

# Nestlé: strong foundation, clear path forward, bright future

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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.

## In my own words...



- The board and management believe in continuity and change
- We act with speed and a sense of urgency
- We know where our strategic sweet spot is
- We “get” the new consumer
- We “get” the opportunities offered by digital transformation
- We “get” the need for efficiency improvements
- We stay true to our purpose and values
- We are poised to deliver substantial value to our shareholders

# Nestlé's strengths



- Volume growth at the top end of the industry
- Strong portfolio with leading positions in growing categories
- Unique global footprint
- Nutrition, Health and Wellness (NHW) strategy, creating value through superior growth and profitability
- Powerful, valuable global brands which consumers trust
- Long track record of aggressively adapting in order to succeed in an evolving marketplace

# Areas for improvement



- Accelerate NHW strategy to meet changing consumer demands
- Boost organic sales growth (OG)
- Balance growth with increased cost discipline / margin improvement
- Improve capital efficiency
- Optimize portfolio
- Drive speed and simplicity in our global organization

# Nestlé is well positioned to navigate the evolving FMCG industry



## Changing consumer tastes / millennials



## Digital opportunities / retail disruption



## Small business innovators



## Radical cost cutting



## Stricter regulations



## Macro uncertainty



# Our strategy



## Food and Beverage is core, offers significant NHW opportunity

- Key themes
- Healthy, delicious, convenient products for modern time-constrained lifestyles
  - Premiumization in developed and emerging markets
  - Affordable high-quality nutrition in developing countries

## Consumer Healthcare as an additional growth platform, consistent with NHW focus

- Key themes
- Cater to the health maintenance OTC needs of aging population
  - Benefit from increased interest in / spend on prevention and self-medication
  - Broaden offering in higher growth pharmacy / drug store channel



# NHW strategy creates value

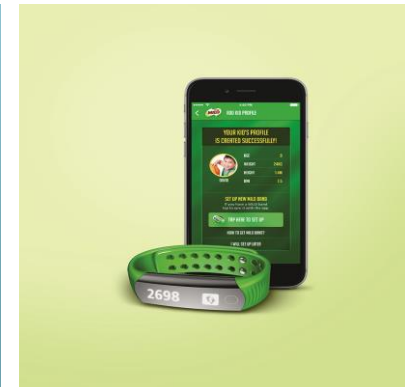
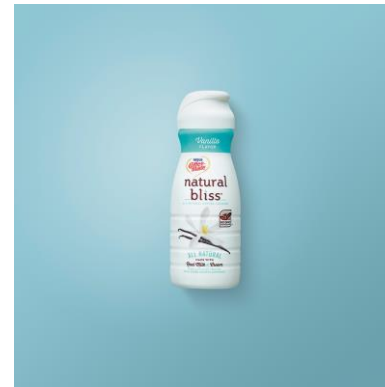


Nestlé products with above-average NHW\* have:

- **Growth 1.8x** higher than products with below-average NHW
- **Underlying trading operating profit (TOP) 1.5x** higher than products with below-average NHW

\* NHW dimension measured by % of Net Sales with 60/40 win and Nutritional Foundation \*\* – Analysis excluding categories which are 100% NHW

\*\* Nutritional Foundation (NF): Nestlé Nutritional Foundation criteria are based on nutrition science and public health dietary recommendations, such as those of the World Health Organization and other global or local authorities. Our products are evaluated against these criteria using the Nestlé Nutritional Profiling System which determines their nutritional value and whether they achieve the NF





# Organic growth key to long-term value creation



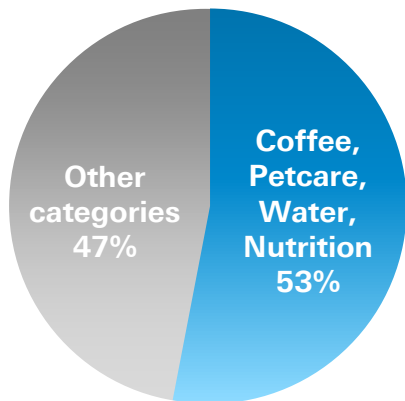
## Expect mid-single digit organic growth by 2020

1. Invest selectively in fast-growing categories / regions
2. Address underperformers
3. Product and business model innovation
4. Embrace digital opportunities
5. Active portfolio management

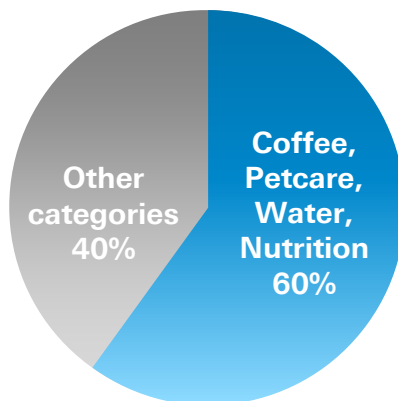
# 1. Invest selectively in fast-growing categories



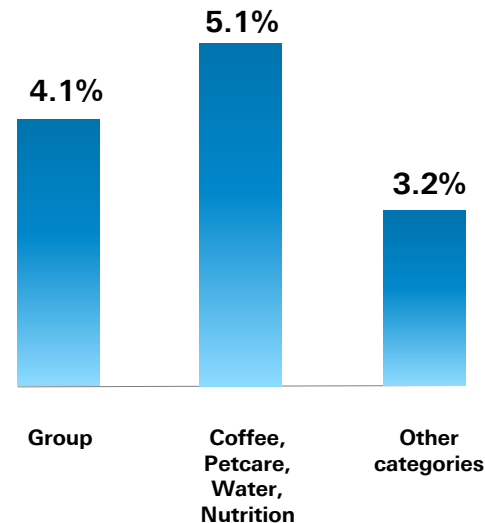
Four growth categories represent more than half of group sales



Four growth categories represent 60% of underlying TOP



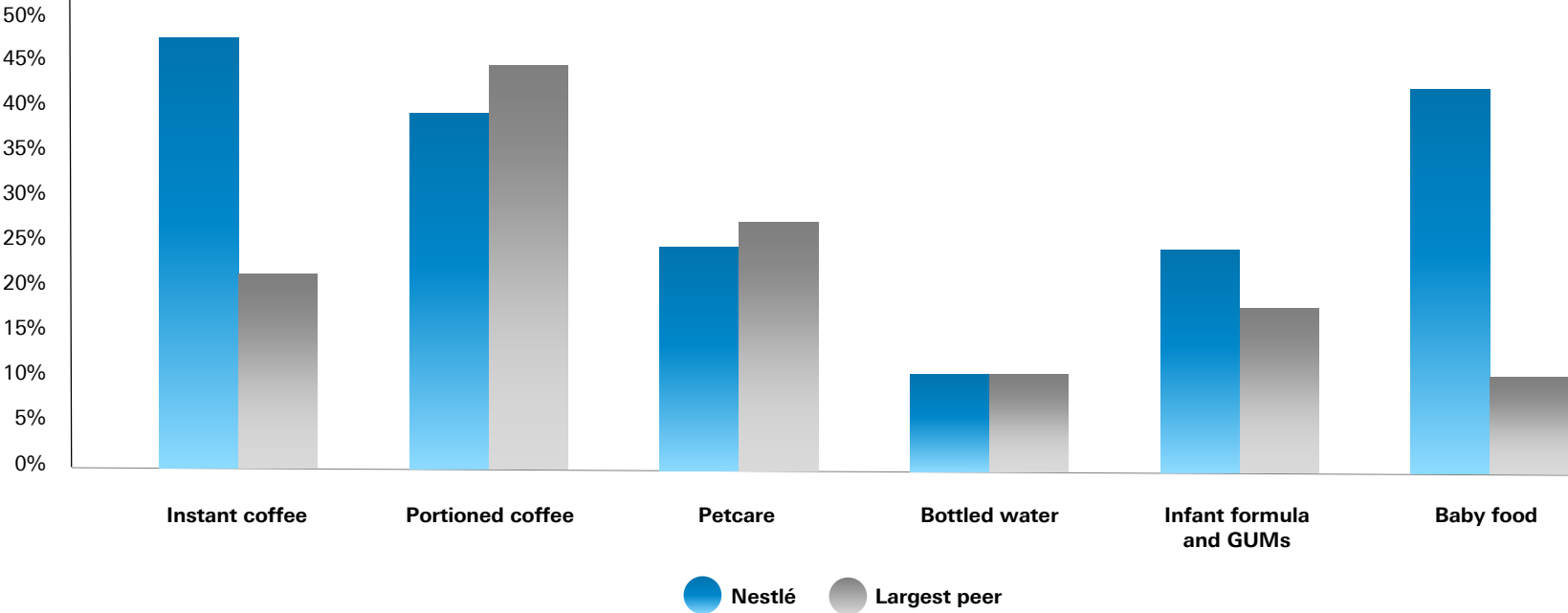
Organic growth (average: 2013-2016)



# Strong market positions in Coffee, Petcare, Water, Nutrition



Global market share of top 2 players



Source: Euromonitor

# Coffee: leading positions in a high-growth category



- Category: CHF 97 billion\*, growing by 5% (CAGR 2013-2016)
- Nestlé: CHF 17 billion\* sales, high profitability
- Global market share: 27%
- Two leading global brands: Nescafé and Nespresso

Source: Euromonitor; \*includes coffee creamers

# Coffee: growth drivers and opportunities



**Accelerate innovation**  
(e.g. Nescafé Gold relaunch)



**Win portioned coffee, expand Nespresso distribution**



**Premiumize all platforms**



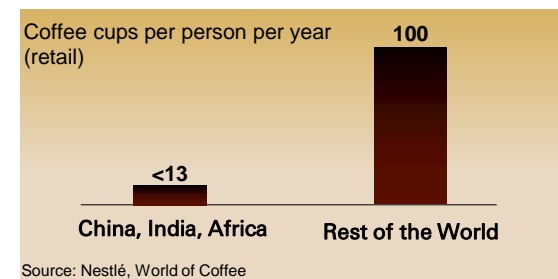
**Develop presence in OOH market**  
(CHF 250 billion)



**Capture larger share of chilled and RTD**



**Build category in emerging markets**  
(China, India, Africa)



# Petcare: high ability to win in an attractive category



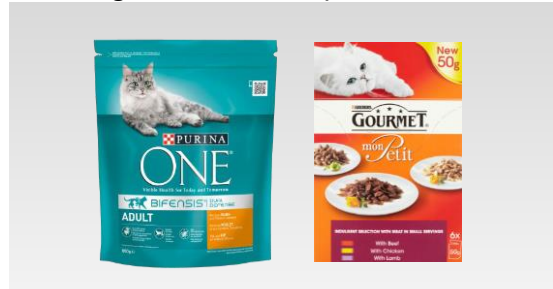
- Category: CHF 70 billion, growing by 5% (CAGR 2013-2016)
- Nestlé: CHF 12 billion sales, high profitability
- Global market share: 23%
- Leading R&D: Science- and technology-based competitive advantage

Source: Euromonitor

# Petcare: growth drivers and opportunities



**Innovate in cat food**  
Extend global leadership



**Expand natural portfolio globally**  
Across all channels and price tiers



**Drive growth in premium snacks**  
With global concepts



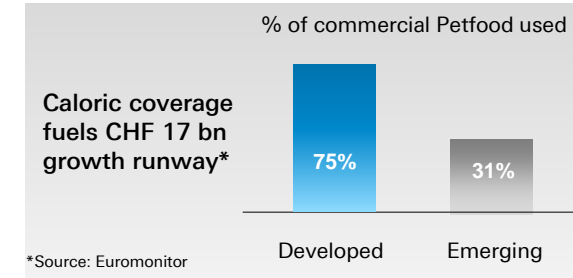
**Grow specialty and veterinary channels**  
Deliver breakthrough scientific innovations



**Capture larger share of e-commerce**  
With a portfolio of customized solutions



**Further accelerate in emerging markets**





# Water: leadership in key geographic markets



- Category: CHF 210 billion, growing by 9% (CAGR 2013-2016)
- Nestlé: CHF 8 billion sales, profitability improving
- Global market share: 10%
- Unique brand portfolio:
  - 20% of sales in high-value international premium brands, S.Pellegrino and Perrier
  - Strong local brands with high regional market share
  - Nestlé Pure Life (#1 brand worldwide)

Source: Zenith

# Water: growth drivers and opportunities



## Expand Nestlé Pure Life

Functional and flavored water innovations



## Accelerate leadership in premium sparkling



## Develop our premium still range

With a focus on the U.S. market



## Continue to expand distribution

Immediate consumption and direct channels



## Premiumize key local brands



## Continue to invest in capacity in the U.S. and emerging markets



# Infant Nutrition: global leader with attractive geographic footprint



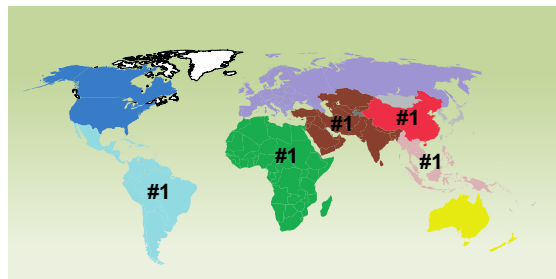
- Category: CHF 42 billion, growing by 4% (CAGR 2013-2016)
- Nestlé: CHF 10 billion sales, high profitability
- Global market share: 27%
- Strong positions in emerging markets
- Leading science

Source: TABS

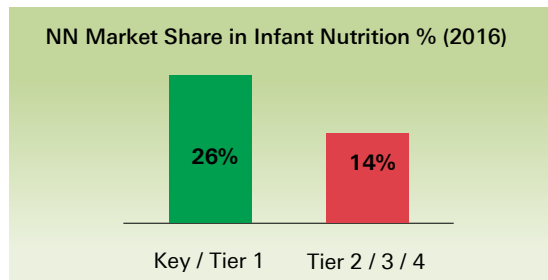
# Infant Nutrition: growth drivers and opportunities



**Leverage leadership position in high-birth markets**



**In particular, develop presence in China**  
Increase investment in tier 3 and 4 cities



**Lead science-based innovations**  
(e.g. Human milk Oligosaccharides)



**Lead the premiumization trend**



**Transform our portfolio to meet new consumer expectations**



**Increase share in natural segment**



# Consumer Healthcare: prudent / targeted development



- OTC categories: CHF 118 billion, growing by 5% (CAGR 2013-2016)
- Nestlé sales: Health Science CHF 2.1 billion; Skin Health CHF 2.4 billion
- Creating value by anticipating key trends:
  - From patient to consumer
  - From government funding / reimbursement to out-of-pocket expenses
  - From hospitals and pharmacies to retail and e-commerce

Source: Nicholas Hall; Euromonitor; Nutrition Business Journal

# Consumer Healthcare: growth drivers and opportunities



## Win in “active aging”



## Help reduce healthcare costs



## Accelerate geographic and portfolio expansion



## Deliver on healthy / natural trends



## Capture e-commerce and new channels



## Provide holistic solutions in pediatric allergies

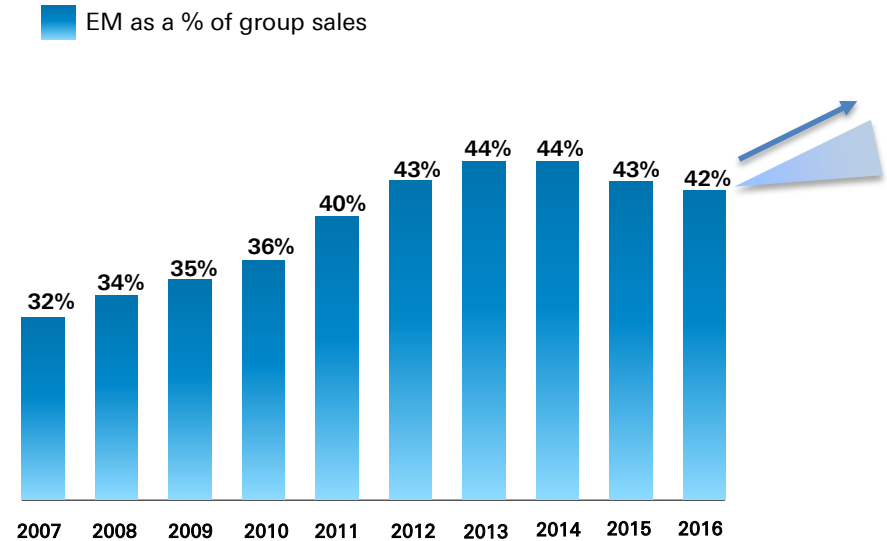


# Expanding our emerging market growth



- 2016 sales: CHF 37.4 billion in emerging markets
- 2016 organic growth: EM 5.3% vs DM 1.7%
- Profitability in emerging markets > profitability in developed markets
- Increase presence in emerging markets by allocating capital prudently for growth

## Emerging markets' share impacted by currency, long-term expectation remains strong





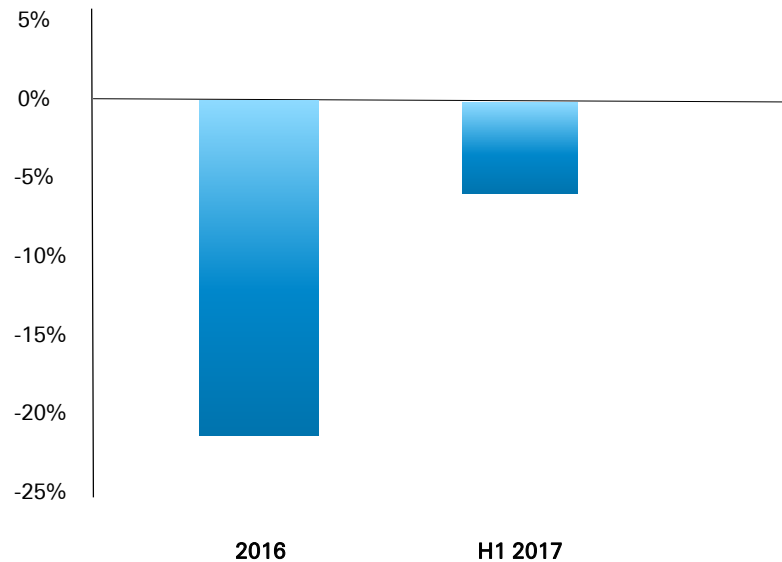
## 2. Address Underperformers



In particular:

- Yinlu
- Gerber baby food (US)
- Nestlé Skin Health

Yinlu organic growth



# 3. Product and business model innovation



## Transforming the core portfolio



## Creating / scaling new brands



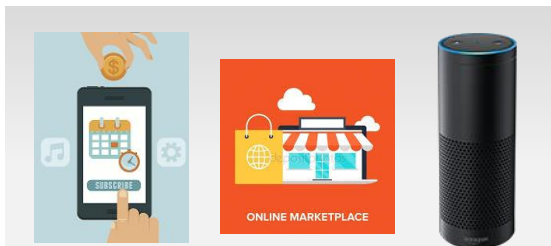
## Venturing into new business models



# 4. Embrace digital opportunities



**1. Expand new business models**  
(subscription, voice, market place...)...



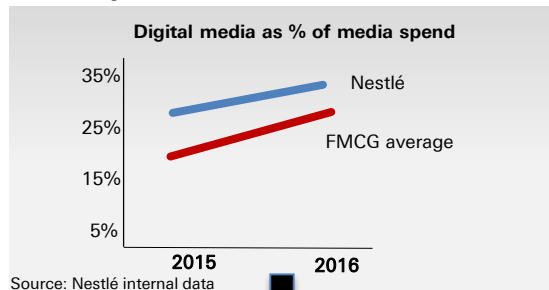
**...With a strong focus on direct-to-consumer (D2C) model**



Nestlé Waters  
“Ready Refresh”



**2. Commit to digital communication and improve ROI...**



**... By driving “full funnel” media strategy across campaigns**



**3. Partner with key retail game changers...**



**... While keeping control on consumer data acquisition**



## 5. Active portfolio management



- Criteria for acquisitions and divestments:
  - Fit with strategy
  - Attractive categories (growth and margin)
  - Ability to win
  - Resource intensity
- Scope for portfolio adjustment estimated at around 10% of group sales

# We remain committed to U.S. Frozen



- Large and profitable category, which has stabilized
- Nestlé sales of CHF 3.6 billion, 2016 RIG of 1.2%
- Leading market position
- Frozen is the best form of preservation
- Aligned with key consumer trends (high-protein, natural, organic, etc.)
- Supports portion control and reduces waste

# Clear path to achieving mid-single digit growth by 2020



## Organic growth



3.2%

Mid-single  
digit

### Actual 2016 OG

#### Base businesses:

- Addressing low growth businesses (e.g. Yinlu)
- Product and business innovation

#### Portfolio management:

- Selective acquisition of fast growing categories
- Divestiture of underperforming businesses (e.g. U.S. confectionery)

#### High growth categories:

- Investment behind Petcare, Water, Coffee, Infant Nutrition

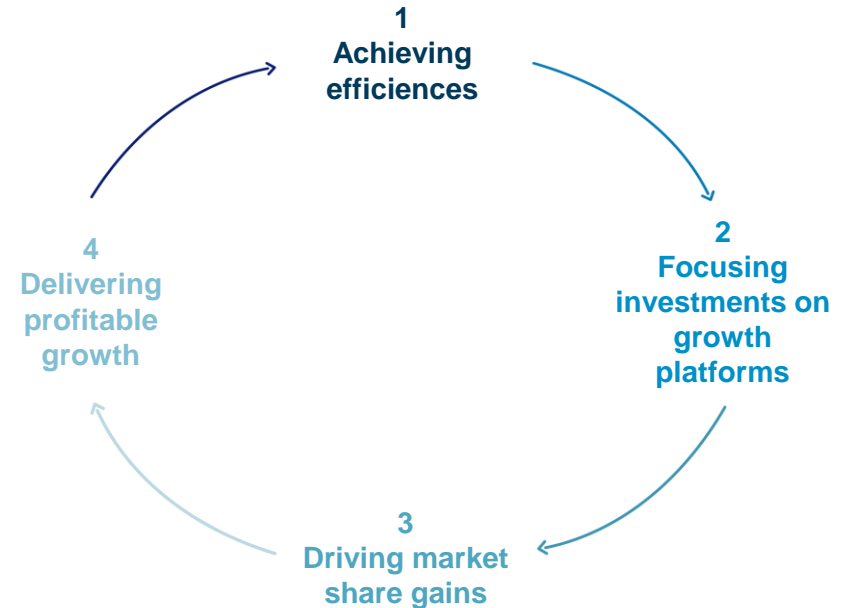
### Targeted 2020 OG

# Our financial model



Nestlé model has delivered long-term value creation over two decades:

- 5-6% organic growth
- Annual improvement trading operating profit margin (in constant currency)
- Annual improvement underlying EPS (in constant currency)
- Improving capital efficiency

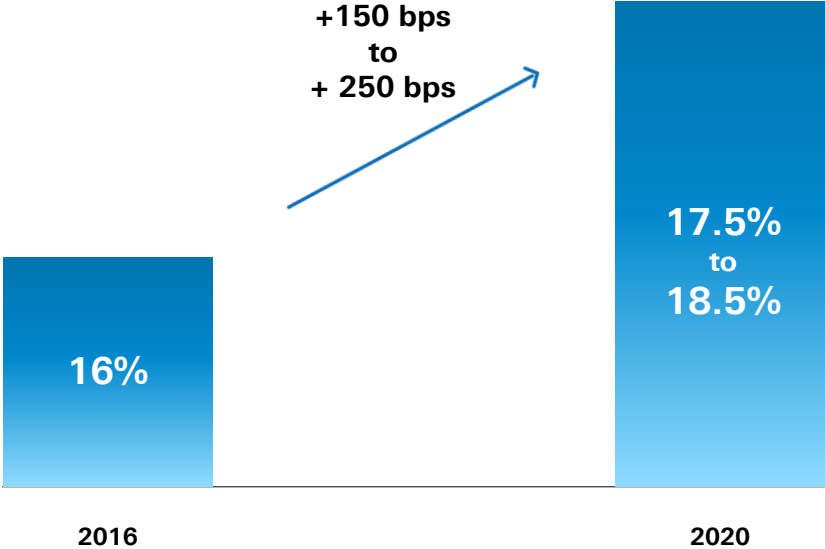




# Margin improvement / bottom-line focus at a time of lower organic growth



Targeted underlying TOP margin improvement by 2020



# Evolving towards a new financial model post-2020



- Mid-single digit organic sales growth
- Steady improvement underlying TOP (in constant currency), full transparency regarding restructuring costs and TOP
- Steady improvement underlying EPS (in constant currency)
- Improving capital efficiency

# Adjusting management structures and systems to become more agile



- Faster execution through de-layering
- Enhance local / regional decision-making
- Speed up innovation by taking more risks and rapid prototyping
- Strengthen business focus through simplified and standardized processes and the expansion of shared services (Nestlé Business Excellence)
- Increase management role duration to leverage experience
- Tailor compensation to growth / efficiency priorities of each business

# L'Oréal stake



23.2% stake in L'Oréal:

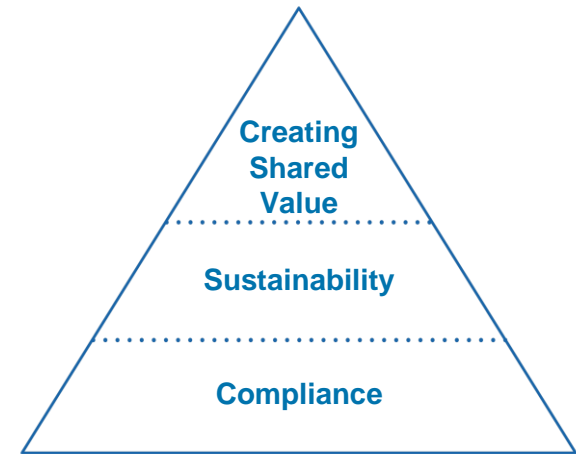
- Market value of circa CHF 26 billion\*  
(10% of Nestlé total market capitalization\*)
- Total return on investment over 42 years of circa 12% pa
- Total return on investment over the last 10 years of circa 14% pa
- Contributed 9% of Nestlé's EPS over the past 10 years

\*Source: Based on closing share price on June 30, 2017 (Bloomberg)

# Nestlé long-term sustainable value creation model



- **Creating Shared Value (CSV)** is our strategy tool to optimize value for shareholders and for society
- **Priorities** are those areas of greatest intersection between Nestlé business and society
  - **Nutrition:** Products with a nutrition, health and wellness dimension perform better\*
  - **Rural development** programs for farmers offer commercial differentiation to the consumer\*\*
  - **Water:** Responsible stewardship of water saves costs and secures supplies for our businesses



\*Based on analysis comparing products that are above average on 60/40+ and Nutritional Foundation criteria with those below average

\*\* Examples include Nespresso AAA, Nescafé Plan, Cocoa Plan

# A few personal comments..



# Initial steps – more to do...



## Growth / Portfolio

- Blue Bottle Coffee
- Sweet Earth Foods
- Freshly investment
- U.S. confectionery review

## Efficiency

- U.S. site consolidation
- Paris site review
- Nestlé Skin Health restructuring program
- Global manufacturing footprint review

## Balance Sheet

- 2020 Balance Sheet structure target