Cost and Capital Discipline

François-Xavier Roger
EVP, Chief Financial Officer

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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.
Agenda

- Flexibility in a changing world
- Cost discipline to drive growth and margins
- Driving Cash Flow and Return on Capital
Agenda

☑ Flexibility in a changing world

☑ Cost discipline to drive growth and margins

☑ Driving Cash Flow and Return on Capital
Nestlé is delivering superior growth both in OG

OG Full Year 2015

F&B Co. 1: 5.0
F&B Co. 2: 4.4
F&B Co. 3: 4.2
F&B Co. 4: 4.0
F&B Co. 5: 3.7
F&B Co. 6: 3.2
F&B Co. 7: 1.0

(Pro forma)
And even more in RIG

RIG Full Year 2015

F&B Co. 3: 2.2
F&B Co. 5: 2.0
F&B Co. 6: 1.1
F&B Co. 2: 1.0
F&B Co. 1: 0.9
F&B Co. 7: 0.5
F&B Co. 4: -2.6
(Pro Forma)
F&B Co. 4: -3.1
Although growth is lower

Nestlé OG 2012-15

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>5.9</td>
</tr>
<tr>
<td>2013</td>
<td>4.6</td>
</tr>
<tr>
<td>2014</td>
<td>4.5</td>
</tr>
<tr>
<td>2015</td>
<td>4.2</td>
</tr>
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</table>
Inflation has decreased in the developed world
Resilient Pricing

IMF World Consumer price Index vs Nestlé Pricing

World CPI: -3.5 ppt.
Nestlé Pricing: -1.6 ppt.

Source: IMF, internal data
Commodity prices down to a low point

Nestlé weighted commodity price index

-40% since 2011 peak
Evolving competitive landscape

2012 Share
- International players: 53%
- Retailer brands & small, local players: 47%

2015 Share
- International players: 51%
- Retailer brands & small, local players: 49%

Increase: +200 bps
Fast reshaping of retail through e-Commerce

e-Com growth contribution to 2015
Nestlé OG

e-Com Examples:

- 20% sales growth in 2015
- Size of e-Com corresponds to Top 5 Market of the Group
- % of Sales:
  - Nespresso > 50%
  - IF China > 10%
  - UK & China > 5%

AMS

EMENA

AOA*

* AOA total OG adjusted for Noodles impact
### Changing consumer expectation towards food

#### Examples

<table>
<thead>
<tr>
<th></th>
<th>Market size (CHF bn)</th>
<th>Market Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2014</td>
</tr>
<tr>
<td>GLUTEN-FREE</td>
<td>4.0</td>
<td>7.4</td>
</tr>
</tbody>
</table>
| Nestlé today ~ CHF 0.1bn

- **CAGR 10-19:** 13.2%

|          | 2010     | 2014     | 2019     |
| PLANT PROTEIN   | 10.6     | 19.8     | 39.8     |
| Nestlé today ~ CHF 0.7bn

- **CAGR 10-19:** 15.8%

|          | 2010     | 2014     | 2019     |
| ORGANIC | 52.7     | 69.4     | 94.2     |
| Nestlé today ~ CHF 0.7bn

- **CAGR 10-19:** 6.7%
Consistent I&R contribution supporting growth

Innovation & Renovation % of Sales*

<table>
<thead>
<tr>
<th>Year</th>
<th>Innovation &amp; Renovation</th>
<th>Baseline Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>2015</td>
<td>31%</td>
<td>69%</td>
</tr>
</tbody>
</table>

*: Current year’s sales of new and renovated products launched in the last 3 years
Growth requires higher investment behind brands

Category/Country gaining/maintaining share

Consumer facing Marketing Spend

> +10%

Organic Growth (CAGR)

> 2 x OG

49%
(2013)

56%
(2015)

+4.4%
Agenda

- Flexibility in a changing world
- Cost discipline to drive growth and margins
- Driving Cash Flow and Return on Capital
### Cost Culture
- Zero Waste, Zero Incidents, Zero Accidents, etc.
- Visibility on approx. 25,000 annual improvement activities

### Target Setting
- Annual Group NCE savings targets 2-4% of total delivered costs

### Methodology
- Compliance
- Leadership Development
- Goal alignment
- Continuous Improvement

### Scope
- Lean Office
- Lean Value Stream
- Total Performance Management in manufacturing
- Lean Innovation

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Nestlé CONTINUOUS Excellence

NCE journey of success initiated in 2008 – close to 100% of Group Sales covered
Operational opportunities driving performance

Example: Zone AMS Value Chain review

- 64 Initiatives concluded in 2015/16
- Top common opportunities identified:
  - Route to Market improvement
  - Adapt portfolio to regions/channels
  - Harmonization / simplification of portfolio
  - Sourcing optimization from farmers
  - Other cost optimization of value chain

Business opportunities 2015-17:

- Over CHF 230 m in incremental sales
- About CHF 50 m in Cost Reduction
Significant operational cost base improvement

in CHF bn

NCE Cost Reduction

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (CHF bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1.4</td>
</tr>
<tr>
<td>2014</td>
<td>1.6</td>
</tr>
<tr>
<td>2015</td>
<td>1.6</td>
</tr>
</tbody>
</table>
Cost efficiencies supporting growth and margins

Redeployment of NCE efficiency gains 2013-15 (in %):

- Margin improvement: 15%
- Reinvestment in competitiveness: 25%
- Reinvestment in brands: 60%
Continuous margin-improvement over time

TOP improvement in bps 2012-15
(constant currency)

+27 bps / year
Leveraging scale offers further opportunities

Source: Thomson Reuters, 2014 figures
Achieving both sales and margin growth by…

...delivering structural savings on top of operational ones
Identified structural savings beyond NCE

1. **Operations**
   - Raise our asset intensity by 10 percentage points

2. **Procurement**
   - Leverage on scale through global sourcing (from 40% today to 60%)

3. **G&A Expenses**
   - Consolidate Nestlé in the markets, delay functions, improve facility management and increase shared services

Estimated structural savings by 2019/20

>200bps
Use of structural savings

- Brand Support (Marketing spend and R&D)
- Competitiveness
- Trading Operating Profit
Broad based investment for growth

Five Focus Areas:

• Portfolio strengthening
• Premiumization
• Global brand expansion
• Innovation roll-out acceleration
• Digital and e-Com
Portfolio Strengthening
Example Purina EMENA

2000

Clean up Spillers Portfolio

2001

Reduction in Eco Dry and Focus on SP Dry

2003

Move from Multi Serve to Single Serve & Grill Technology

2008

Roll Out Felix

2010

Focus on Snacks

2012

Exit of Private Label

2015

6.4% OG CAGR

1.7% OG CAGR

3.1% OG CAGR

2000-2005

2005-2010

2010-2015

Marketing Investment Index

100

100

129
## Premiumization

<table>
<thead>
<tr>
<th></th>
<th>WYETH Illuma</th>
<th>NESCAFÉ Dolce Gusto</th>
<th>NESCAFÉ Azera UK</th>
<th>Les Recettes de L'Atelier (France)</th>
<th>MAGGI Juicy Chicken</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Countries</td>
<td>7</td>
<td>84</td>
<td>5</td>
<td>6</td>
<td>57</td>
</tr>
<tr>
<td>Index vs. mainstream</td>
<td>167%</td>
<td>&gt;200%</td>
<td>170%</td>
<td>170%</td>
<td>256%</td>
</tr>
<tr>
<td>Value Share</td>
<td>2%</td>
<td>23%</td>
<td>49%</td>
<td>4% Premium Tablets*</td>
<td>18%</td>
</tr>
</tbody>
</table>

* 18% in the Gourmand segment
Global brand expansion - Felix

2010
17 Countries
Sales: 

2015
45 Countries

+ 28
+ 86% *: at constant currency 2010
Innovation roll-out acceleration – Milo Activ-Go

2013-15 Countries covered: +29

2013-15 Milo Active-Go % of sales of Cocoa Malted Beverages: From 0% To 12%
Digital and eCom – delivering growth

Example: Purina Germany with eCom pure play Zooplus

2009-15 eCom sales share growth: From 0% To 13%

Digital marketing spend vs group average: Index 130
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Consistent Free Cash Flow track record

Free Cash Flow % of Sales

Adjusted for exceptional income due to Givaudan and L'Oreal transaction
** Average FCF of main competitors, Source: company websites
Working capital strongly supported performance

Working Capital % of Sales

- 2012: 8.5%
- 2013: 6.5%
- 2014: 5.3%
- 2015: 4.7%
Discipline in CAPEX

Capital Investment % of Sales

2012 *  2013  2014  2015

5.9  5.3  4.3  4.4

* Restated following implementation of IFRS 11 and IAS 19
Delivering attractive ROIC

ROIC before Goodwill %

2012: 29.7
2013: 30.1
2014: 30.4
2015: 29.9
Goodwill affecting ROIC in the short term

ROIC after Goodwill %

- 2012: 14.1%
- 2013: 12.7%
- 2014: 10.8%
- 2015: 10.9%
We will use all levers to improve ROIC

- Improving on all operating levers:
  - Sales growth
  - Margin growth
  - Working capital efficiency
  - CAPEX discipline
  - Sustainable ETR improvement

- Strict M&A criteria
  - Strategic, cultural and financial fit
  - ROIC > WACC within 5 years
In summary

✓ Nestlé is delivering superior growth

✓ And demonstrating resilience in Pricing

✓ Structural savings, beyond operational ones, to support growth and margins

✓ Acting on operational levers / M&A discipline to drive ROIC up
Thank you!