Accelerating Profitable Growth at Nestlé Nutrition

Richard T. Laube
Head of Nestlé Nutrition
Disclaimer

This presentation contains forward looking statements which reflect Management’s current views and estimates. The forward looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures and regulatory developments.
Accelerating Profitable Growth at Nestlé Nutrition

Nestlé Investor Seminar
Vevey - 7 June 2007

Richard T. Laube
Nestlé Nutrition 2005 - Before standalone

- Sales: CHF 5.2 billion
- Integrated with Nestlé in the market
- 2000-2005 organic growth ≈5%
Nestlé Nutrition's objectives

- Enhance consumers' lives by providing **innovative** and superior products & services

- Deliver sustainable organic **growth** of 10% and **EBIT margin** of 20% or more

- Successful **integration** of Gerber and Novartis Medical Nutrition to accelerate growth
Nestlé Nutrition is changing dramatically

Transformational acquisitions with CHF 4bn sales announced in last 12 months

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales in CHF billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nestlé Nutrition 2005</td>
<td>5.2</td>
</tr>
<tr>
<td>Sales growth</td>
<td>0.8</td>
</tr>
<tr>
<td>Medical Nutrition</td>
<td>1.2</td>
</tr>
<tr>
<td>2007 Full Year Run Rate</td>
<td>10.0</td>
</tr>
</tbody>
</table>

All acquisitions are strategically aligned with our mission to provide specific nutritional benefits to consumers.
Nestlé Nutrition in 2008: A CHF10bn business

- Infant Formula: 29%
- Baby Food: 44%
- Weight Management: 7%
- HealthCare Nutrition: 17%
- Performance Nutrition: 3%
Nestlé Nutrition sales in US will grow from CHF 850 million to CHF 3.7 billion
• **2005: Only two separate Nestlé Nutrition office locations**
  – Powerbar – Berkeley (USA)
  – Powerbar – Munich (Germany)

• **12 office locations post acquisitions**
  – PowerBar Europe – Munich (Germany)
  – Musashi – Melbourne (Australia)
  – Jenny Craig – Carlsbad (USA)
  – HealthCare Nutrition – Tokyo (Japan)
  – HealthCare Nutrition – Gland (Switzerland)
  – HealthCare Nutrition – Minneapolis (USA)
  – HealthCare Nutrition – Munich (Germany)
  – HealthCare Nutrition – Melbourne (Australia)
  – Gerber – Parsippany (USA)
  – Gerber Life – White Plains (USA)
  – Gerber – Queretaro (Mexico)
  – Gerber – Rzezow (Poland)
Factories – from 20 to 30
Technical centres (PTC) – from 3 to 5

- **Novartis Medical Nutrition**
  - Minneapolis (USA) – PTC
  - Saint Louis Park (USA)
  - Osthofen (Germany)

- **Gerber**
  - Fremont, MI (USA) – PTC/Factory
  - Fort Smith, AR (USA)
  - Reedsburg, WI (USA)
  - Rzezow (Poland)
  - Queretaro (Mexico)
  - Valencia (Venezuela)
  - Cartego (Costa Rica)
  - Campo Grande (Brazil)
People – from 10,000 to 20,000
New business models including services

• Jenny Craig
  – 3800 employees
  – 2500 consultants
  – 600+ weight management centres

• Novartis Medical Nutrition
  – 2500 employees
  – 600 medical delegates
  – sales to nursing homes, hospitals, etc

• Gerber
  – 4380 employees
  – Gerber Life Insurance
  – Baby Care (non-food)
Acquisition integration planning is on track

• Integration planning on track

• We expect to fully achieve synergies as communicated

• Deal closings anticipated in H2 2007
Nestlé Nutrition faces three challenges in 2008

1. Integrate new businesses into Nestlé Nutrition and Nestlé, while accelerating their sales and profit growth

2. Accelerate existing business sales and profit growth, while integrating new businesses

<table>
<thead>
<tr>
<th></th>
<th>H1 2006</th>
<th>H2 2006</th>
<th>Q1 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>OG</td>
<td>5.1%</td>
<td>7.1%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

3. Accelerate the rate of consumer-led innovation for all businesses – existing and new
Nestlé Nutrition is gaining competitive advantage as a newly formed global business by leveraging three competencies.

- Superior understanding of the global consumer
  - Global consumer transparency

- Driving innovation based on consumer needs
  - Consumer-led innovation

- Fast execution and roll-out of innovation
  - Launch and success tracking
Global consumer transparency – Major brand equity study in Infant Nutrition with 16,000 mothers in 17 countries.
Gerber: Exceptionally strong brand performance – one of best purchase brands among all funnels tested

- Gerber has an excellent purchase funnel while Beech Nut is far from it.

### In %

<table>
<thead>
<tr>
<th>Awareness</th>
<th>Consideration</th>
<th>Trial</th>
<th>Current purchase</th>
<th>Regular purchase</th>
<th>Most often purchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>99</td>
<td>92</td>
<td>80</td>
<td>77</td>
<td>70</td>
<td>53</td>
</tr>
</tbody>
</table>

- 94
- 87
- 95
- 91
- 76

87
60
40
87
69
36

- 68
- 68
- 87
- 69
- 35
- 24
- 9

95

Superior significant difference at 90% vs brands mean

82

Bottle neck (Inferior significant difference at 90% vs brands mean)
Consumer Segmentation Work: 12,000 interviews in 8 countries

- USA
- Mexico
- Brazil
- South Africa
- Germany
- France
- China
- Indonesia
Desired Benefits by Zones

Three profiles can be used to describe the differences in benefit interest

Zone A
- Relatively constant, low level of interest across benefits, with minor peaks around taste and physical development
- Benefit delivery levels typically exceed interest levels across benefits

Zone B
- Relatively low average level of interest across benefits
- Disproportionately high levels of interest in small number of specific benefits
- Benefit delivery levels exceed or fall below interest levels depending on benefit in question

Zone C
- Higher general level of interest across benefits
- Disproportionately high levels of interest around a number of benefit areas
- Benefit delivery levels typically fall below interest levels across benefits

Source: Global Infant Segmentation Study: Brazil, China, France, Germany, Indonesia, Mexico, South Africa, US; Monitor Analysis
Consumer-led innovation

- Nestlé Nutrition is investing c. 2.1% of sales in R&D
- This is higher than the competition
  - Novartis Medical Nutrition: 1.8% of sales
  - Gerber: 1.3% of sales
  - Numico: 2.1% of sales
- The challenge is not R&D spend but R&D productivity
Nestlé Nutrition has developed a proprietary consumer technical model.
Nestlé Nutrition has developed a highly disciplined R&D process

We are creating a competitively advantaged process which translates consumer insights into improved products and services

<table>
<thead>
<tr>
<th>From Idea</th>
<th>bridging/transformation</th>
<th>To market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discovery</td>
<td>Invention</td>
<td>Innovation</td>
</tr>
</tbody>
</table>

- **Science push**
  - discovery
  - potential benefits
  - Idea generation and selection
- **Consumer pull**
  - specific needs
  - desirable claims
  - Consumer Technical Model
- **Concept Brief**
  - (exploration)
- **Project Brief**
  - (execution)
- **Factbook**
  - Manufacturing Dossier
  - Product Book
  - Product Profile (ISIS)
- **Audit File**
  - (learnings)

**Key deliverables at checkpoints**
- Concept Brief
- Project Brief
- Factbook
- Audit File
Nestlé Nutrition has created a significant innovation pipeline.
Pipeline example: Infant Formula

Premium

Mainstream

Specialities

Transversal

Roll Out  Launched  Development  Exploration  Idea

2006  2007  2008  2009  2010  2011+

image removed

competitor sensitive information
Nestlé Nutrition’s launch success based on a three-step process

- **Launch success: three-step process**
  - Launch preparation (Centre/market teamwork)
  - Launch execution (Market)
  - Launch tracking success (Centre/market)

- **50+ specific innovation projects are readying to be launched**
  - over 70 countries
  - creating over 500 specific launch opportunities to please consumers

- **Some markets are planning up to 12 new launches a year**
Launch success – Bullet

- Launch: more than 50 countries in 18 months
- Year 3 incremental sales: over CHF 300m
- Year 3 incremental EBIT: 370 bps
- Result: NAN is newest CHF 1 billion brand

We will make this systematic
Nestlé Nutrition is adding value to the Group beyond its standalone value

- Nestlé Nutrition R&D model is being applied to other businesses with appropriate modifications

- R&D investment in Nestlé Nutrition products (ingredients) are starting to enter other categories; e.g.
  - Probiotics in Dairy
  - Low Glycemic Index fibres into cereals

- Nestlé Nutrition business model of +60/40 (nutritional benefits) is giving guidance to Nestlé’s 60/40+ concepts (e.g. growing up milks)

- Nestlé’s reputation as the world’s Nutrition company is enhanced
  - Deals with scientific community
  - Leading publisher of nutritional information for scientists
  - Becoming partner of choice for research institutions, over 70 projects under review
Conclusions

- Off to a good start in 2006
- Being transformed through major acquisitions
- The outright leader in the industry
- Building competitive advantage throughout our business; consumers → innovation → execution
- Adding significant value to the Group beyond standalone value