is not an easy one, but we don't see any issue cost wise, and we are on the right track to get there.

Question on: Using recycled plastic

Bruno Monteyne, Bernstein:

Just thinking about plastics recycling the big part is actually using recycled plastics rather than designing. I remember you had this fund for, what was it, food-grade recycled plastics. Are you on target also for actually using recycled plastics within your own products?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

Yes, so if I take for example, virgin plastic use, so to reduce virgin plastic use we have an objective to get to 30% reduction by 2025. Today we have 10% and we are confident that by 2025 we will be at 30%. So I think globally, everything is really moving in the right direction with what we do.

Question on: Slowdown in consumption behavior

Bruno Monteyne, Bernstein:

A bit more shorter term, the consumer being super resilient in the last few years against all expectations. Do you see any sequential slowdown, anywhere globally, in the consumption behaviors within in your business?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

I would say yes and no. If I take it by Zone, let's start with Europe where we are today. We were actually at the beginning of the year, quite worried about the consumer in Europe in the context of a possible energy crisis and energy shortages, which actually did not crystallise. So, we are a bit more optimistic today than we were, although the consumer sentiment is still a little bit weak and fragile in Europe.

In the U.S. we have been surprised so far to see a lot of resilience probably with consumers having, I think maybe valid for Europe as well, still a lot of savings from the pandemic that they could afford spending and investing on the one hand, huge subsidies in the U.S. and that is coming to an end. Both I would say the savings leftover from the pandemic on the one hand and second the subsidies, massive subsidies, by local government and federal government is

coming to an end. If you look at it today, there is not much left apart from a little bit of student loans and so forth. But SNAPS on everything is really disappearing or moving down significantly. It starts to impact a little bit consumption although many of these subsidies actually were not something that we were directly benefiting from. We see a little bit of evidence of it, maybe for some categories where we are a little bit more impacted like Frozen in the U.S. But apart from that we are not heavily exposed to these subsidies, but we do see a little bit more of a slowdown there.

And in emerging markets, very resilient consumption I must say. It's quite amazing, we expected that over the last two years, consumers would suffer a little bit more because of the affordability needs. That did not really crystallise.

Finally in China, we can't complain because this is the only Zone where we still had in the beginning, in the first six months of the year, positive RIG. But it's a little bit less than what we expected. So it's positive. There are some signs of recovery but not as strong as what we thought.

Just one final remark though, to avoid any misunderstanding. The Food and Beverage market worldwide is evolving in negative territory by volume, which is quite unusual. It is the case in the U.S., it is the case in Europe, which is people are consuming less. Are they eating less, are they wasting less, are they eating more out-of-home? Difficult to know. I don't think that it will last but let's not forget that we do operate in slightly declining markets by volume, which did not happen that much in the past. I don't think it will last.

Bruno Monteyne, Bernstein:

And how long has it been going on so far, the decline?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

Since the beginning of the year.

Question on: Deflation

Bruno Monteyne, Bernstein:

Now, everybody thinks and talks about deflation. I think if I ask you do you see deflation you will say no and you will say we don't see any risk of deflation. So, I'm going to phrase the question differently. If we came back here next year or in 18 months and there had been deflation, where do you think would be the most likely areas where you could have had deflation if it will happen?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

So, we don't see the time for deflation. First of all, we had massive inflation. Last year we received 8 billion of additional cost in terms of raw material, packaging material, transportation, energy, labour and so forth. By the way, we passed on 8 billion of pricing but that led to 160 basis points of gross margin loss. So, we have retained actually quite a lot as a consequence of that. And this is not the end of it, inflation is not over, we still have salary and wage inflation, energy moving back again. I mean, oil prices are moving back again. You have general inflation probably in most countries around 4 to 5%. So that's not the end of it.

We still have raw materials increasing, Robusta prices are moving up, sugar prices, cocoa prices are moving up again. And you know, everybody's excited about deflation. If I look at the basket of commodities for Nestlé, it's true that today we are about 20-25% lower than the average of last year, but we are 30% higher in our basket of commodities; 30% higher today than we were on average between 2015 and 2019. So we are at a high level and we are even 40% higher than we were in 2019. So, this is not the time for deflation. I'm not saying that tactically some categories, and we will do some tactical whenever needed for consumers whenever it makes sense, some tactical deflation. But again, we are at a relatively high level of commodity pricing still with an environment where there is still inflation in the background anyway.

If there is deflation, as I said, we could see some items with probably price decreases that would be probably be clearer in categories where we have less premiumized businesses. So whenever we have premiumized anyway there is less sensitivity to pricing, so it's unlikely to happen in premium segments of our portfolio. It is more likely to happen in mainstream segments of our portfolio.

Bruno Monteyne, Bernstein:

So you are thinking there about Dairy, some parts of Confectionery?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

Dairy, probably. Confectionery no because we have sugar and cocoa increasing. But probably maybe a bit more in Dairy for sure. Possibly in Food.

Question on:	Positive RIG guidance
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Bruno Monteyne, Bernstein:

Now you did guide to positive RIG, so positive volumes in the second half. Is there any economic assumption behind this? Let's say we have to have a soft landing or is it resilient enough if we do see the slowdown for example that we expected in Europe earlier?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

The guidance we gave is that we expect to be with positive RIG in H2. So, I confirm that, we do expect that to happen. Anyway, we are already fairly advanced in the year. This is linked to four main factors. I would say they are relatively independent from the economic environment between now and the end of the year. It is essentially linked first to the fact that we have an easier base of comparison but that's not limited only to that. The other thing is that we do invest much more in marketing as we speak. So, as I said, we expect to raise our marketing investment by about 100 basis points in H2 this year versus the same period of last year.

We don't do a lot of pricing anymore. So pricing is very specific, very targeted, but we have not done a lot of pricing since the beginning of April. And finally, as you know we embarked into fairly ambitious portfolio optimization program which had a negative impact on RIG and volume last year and in the first part of this year. But with an objective of having a positive impact in the medium term, which is starting to happen already. So, we start benefiting from that. One example of it is the fact that the objective was to increase our service level, the number of orders that we fulfil, which was at low level, which means we were not in a situation to meet or service all demands or orders we received. Our service levels have improved very significantly since the beginning the year, since we have embarked on that project by really focusing on high value, high volume, high margin SKUs. Dropping in a certain number of cases the efforts that we were doing before on low margin, low volume SKUs, so it does make a lot of sense to go into that program.

Question on: Promotional increase in U.S.

Bruno Monteyne, Bernstein:

You did mention something about the U.S. and some of the support programmes rolling off and it might have an impact. Do you expect the promotional intensity in the U.S. to start going back to pre-COVID levels on the back of that or you don't see any threat of that yet?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

We do see anyway, if you should look at the industry in general and this is the case for us, over the two years we were in a supply-constrained environment. We are moving now, we are like the industry, into generating demand which mean that supply issues are lesser, have disappeared basically and we are getting at the end of our own supply constraint. So, we need

to move into generating demand. We limited marketing spend last year for example, because we were in a supply constrained environment. Today, we are reinvesting again. By the way we never reduced our promotional spend ourselves and even, in order to bring more affordability to consumers last year, we did do even more promotional activities and promotional spend. We will continue doing it but the focus that we are doing today is much more on investing in marketing, which is the part which we reduced. In the market the fact that moving from supply constraints to generating demand does mean that we see more promotional activities in the market as well. And more specifically in the U.S. to answer your question.

Question on: Capital allocation

Bruno Monteyne, Bernstein:

Thinking about your capital allocation. Currently your size of your share buybacks and the dividends is bigger than your free cash flow. We've seen the leverage going up. It's not a great time for the additional debt. Should we expect a reduction in the size of the share buybacks, and do you have to re-think how you think about the capital allocation?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

Let's put things in perspective. If you look at our current share buyback program 20 billion over three years, to be completed by the end of next year. And the previous programme same size same duration. It was 20 billion and it is 20 billion but actually the reality is it's 10 billion because half of it has been financed, for the previous programme and the current programme, by disposals. So, half of it corresponds to return of cash proceeds. In one case, the disposal of Nestlé Skin Health for more than \$10 billion. And in the second case, the reduction of our investments in L'Oréal for a little bit more than € 9 billion.

So, the reality that the share buyback programme that we have today is not really 20 billion but is really in reality more 10 billion. So, if you look at it over three years, it's more or less 3 billion a year, around 7 billion of dividend which means that the cash return to shareholders outside of disposals is about 10 billion a year. Our cash generation evolves around 10 - 12 billion, actually closer to 12 billion. It will be 12 soon and it will be more than 10 billion this year, which mean that we can easily finance, I would say, the dividend and the share buyback, excluding the impact of disposals, which is neutralised by itself, through our cash flow generation. Last year our cash flow generation was artificially low due to the fact that we decided, it was a voluntary decision, to increase our inventory level in the context of a possible energy crisis in Europe. This year we will be back to around 10 billion of free cash flow, and next year and the following year we should be around 12 billion, so I don't see an issue to finance 7 billion of dividend and maybe 3 billion of share buyback.

Just one additional word on the share buyback. We have done share buyback programs over the last couple of years. Don't take it for granted that once we complete the current programme, which we will complete at the end of next year, automatically, we will go for a new one. This is part of the thing that we need to revisit. What is our leverage at that time? What is the cost of financing in the market? What are the external growth opportunities that we have? What is the leverage and so forth? So we will revisit the need for share buyback or not, in due time, probably in the course of next year. In the meantime, let's complete the one that we have started.

Question on: Income accelerator program

Bruno Monteyne, Bernstein:

Thank you. Now back to some of the sustainability programs. You are quite leading in the income accelerator, and we talked about last year as well about the progression towards living income for farmers. Can you, given that you have been up and running for a little while how broad is the program today? Do have an indication of what percentage of your farmers are on the living income or the income accelerator and when would you plan to have all farmers on that program?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

The program is working well. We started to scale it up. Today we have about 10,000 farmers that are participating in the program and we expect to get, over time, probably 160,000. But it was important to test it, it has been very well received both with what we could see by the partners doing it. Just as a reminder for many people this program is very different from what we did before because if we want to help farmers, this is not necessarily about buying cocoa at a higher price or buying raw material at a higher price. By the way when you do that you give a better service to large farmers, which are not the one that we want to target, we want to support more the smaller farmers. So the fact of helping smaller farmers to increase the productivity of what they do, helps them to send their kids to school and so forth. By increasing their productivity, for example, train them to prune their cocoa trees and by doing that they increase significantly their productivity and so this makes a lot of sense, and frankly speaking what we could see ourselves, what our independent partners have seen as well, the result is very attractive, which is the reason why we want now to scale it up from the 10,000 farmers involved to the 160,000.

Bruno Monteyne, Bernstein:

From 10,000 to 160,000, what kind of time frame?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

It's going to take a few years because we need to make sure that we do that properly.

Bruno Monteyne, Bernstein:

Any learning so far, because I believe we're only bridging part of the gap with the hope that other incomes would boost incomes. Any material learnings from the 10,000, whether things are going better than expected.

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

In line with what we expected, no negative surprise there.

Question on: Palm oil alternatives

Bruno Monteyne, Bernstein:

The second sustainability topic that we have written and discussed was palm oil. You probably know our view that we think that companies should look more actively for palm oil alternatives. What is Nestlé's view in terms of its desire to look for palm oil alternatives?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

So we are looking at alternatives like algae, precision fermentation through R&D, like alternative sources of oil like mango oil and so forth. And we believe that it is our duty to look at that. That being said, just to be clear, there is not one single solution that will make it all. So we will need to use a certain number of alternatives. But there is not single one that will substitute entirely so we will need to continue to use palm oil if we want to be efficient.

So, as a consequence of that, we will develop some alternatives, but they won't be sufficient individually. So it's a whole set of alternatives and we will continue using palm oil as well. And as a consequence of that we need to continue in our programs to act as responsible citizens when using palm oil as well. I think that we have done quite a lot, more needs to be done, we need to work with other partners in order to make sure that we have reasonable use of palm oil.

Bruno Monteyne, Bernstein:

You mentioned the algae-based alternatives. I think you might even have some investments in some biotech companies to get alternatives. Are there any commercially available products of Nestlé that use these alternatives already?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

Not to my knowledge, not at scale. The issue is more that we are still at an early stage of development of these solutions, but we know that none of them will be scalable to the extent where we will be able to substitute entirely what we use in terms of palm oil. But some will help certainly but not on a very large scale.

Question on: Ultra-processed food

Bruno Monteyne, Bernstein:

In the world of food here in Europe, there's a lot of discussion about ultra-processed foods, this idea that it isn't just about calories or particularly ingredients it is the way the food has been produced that causes our bodies to respond badly.

And clearly Nestlé would probably score as quite a few of the foods are the ultra-processed foods. What's Nestlé's view on either the science, the threat of ultra processed foods and how are you responding to consumer concerns in that area?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

We need to be very conscious of what consumers are worried about because we need to address that. We are working in the business of developing nutritional products. So we pay very much attention to these issues.

We are working very actively in order to reduce the number of ingredients we use. So, we've been working for years on the concept of what we call clean labels, which means kitchen cupboard ingredients, limited number of ingredients. If we can, on the front of the pack, but we know that consumers don't want to see a long list of ingredients with some stuff called acid whatever, E24 whatever, which consumers don't know what it is. So already for a few years we have tried to get rid of that and limit the number of ingredients and go to kitchen cupboard ingredients. So we have moved in that space. We will continue to do it with a view to offer nutritional products there.

Let's not demonise packaged foods either because we need to be careful with that. First of all, packaged food overall is extremely safe. I think it has never been as safe as it is today on the one hand. Packaged food is also, without necessarily talking always of ultra-processed food, packaged food is contributing to limit food waste. If you look at the Food and Beverage industry in its totality the food waste is about a third of the food, that doesn't make it to the consumer is wasted. With packaged food it is 11% the waste, so it does contribute as well to reduce waste. But let's find the right balance between having processed food and packaged food without going to the ultra-processed food as you said, with potentially some negative impact, or

negative perception by consumers which is a reason why we are moving into this concept of clean label, limited number of ingredients as well.

Bruno Monteyne, Bernstein:

So, I understand what Nestlé is doing, you're going on a similar path. But clearly the claim of ultra-processed food that it is the way of processing is unhealthy, has Nestlé may made any statement whether they agree on that science or disagree on that?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

No, we have not made any public statement on that. But I think that we need to be careful as well. What is the definition of ultra-processed foods? Which is the reason why before we start making statements, we need to have a little bit of clarity on our side and on the side of the industry as well on what do we call ultra-processed food.

Question on: PetCare slowdown

Bruno Monteyne, Bernstein:

Now on to the questions of the audience. The first question François, are you seeing a slowdown in PetCare? Some peers have mentioned destocking.

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

So, we keep on having the question and we keep on saying, not really. We hear some background noise from some of our competitors, for example, that the market is slowing. We don't see a clear slowdown. We continue seeing the markets including in the U.S., which is our largest market, moving up volume-wise in the U.S. We continue to see the pet population increasing as well.

There might be some specific segments or sub-categories within PetCare, where we are not necessarily strong players, that experience some slowdown. I would mention one which is treats for example. If people return back to the office, for example, which is more the case today, they use less treats because they spend less time at home with their pets. And if consumers have a little bit more pressure in terms of purchasing power, treats are more of a discretionary item. It happened for example in treats, we don't have a sizable presence in treats. When you have some segment like wet food, which is suffering may be a little bit more than dry food. And so globally, we don't see clear evidence of a slow down as far as our business is concerned, which is a reason why we decided to invest significantly, and we were really capacity constrained lately in the U.S. and in the rest of the world.

Question on: CFO transition**Bruno Monteyne, Bernstein:**

What are your two most important objectives in successfully transitioning the CFO role to Anna later this year and can you share any details what's next for yourself?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

First of all, I want to make sure that Anna succeeds in succeeding me. So we'll make sure that we have sufficient time in order to transfer whatever knowledge she needs to understand. I'm very confident that Anna is coming from a background where she has spent 15 years in the fast-moving consumer goods industry. She has been of CFO of public companies two times. So I think that she's very well prepared to succeed.

I think that it will be important as well that Anna does maybe other things than what I have done. We have created a lot of value, with Mark, with the team over the last couple of years but the value creation might be different as well. I am a strong believer that a significant portion of the value creation that we will generate in the future will come from digitalization, will come from data analytics. Just as an example, we spend close to CHF 30 billion today in marketing and trade spend, where we are, in my opinion, at the beginning of fully understanding what we can do with digitalization with data analytics, tomorrow, we will be in a better position to optimise that. If we optimise our marketing and commercial investment by 10%. That means that we free up 3 billion a year. Doesn't necessarily need to flow to the bottom line, but that's something that we can re-invest. I think Anna is someone because of her business today where she's probably very well equipped in order to deal with these kind of topics given the industry where she comes which is much more about data analytics and digitalization. I'm sure that Anna will be super successful in doing that and I'll make sure that the transition will go very smoothly.

I can't tell you much about my next step. Just what I can say is that I'm not retiring, which is the first thing. I don't know the exact date of my leaving because I need to wait, I want to understand first when Anna is joining us.

But I'm sure you will hear in due time what my next steps will be but I'm sure they will be exciting.

Question on: Nestlé culture**Bruno Monteyne, Bernstein:**

How has the culture within Nestlé evolved over time? It used to be seen as very bureaucratic, has this changed under the new leadership in the last few years?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

I never had the feeling actually that the culture at Nestlé was bureaucratic. I don't know, I see the finance organisation I can speak easily about that. Globally it's not a very large organisation. By the way the head office is not a very large head office. For those you who visit our head office in Switzerland, it is a beautiful place, but it is not that large, we don't have so many people. Let me just give you a couple of examples, which illustrate this. Since I have Luca here in front of me, in investor relations we have four people. For a company of our size, I think that the team does a lot with actually a limited number of people. If I take our global tax team it's fifteen people, so it's not a lot of people.

So, I think we are actually very efficient with a lean and mean organisation, and we have been even leaner and simpler in terms of organisation, if I look at the head office today, it's something like 20 to 25% smaller than it was a few years ago. That's what we wanted to achieve as well. And we continue working on that by the way, we have launched new program recently in order to accelerate decision making and avoid duplication and so forth.

So I don't have the feeling frankly speaking that we are very heavy and administrative organisation. Don't forget one thing either. Nestlé is a very decentralised organisation. So, the business, which is normal in a food and beverage business, is predominantly managed locally. The taste of people for food is very different between markets even within Europe. So, we manage our business predominantly locally with some coordination from the centre in Switzerland or at a regional level.

Question on: Negotiations with retailers
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Bruno Monteyne, Bernstein:

Can you talk about the relationship with retail partners, French markets and pressure from retailers to food producers in terms of price gouging? Also more private label impacts during your negotiations. How is your relationship changing with retailers?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

Negotiations with retailers are always passionate probably more in Europe than in other parts of the world. That's normal anyway because you discuss different interests. A lot of retailers are also very vocal because they talk to consumers which I understand. But our business is different from theirs. I don't think that it's fair either to compare margins of manufacturers with

margins of retailers. The retail industry margins are different anyway structurally. I think that the discussions are always passionate but this normal, they are okay at the end. We do entertain good relationship, decent relationship and good relationship overall with most of our retailers.

There are other things as well. We always prefer, whenever appropriate to build relationships with retailers where we jointly create value. So, we don't favor necessarily the price war or price discussion exclusively because very often, if you just talk of price, price is important, but just talk of price this is usually a lose-lose game, for the retail and for the manufacturer. It's much better that we talk price, but we talk about other topics, other activities, like what can we do jointly between manufacturers and retailers to create more traffic in a store? Can we do promotional activities. Can we give you exclusivity on innovation, for example, in order to bring more traffic into your store, be it online or offline by the way. That is usually more value creation this is more of a win-win discussion between retailers and manufacturers. And by the way we managed to get to those interesting value creation discussions with a large number of retailers as well.

Question on: Consumer Health acquisitions
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Bruno Monteyne, Bernstein:

Can you explain Nestlé's interest in Consumer Health given the past interest in Haleon? What are your criteria for acquisitions in this space?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

We have done a few acquisitions in Vitamins, Minerals and Supplements, most of them have been very successful. So if I talk of Atrium Innovations with Garden of Life, if I talk of Vital Proteins, if I talk of the Bountiful Company, Orgain and so forth. Don't forget that some of these businesses we have doubled the size of these businesses in a very short period of time. Take Vital Proteins, we doubled the size of the business in 18 months after the acquisition. Orgain is doing extremely well. Bountiful is delivering as per the plan. So we have done extremely well, growing mid-teens for years, with Garden of Life and the Atrium Innovation. We have a leading position today we own 5% market share worldwide in VMS and 12% in the largest market, in the U.S. We have an interesting position with a very wide range of products in super premium with brands like Garden of Life, Solgar. In mainstream, with the Bountiful company, in affordability with Puritan's Pride for example.

We cover different channels as well, ecommerce, traditional trade, specialised stores as well. So I think that we have a good base to grow. The time is not necessarily for Nestlé Health

Science today, barring the opportunity, but the time is not necessarily today for further acquisition. The time is much more to extract synergies. Cost synergies, brand synergies, marketing synergies between these different assets. So, this is what we are focusing upon this year with that objective that we will reach our margins above 18% by 2025. So, it is less about external growth. It is more about extracting value by bringing more consistency between the different assets we have bought over the years.

Question on: Larger acquisitions for Consumer Care

Bruno Monteyne, Bernstein:

All these acquisition you mentioned were quite small François and I think part of the question was that if you had looked at Haleon, that would have been a much larger portfolio. Would you, could you comment on what your view is on much larger transactions?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

Haleon is interesting but that said, Haleon is in a space which is not the space we want to play into. Haleon is OTC, over the counter, company predominantly. We are not an OTC company just to clarify, we are interested in VMS; Vitamins, Minerals and Supplements. I know that Haleon and other companies do have assets in the VMS segment, but this is only one segment in their total business. They are much more in over the counter drugs. We are not in that segment, so we are playing in a more restricted area.

Question on: L'Oréal stake

Bruno Monteyne, Bernstein:

Now this coming back to something you said previously, you were almost suggesting that the share buyback, excluding the disposals, would be smaller and that will be revisited in the future. But you still have a very large L'Oréal stake. Would it be fair for investors to expect ongoing gradual reduction in that stake to keep funding large buybacks in Nestlé.

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

I don't want to comment on that stake but be aware of one thing that you will find the answer in my comment. We have reduced our investments in L'Oréal from formerly 24% to 20.1%. The 20.1% stake that we have has been selected as the minimum stake that we need to keep the equity consolidation. The equity consolidation is important because it has an impact on our EPS.

So, obviously if we stayed there it means that we did not want to go further down, or not just further down because we would have lost quite a lot on the top of it. With that more than 20%

we have certain number of rights attached to it, like two Board seats and participation in both subcommittees as well, which is a reason why this 20.1% stake is an important level that we did not want to cross. At least not for a small, for a tactical move.

Bruno Monteyne, Bernstein:

And additional buybacks would be considered a tactical move. So by implication?

François Xavier Roger, Chief Financial Officer, Nestlé S.A.;

I let you conclude.

Bruno Monteyne, Bernstein:

Okay, thank you very much. We've come to the end of the time. Thank you for the audience. Thank you François for being here with us today.

End of Transcript