2014 NESTLÉ INVESTORS SEMINAR BOSTON
AUDIENCE Q &A SESSION

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Speakers:

Wan Ling Martello, Chief Financial Officer, Nestlé S.A.
Paul Grimwood, Chairman and CEO, Nestlé U.S.A.
John Carmichael, President Pizza and Hot Pockets Division, Nestlé U.S.A.
Jeff Hamilton, President Prepared Food Division, Nestlé U.S.A.

Questions on;	Progress of portfolio management and timing Level of innovation and renovation

Jon Cox, Kepler Cheuvreux

A couple of questions. You guys are relatively new to the job. How is the review to maintain those brands, that people are looking at? Has the review been completed and it is all guns go or is the review ongoing? I'm just wondering, are you going to give it another eighteen months – another two years or whatever the timeframe is for some of those categories, products or brands that are under threat.

Second question just on the Americas. You mentioned a figure on renovation, actually that figure looked pretty low. I seem to remember Nestlé, once upon a time, saying they wanted to renovate the portfolio up to 20% a year. 30-36% over three years seems pretty low particularly when you're in this growth/private label environment. Do you think you really need to up your game a little bit in that renovation/innovation?

Paul Grimwood, Chairman and CEO, Nestlé U.S.A.

I will take both of those if I may. I think the first thing is, you know we constantly, on a quarterly basis and certainly for our NBS, which looks three years forward, we are constantly reviewing our portfolio. What we want to keep, what we don't want to keep and what is actually out there that we would like in the portfolio.

But at the end of the day where we are, and we looked at the Frozen business, we looked at a number of these categories. We are in the 'fix' mode at the moment. For example when you can discontinue 50% of the Hot Pockets range and actually increase the profitability and increase the uptake, that's part of the 'fix'. There are some very simple, straightforward, things that we can do to improve the overall effectiveness and operation of the business.

What you just asked with the second question very much links into the first question which is about renovation and innovation. I think 26% is reasonable but there are other categories within our businesses, I think Pet Food is a classic example, where the innovation renovation in Pet Food is second to none. I would actually say when you see our Beverage business the innovation renovation is way ahead of that. We haven't been as quick to embrace a number of the consumer trends and we have got to put our chin forward here and actually say, in this particular category, that is why we think there's a fixing place. Because we have seen trends happen, if we've gone into them we've gone into them very modestly, and we haven't gone all guns blazing with big investments which we normally would. And we have missed some of the key trends that have been there. The good news is that because of our strength in this market, we may have missed them but we have the ability to play catch-up quite quickly.

Plus these guys, the reason we have got Jeff and John here is because basically they are some of the best marketers that we have in the entire business. Before, my feeling on the Frozen business, was that it was very much a commercially driven operation, we were very focussed on the tradition heart lands of where the brands were. The growth has actually come out of other areas, away from the traditional heartland. That's why these guys are very insight driven in terms of the way they approach challenges and issues that have been brought into the portfolio.

Well you know I think we are in fix, certainly in this particular area. We are pleased with the progress, we have made good progress on the profitability of Pizza last year. Everything was delivered on the plan.

The other thing that I have to say we have done, and I don't think we have articulated yet, was that this thing called Prepared foods used to be this monumental beast of a business, sat in Solon. What we have actually done is to split the business so that we now have Pizza and snacking, and John articulated why we have done that.

We have also taken the Baking business out from it and we now have a team fully focussed 100% on Baking. We're very confident. You saw some of the home cooking, home baking trends that are there, we are very confident in strong positive growth in baking. And we have now got ourselves to a point where Jeff focuses effectively on these two brands in this one category area including breakfast. Before, in my honest opinion, that business was so big it was a case of spinning plates rather than focus fixing the issues that were at hand. Does that answer your question?

Questions on:	**Frozen food in USA** **Lean Cuisine**

Warren Ackerman, Société Générale

Good morning, two questions. The first one I guess is that we have seen all these tactics to improve Frozen in Europe but they haven't really worked. Consumer perception in Europe hasn't changed despite all of the evidence to the contrary. So I guess my question is why would it be different in the US? Don't you just see the frozen isle continuing to shrink in the US in favour of the fresh which seems to be on an inexorable growth path.

Secondly on Lean Cuisine if the issue is actually the name Diet or Lean have you not considered changing the name of the Lean Cuisine brand?

Paul Grimwood, Chairman and CEO, Nestlé U.S.A.

When you talk about Frozen food, and there were some interesting conversations last night, but number one I don't think the industry has done a very good job of communicating the benefits. 50% of food from farm to fork, is wasted in the US. That is not something that can ultimately continue as the years go on. Both economically and socially that can't continue. What you get when you have a Frozen food product is a great tasting, great quality product which is portionable, you know the calories, you know the salt level. Actually it is outstanding value for money if you look because there is no waste because we manage the waste for you.

So the opportunity, it's interesting because some of the people who are talking to us are actually in the health care business and they're talking about, for example, dealing with the issues of obesity. Now you can make a medical intervention through surgery or tablets or whatever it may be but at the same time that intervention, this is what these healthcare providers are coming back to us as saying, is that is all a waste of time unless we get people to eat in a balanced sensible way and reconfigure the mind as to what is a sensible portion.

So it’s a challenge at the moment because the industry hasn’t done a particularly good job and I don’t think that we have done a particularly good job of articulating the benefits of Frozen. In addition to that many people talk about processed food, I actually don’t recognize what processed is. To John and Jeff’s point we actually just have big kitchens. We make Lasagne in exactly the same way as you make Lasagne at home. Again we haven’t communicated that and part of the plan that the guys have is to actually communicate just how simply we make products. There is no special ingredient that we add in at the end just to add a whole group of nasties, we make it in a very simple way. I think part of the challenge for us is that. I think it can be very much on trend but the communication from the industry and the communication from us has got to be better.

The second question was Lean Cuisine. Well you know with Lean Cuisine I think the opportunity continues to exist for us to develop the brand. We can change the name but we feel we need to change the position of the brand rather than the name. If you change the name and you change the positioning you are basically starting from scratch all over again and I don’t think we need to do that.

We have some incredibly loyal people to Lean Cuisine, a real core of loyalists, and actually this real core of loyalists are coming back to us and to be honest when you speak to them you do scratch your head and think why didn’t we do X,Y and Z quicker. But I personally think that we can hold on to the Lean Cuisine brand. I think it is absolutely possible to go into the territory that Jeff was talking about with the Lean Cuisine brand and quite frankly I don’t feel that I want to throw away the huge expenditure that would be needed to launch a new brand in this particular marketplace at this particular time.

Questions on ;	**Frozen distribution** **Margins**

Andrew Lazard, Barclays

Just two questions if I could. The first is on Frozen distribution. A couple of years ago I think you talked about putting together Pizza, Ice cream from the DSD system and potentially leveraging it across the other Frozen meals, prepared entrees and what have you. Could you give us a sense of where you are on that? I think I heard you talk about having recently put together Ice Cream and Pizza will that be leveraged across the rest of the Frozen portfolio and is it just a matter of cost or can this really be a game changer, a structural competitive advantage in terms of the way you operate in the store, in the Frozen cabinet versus all your peers in Frozen that really can’t do this.

The second would be around the margins. I am trying to get a sense of where are you in this Margin continuum. You have made some big improvements of late, are you still in the early innings around margin opportunity in the US business and is there a way to quantify your expectations over the next three years? Is it another 200 basis points of operating profit margin, understanding a lot of the re-investment that you want to do. Is there any way to put some numbers around that?

Paul Grimwood, Chairman and CEO, Nestlé U.S.A.

Well I think in terms of the DSD there is always this conversation about DSD and can you leverage it but there is only a certain truck size in DSD. Then you have got to optimize that so when you think about the 150 SKUs that we were talking about for Pizza and then you think about another 150-200 SKUs for Ice Cream you have almost got an optimized truck there. Our trucks have to be specially designed anyway to deliver the levels of temperature control that we need for both Pizza and Ice Cream on the same delivery.

So will we be putting Stouffers on the back of a DSD truck? The answer is no, we won't because in actual fact what we feel at the moment, and it is one of the reasons why the Pizza business was actually bought, is that putting the scale and size of these two businesses together you have got about a 4.5 billion dollar business that goes through a DSD operation.

So you can optimize that and that will be one of the biggest DSD operations in the whole of the US. The benefit or the need that we have is to make that the most efficient DSD operation and network in the US. Quite honestly when we put the two businesses together right at the very beginning we started to develop something on paper where the costs basically started going up and up and up and we got to point where we said this is not what we want. We don't need a Rolls Royce to deliver this product, what we need is a good quality Chevy truck in terms of the mentality of what we were trying to do.

So what we have actually done is that we have got great quality kit, we have got some fantastic people out there but we have worked on optimizing those two. Now the optimization process that we are putting in place is over three years, we are now eighteen months into it and the good news is that every month we have delivered and we have taken the overall DSD costs down, without impacting distribution at all. There is another eighteen months of efficiency to come on the back of that. The DSD cost is absolutely critical because DSD tends to be a huge cost on the P&L line and what we are managing to do, and you'll see this when Robert presents in terms of Ice Cream and our plans for Ice Cream this year is there are a lot of new products coming into the marketplace so we shall be putting those cost savings back in.

Regarding the margin question I am not going to be specific on that but what I would say is that we are eighteen months, well we presented twelve months to you, but we have a three year programme of value optimization in the DSD Pizza and Ice Cream fields. And it is not just about DSD, it's about factory optimization it's about line optimization and a variety of other things. But we are very comfortable that over a three year period we will be able to optimize further shareholder value.

Question on;	**Hot Pockets**

Question inaudible, speaker unknown.

John Carmichael, President Pizza and Hot Pockets Division, Nestlé U.S.A.

Hot Pockets is in fact a great product and as a comparison specifically to its peer group, it's the only product that uses real cheese, 100% real cheese in 90% of our SKU's out there. As I talked before we are continually upgrading the proteins in the product as well. So we make our dough fresh every single day and always improving the crispiness of that croissant. So we have a significant competitive advantage, not only in the overall taste presentation of our product but also if you were to look at our ingredient panels as well. As far as PHOs we shall be taking those out by 2015, they'll be completely gone. Artificials, both flavours and colours will be out by the end of this year. So we are moving the product to be even better in the future. What we want to do more of, what we feel will be a high value to the brand, is to get more credit for it. To talk about it much more explicitly so that the consumer realises the superior quality product we have vis-a-vis the competitor set.

Paul Grimwood, Chairman and CEO, Nestlé U.S.A.

And just to pick up on that. For example you don't just remove artificials overnight, we have been working on this for a period of time. We are very comfortable with the quality, the quality of the meats, the quality of the cheese, the quality of the pastry and everything else. So what we have got is a great product. If you have ever watched a Hot Pockets ad it has never talked about anything else apart from hot and explosions and this sort of thing. Actually this fits in very nicely with our Nutrition, Health and Wellness communication. You will see on our next sets of communications we will be talking about no artificial, we will be talking about the improved cuts of meat, we will talking about all of the things in terms of Nutrition, Health and Wellness.

To my point, if you can do it on Hot Pockets you can do it on any brand in the portfolio. People have said to us but millennials they are not really interested in this, I am sorry – they are. Secondly if they are not interested then usually Mum, who is picking it up for them, she is very interested. This is the way we drive Nutrition, Health and Wellness, even through a product like Hot Pockets, to improve the quality of it. Because we think of this change in the American mindset is a leading indicator of ultimately we have got to be there.

Inaudible follow up comments.

Paul Grimwood, Chairman and CEO, Nestlé U.S.A.

Yes, there are new Frozen factories being built as we speak, there is a new Pizza factory being built for one of our competitors and so on. These guys come and try and fill those factories from day one. But for me that is not too much of a worry, I'm not really bothered about them. What I am bothered about is optimizing our industrial footprint.

It was interesting, and I will give you an example, when we talked about driving efficiencies and improving operational performance and eliminating waste, you remember that in my presentation. We were talking to Chris [Johnson] eighteen months ago about some capital investment that we were going to need in part of our Ice Cream business. We discussed it, it went round and round and it was I think about a 20 million dollar investment we were going to need make in this new piece of capital. Actually on Friday we came to the conclusion that we had improved the line efficiency in the last eighteen months, with a support team from Vevey, that we now don't need to spend that 20 million on new capital.

It's ok building factories but I always like it when people build factories, because the start up on a factory is an incredibly tough thing to deliver on and we usually get a bit of help initially. Yes there will be capacity, but you fill the capacity in a plant by optimizing the output of your brands and we are going to focus on that.

Part of my presentation, at the very beginning was to show you the powerhouse brands and the categories that we are in. At the end of day we lead categories, so we can look back at what everybody else is doing and the capacity that is being built but fundamentally that is not something that should affect us. If we have a clear category insight, we have got commitment to Nutrition, Health and Wellness and in addition to that we are driving our own innovation and renovation agenda, that should not be an issue.

Where it's an issue is if you are number three, four, five or six in the market because this market will consolidate, like many other markets around the world where you have the brand leader one and two, you have private label and you have a very squeezed middle. Where retailers make their money on the squeezed middle is because it ends up being a Dutch auction to find out who is going to be number three or four in the category. We are not in that position with the size and the scale of the brand portfolio that we have.

Questions on;	Promotional strategy Shelf space

Jeremy Fialko, Redburn

A couple of questions. The first one is on your promotional strategy. Can you talk about how that has changed recently, it sounds like you are trying to position yourself a little bit above all the promotional argy bargy that is going on in the market. But nonetheless there is a lot of it so could you say that you have been able to reduce levels of promotion across your businesses in the last twelve to eighteen months so you are perhaps a little bit more immune to all of that going on.

Secondly can you come back to the point that Warren raised on shelf space. Can you tell us what that is doing year on year if you look across the market. Is shelf space actually declining when you look area that is allocated to frozen?

John Carmichael, President Pizza and Hot Pockets Division, Nestlé U.S.A.

On promotion I would say there are two big unlocks that we see moving forward. First of all promotions in the Pizza category have come down year on year from percent on deal which is the essentially the measure we look at that, with a little bit of uptake recently. Two unlocks, one I talked about which is the ability to toggle between value per sandwich and managing my cash flow in conjunction with the consumer's own value stream. That we are already seeing a lot of benefit from and will continue to do that.

The second item is using our portfolio more effectively so that we don't need to price promote deeply at all aspects of the category. So for Nestlé value is a two edged proposition. It is providing the right quality and the right product proposition at the right economic value for the right target consumer. If we do that across the portfolio we'll have a much more valuable and effective propositions across the board.

As far as distribution on both of these brands with the slight exception of Hot Pockets which I'll talk about in a minute, we have had and continue to have more than our fair share of shelf space, so distribution is not an issue for us and in fact it is a great advantage of our DSD organisation. On the Hot Pockets brand we specifically made very recently, very aggressive cuts in those SKU's to improve the profitability and streamline the business as we talked about. So we have reduced our footprint on space on shelf in a limited way and that is part of the ebb and flow of the general business cycle. As we repopulate that with innovation we expect that to return.

Jeff Hamilton, President Prepared Food Division, Nestlé U.S.A.

On my business I will just start with the shelf space question. Obviously it is a fixed amount of shelf space. The Stouffers brand has continued to be very healthy in terms of its overall performance and we've been able to hold shelf space reasonably well. One thing I haven't mentioned on Lean Cuisine is that although the whole diet category is doing very poorly we are actually doing well vis-a-vis the other players competing in that category. So we tend to hold reasonably well on to our shelf space there although the space dedicated to diet food is certainly reducing.

With regard to promotion rates. In Prepared foods promotion rates remain pretty high still and I think the key thing there is that has just not been as much true innovation in the category as there needs to be to break out of that, so by default the game is much more about price than it should be in the future. One of the things that we are certainly working on is developing the insights and the innovation to try to break out of that and to develop the new, truly meaningful, valuable things that offer new benefits to consumers that will allow us to break out of that game.

Paul Grimwood, Chairman and CEO, Nestlé U.S.A.

I think, if I may just add one comment. At the back we have got Steve Presley, who is the CFO here in the US and you might want to have a chat to Steve because in addition to everything that the guys have said in Frozen, you know our trade spend optimisation programmes basically make sure that we maximize the return on every dollar, and very much as we talked about the different categories in terms of our develop categories, our invest categories, defend etcetera, we do prioritise trade spend. We make sure that every trade spend activity that we launch actually has a return for Nestlé in this marketplace.

Questions on;	**Portfolio optimisation**
	Market share gains

Alain Oberhuber, MainFirst

Good morning everybody. I have two questions. The first question is coming back to portfolio optimisation. What are the main criteria you look at and how long do you usually give brand to be fixed or divested?

Second question is coming back to the increased development of the initiations you have taken. Where did you recently gain share again looking into the four sub sectors?

John Carmichael, President Pizza and Hot Pockets Division, Nestlé U.S.A.

Two questions here. One is on portfolio management and I think the important thing to recognize here is that this is the way to run a business, not an event you go through. And you get better and better at it and deeper and deeper in your knowledge of each segment. As Pat can tell you from Pet food that is one of our competitive advantages. So we will begin those migrations immediately and that will be journey that we will be on for many, many, years. But you will see that happening right away at the beginning of the year.

On share, the one I would highlight which I think shows some really, really important aspects of the category going forward, is our super premium brand which is California Pizza Kitchen . We redid this brand, changed some recipes, refreshed the box and brought it more in line with consumer trends. Very little investment, almost none, and we are seeing the brand increase by almost 7% and this is the highest price tier in the category, per ounce. A very important signal that the category value return is there.

Jeff Hamilton, President Prepared Food Division, Nestlé U.S.A.

On Prepared meals, within the diet category, I just made this point, but within the diet category in fact Lean Cuisine is gaining share. Its a declining business but it is declining less than the other players but it is still gaining share in the most recent time period. We are doing well maintaining share on multi serve Stouffers and we have lost a bit on single serve Stouffers. So overall the portfolio is doing reasonably well in the context of a very shallow general environment.

Paul Grimwood, Chairman and CEO, Nestlé U.S.A.

I think with regards to criteria on a quarterly basis we will be reviewing the categories that we are in and the categories that we want to be in and taking a view as to the relevance of it. The criteria of measurement are the standard criteria such as potential profit return, return on invested capital etcetera that we would look at. So there is nothing revolutionary in that. But I think the interesting part of your question is what time do you give it and that is a very relevant question.

I think the time you give it is at the point you don't think you can maximise share holder value or you are actually going to start to see declining returns. This comes back into the 'fix'. If after the 'fix' then that's the time when you start...

Now what that period of time is – so for example I have got businesses in my portfolio that we have given eighteen months and we have turned those businesses around in eighteen months and I am very pleased with the return. There are other businesses in my portfolio where the time scale in my mind is three years and then we will see if we fix them and then we will make a decision on that.

The other thing is, and you have to be a little bit careful with the time scale you apply to these things, I am sure you are all aware of a brand called Atkins, do you remember that. I actually did the Atkins hip and thigh diet, I know you were all looking and thinking clearly that at some point I had done this. I actually did this in 1988 and then Atkins went through the floor, and then Atkins went up a little bit and then it went down again. Actually Atkins is enjoying a bit of a resurgence at the moment because the protein based trends actually is helpful today. So you have got to be careful that what isn't relevant today...I actually get quite excited about the Frozen food category because I can see all of the benefits. Now whether people will continue to see those benefits with me over the next ten years remains to be seen. But I would hate to think that we made some decisions in the short term on the Frozen food category only to find in the long term that in actual fact in order to reduce food waste for example, in order to manage weight levels better, that we had come out of a category that had found its way into ruder health in the future.

End of Q&A

Wan Ling Martello, Chief Financial Officer, Nestlé S.A.

Thank you Paul, thank you Jeff and John. We will probably come back to this tomorrow because I know listening to the questions there is a lot of interest in terms of portfolio management, how much time. So I will come back tomorrow, building on what these gentlemen have said, to give you a perspective from a group level on how we look at portfolio and what kind of a time frame. So we will do that tomorrow.

END OF TRANSCRIPT.