2017 CAGNY PRESENTATION TRANSCRIPT

Nestlé USA Frozen Food Business and Q&A

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Speakers:

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Jeff Hamilton, President Nestlé Food Division, Nestlé USA

Slide: Title slide

I will talk a little bit about Nestlé in the US and go a bit deeper on the performance of our Frozen Meals business over the last few years.

Slide: USA is a key contributor to Nestlé Global

So this is the representation of Nestlé in the US, François covered a similar point, so we are 30% of the global business for Nestlé. On the right you can see the relative percentages of the businesses in the US.

I will be talking primarily about Frozen Food and more specifically about Frozen Meals within Frozen Food, which is one of the larger businesses we have in the US.

Slide: We operate in a broad range of categories with leading brands

So in the US we compete in very large categories and generally speaking we have a very strong presence in each of these categories.

The one for Frozen Food that I shall be speaking about its about $17 billion category and we are the number one player in that segment.

Slide: Nestlé Prepared Foods Sales ($2.6B)

We manage Frozen Meals as part of Nestlé Prepared Foods and this gives a relative sense of the size of the various businesses. The two Frozen meals businesses are *Stouffer's* which is 60% of Prepared Foods, split pretty evenly between Multi-serve for families and Single-serve for individuals and *Lean Cuisine* which is roughly half the size of *Stouffer's.*

Slide: US Frozen Meal Category was in steady decline

So this is a little bit of history on the Frozen Meals category. You can see the category peaked in 2011 and declined pretty steadily for the following four years through 2014 at a

CAGR of -2.7%. That's actually a loss of about $800 million in total category value over that time period. I actually joined the business in the April of 2014, for those of you who went to the Nestlé Investor Seminar in Boston of that year you might mention that I referred to the need for bold and dramatic change for us to improve the overall health of the category and certainly the health of our own business.

I will show our numbers in just a few slides.

Slide: Fundamental Change to Return the Business to Growth

So here's the summary of what we did to fundamentally change our business and to return it to growth. The first is to really understand what is happening with the consumer dynamics in the US as it relates to food and to make sure that we adapted to make sure that our Brands were relevant in that context.

One key thing that we did was to start to move to clean labels across our entire portfolio and I will show you a couple of examples of that on the coming slides.

We were also able to find new attractive territories where we could leverage our Brands to expand and acquire new growth.

We have very good relationships with the digital and social platforms and we were able to do a much better job in that media with the turnaround efforts we made.

And finally we moved to a Total Market Approach, being very inclusive in all the communications that we had to our consumers.

Slide: Stouffer's has Evolved

So I will start by just going a little bit deeper on *Stouffer's. Stouffer's* was stable pretty much all the way through the downturn of the category but we believed it was an opportunity for growth and so we made a couple of fundamental changes to the *Stouffer's* business that have really helped.

The first is to move very strongly into Clean Label. So here I am showing one of our more popular products Lasagna, specifically meat and sauce Lasagna. If you go back even just a year ago we would have had 83 words on that ingredient deck and today we are only featuring 35 words. Yes, the length of the ingredient deck is important, also important is the words that are in the ingredient deck so if you look at what we are making our meat and sauce lasagna from today its very similar to the way you would make that same product at home.

We also have found new ways to reach new consumers through leveraging our brand equities. One very good example of that is the launch of *Fit Kitchen* which is a line of high protein meals for active consumers, each meal contains 25g of protein, or more. We launched this business in mid-2015 and already in 2016 it was just shy of $50 million business. So we have made really good progress there.

I am going to show you a couple of example of what we have done to launch *Fit Kitchen*. The first will be a TV commercial and the second immediately thereafter will be an on-line video that we trafficked through digital and social media. (Video plays)

Slide: Lean Cuisine successfully repositioned.

So we are very proud of that work and it is having a great impact in the market. The other business that frankly was a bigger challenge just a few years ago was *Lean Cuisine* that was declining in double digits for several years. So we knew that we needed to make a bold pivot. Lean Cuisine traditionally had been developed in the area of diet and specifically low fat and low calorie. We knew that was no longer relevant to consumers in the way they were eating today and we were able to change our platform for that brand to one based on modern health eating. A few of the ways we brought that to life was the resegmenting our range from a sea of white boxes to four very distinct sub-lines within the range. You can see two of them here. Also changing our benefit platform from low fat and low calorie to things that are very relevant to consumers today like Gluten Free, High Protein, Organic and non GMO. So we have all those benefits in several of our products today.

We also really changed the culinary approach that we have for *Lean Cuisine* from what I would say is more standard, staple items that you would find commonly across all items to much more bold, adventurous, often times ethnic food that’s selling really well for us. So this is going really well and we are really happy with the progress we have made here. I will show the numbers in just a second. Let me first show you the TV commercial that we re-launched with and that will be followed immediately after with an on-line video. (Video plays)

Slide: Frozen Meals Category has stabilized

So we have been really happy with the results that we have seen on *Lean Cuisine*. We have gone from double digit declines to high single digit growth. That's really helped to turn around the category.

This is very similar to a slide I showed you earlier which showed the results through 2014 for the total category. I have just added here two more years and what you can see is, from 2015 to 2016, in fact for the first time in many years the category has stabilized and in fact in 2016 we saw many months of positive growth.

Slide: Nestlé has Pulled the Category Back to Growth.

We feel that we have had an important contribution to make there, certainly being the market leader. Here are our results, the good and the bad.

So you can see the declines of our total Frozen Meals business for the several years leading up to that. I have broken this into front half, back half just so you can see the differences in the front half of 2015 and then, once we made the changes in the second quarter of 2015, the response that we saw across the business.

So we have been growing now for 18 consecutive months in low to mid-single digits.

Slide: Category growth has improved with Nestlé consistently above the category

This is another way of looking at the same data, just kind of tells the same story in a slightly different way. So the orange line is the category growth. You can see the category coming up from close to 4-5% down and up to flat, even slightly positive in the most recent time frames.

The grey line is us where you can see we were below the category obviously bringing the category down, losing share and then with the changes that were made middle 2015 you can start to see us returning to growth, pulling the category up and therefore gaining share.

Slide: Frozen delivers on fundamental consumer needs

So we believe there are some really fundamental positives associated with the Frozen business. First and foremost it's a very natural and safe way of preserving food. It is also a great way of knowing exactly what you are eating in terms of portion control, in terms of calorie control. If you are watching your sodium you know exactly what you are eating when you are eating a box of frozen food because it is printed right on the box. That's not true with most other eating occasions. It is also an incredibly convenient way to eat for consumers who are time starved. We also think that the advantage that frozen has in terms of food waste will be increasingly more important to consumers. People very rarely throw out their frozen food it doesn't necessarily go bad like anything that were fresh.

Slide: And is an attractive business

So we believe that the Frozen business is a very attractive business. It is large and profitable, you can see the trends are improving, there are some high growth segments which we have not yet fully penetrated that offer us incremental growth opportunities.

The eCommerce side of Frozen has been slower to develop, particularly because of the 'last mile' solutions. It has tended to come first in Ambient, then in Chilled and now we're coming in Frozen so there is growth had there. Most importantly both the suppliers and the retailers have renewed interest in this category and renewed investment.

Slide: How to Sustain the Performance

So how do we sustain the performance going forward? The first is we really need to keep a close eye on the consumer and where the consumer is going, making sure that we are staying one step ahead. I am showing a couple of examples of things we'll be doing later this year.

We also see many opportunities to extend our existing brands into new, high growth and attractive segments.

We are doing a lot of work that François and Wan Ling have already referred to in this area of find cost efficiencies and we will use those efficiencies, one to drive ROIC but also to re-invest in the business to drive further growth.

Finally I believe with all the things I have shown you and all the things here on this slide this is a business we can continue to grow in the low to mid-single digits.

So thanks for your time and attention and I think from here we go to Q&A

Q & A Session

Questions on:	**DSD and Warehousing** **Outsourcing**

Participant:

Thank you. I have two questions. We heard a lot in the last couple of days regarding DSD and warehousing model in the US now. Specifically for Nestlé with a large DSD could you explain a little bit what the focus is? Are you more focused on DSD and which categories. And on the other side, warehousing, which segments and categories.

The second question is could we expect a stronger outsourcing trend with Nestlé, for instance in Chocolate?

Jeff Hamilton, President Nestlé Food Division, Nestlé USA:

So on the DSD, your first part of your question was just exactly is our DSD network. Our primary DSD network is a Frozen network which the combination of Pizza and Ice Cream. Those two businesses are $4-5 billion together, so it is a supply chain with quite a bit of scale in it. It is also important to recognize that is Frozen because for us to move out of that DSD network would require there to be sufficient retailer warehouse space for us to move into those. For a business that big that is an important consideration, we've analyzed that several times and at the moment that is not the case. There is just simply not the space. That said it is a very high fixed cost business and we look at it very closely. We got off to a bit of slow start as we combined the Pizza and Ice Cream businesses initially but we have made very good progress over the last three years. We have saved several bps from our total DSD costs and we are continuing to look for further cost efficiencies. So it's an important thing to look at, we will keep looking at it, we monitor it very closely but for the moment we stay with it.

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

Regarding your second question on outsourcing, I suppose that you are referring to manufacturing. We do quite a lot of outsourcing already, especially in the US. Not only for Confectionery but we do it across the board whenever it is relevant from an economic point of view and from a quality point of view. So this is not something that we are against at all.

Question on:	**Nestlé under the new CEO**

Participant:

François, I got up a little early on Thursday and listened to Mark's [Schneider] first presentation. Then read a sell side report that basically asked what has changed? The previous management wanted to be prudent in M&A? The previous management wanted Operational Excellence? Can you just tell me a couple of things that are different at Nestlé?

I admire the bold and strategic action that was done in Frozen Foods in the US. I just feel that there is a bigger plate in terms of fixing the company.

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

First I do not think that there is a need for a dramatic change overnight. You could not expect that Mark, six weeks after coming is going to announce significant changes. I think that there will certainly be some changes going forward but you could not expect that he would introduce dramatic or announce dramatic ones just six weeks after having taken his job.

So we have experienced some changes in, first of all, working style, personality, he has a different personality from his predecessors for sure, but you will certainly see some changes going forward but not in the first few weeks.

Questions on:	**200 bps cost savings** **Emerging markets**

Participant:

In terms of the 200 bps target cost savings, the slide you had up there. A couple of questions I have on that. First you made reference to peer averages a couple of times as far as margins and it strikes me that you have a lot better than average business in a lot of places. So is there some potential for the business, over time, to be a little bit higher than your peers because of the quality of the businesses you do have and the brand equity.

Secondly, it also strikes me that the natural flow, someday the Emerging markets are going to come back and get better it would seem, and the natural flow is going to be towards faster growth but maybe a little lower margins. Does that 200 bps take that re-investment into account, that lower structural margin as you invest for the long term in Emerging markets, into account? Thank you

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

On Emerging markets as I indicated we have a higher margin in those markets and we believe this is something that is highly likely to stay there. Wan Ling I don't know if you want to comment. But there is no reason why it would be different in the future.

Talking about the 200 bps. We have been very clear on the fact that we intend to re-invest part of it in order to support our growth and innovation. We do invest a lot in innovation. I didn't mention it but we invest CHF 1.8 billion, north of CHF 1.8 billion in R&D as well. This is an area where we keep on investing more and more. In marketing as well we do invest quite a lot and part of the 200 bps will be re-invested. We did not say how much, we need some flexibility. First of all we do not know what market conditions will be in the years 2018 and 2019. We don't know what competitive forces will be, we don't know what raw material pricing will be, but we will certainly let some of it flow to the bottom line. Just to give you an indication, I mentioned in our Capital Market day in May that in the past three years 15% of the savings that we had generated had flown to the bottom line. The trading operating profit. If you look at last year it was actually 35%. Ok don't conclude from that, I am not saying – this is not a guidance just to make sure that there is no misunderstanding, don't conclude that it will be 35% in the future. But as I mentioned earlier we want to strike the right balance between top line growth and bottom line growth as well.

Wan Ling Martello, Head of Zone AOA, Nestlé S.A.:

I just want to say, as I said earlier in my presentation actually at Nestlé it is quite a different phenomenon, dynamics because in AOA for instance, which is predominantly Emerging markets, our trading operating profit is 110 bps higher than the Group. So as we grow we are not going to dilute, if anything we'll help the Group's margin.

End of Q&A session

End of Transcript