Nestlé in Greater China: Winning in the New Reality

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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.
1. **China: Favourable yet challenging business environment**


3. Vision, objective & ambition

4. Winning in the new reality: China-relevant portfolio, region & channel focus, success with partners

5. Creating Shared Value
The size of a continent, with provincial GDPs at the level of developing or developed countries

Source: The Economist Feb 24, 2011
China is still at an early stage in food consumption: Per capita by 2015 … only half of Mexico today

Global F&B consumption & disposable income levels

Sources: Nestlé GCR Analysis, Euromonitor & McKinsey, 2011
Nestlé continues to support government efforts to reinforce food safety

Zero tolerance

Higher awareness

Stricter legal framework

No preferential treatment
1. China: Favourable yet challenging business environment


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Nestlé history: long presence in China but rapid development since the 1990’s

- Nestlé sales office opened in Shanghai
- Nestlé Shuangcheng factory started production (Heilongjiang Province)
- Establishment of Nestlé China HQ in Beijing (relocated to new premises in 2010)

Timeline:

- 1874: Started trading activities in HK. First trademark (Eagle sweetened condensed milk)
- 1908: Nestlé Products Ltd. Established in HK
- 1920: Initial discussions with PRC authorities concerning possible partnerships with local companies
- 1979: 80% partnership with Totole (Shanghai)
- 1990: Hong Kong factory (dairy + ice cream) through acquisition of Dairy Farm
- 1992: Nestlé Investors Seminar, Shanghai
Accelerated investments in the 2000’s showing long-term commitment to China

- **1993 – 2006**: 16 factories built in China to meet consumer demand
- **2001**: Nestlé R&D centre in Shanghai
- **2002**: 80% partnership with Haoji (Sichuan Province)
- **2008**: Nestlé R&D centre in Beijing
- **2009**: Totole’s second factory in Shanghai started production (the world’s largest bouillon factory)
- **2010**: 70% partnership with Dashan (Water)
- **2011**: 60% partnership with Yinlu Foods Group
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Nestlé is perceived as the tastiest, healthiest and most trustworthy F&B brand in China

They are socially responsible
Ahead of other companies in developing nutritionally advanced products
A company I feel I can trust
Offer the tastiest and healthiest choice
Committed to continuous product improvement
Product range contributes to balanced diet
Invest heavily in scientific nutritional research and development
Provide great tasting products
Their on-pack information makes choosing healthier products easier
I would recommend their products
Made advancements in improving products healthiness
Deliver the best quality products
Encourage an active lifestyle
Their products are part of my everyday life

Source: Millward Brown, 2012, survey on the top 22 F&B companies in China
31 factories and 2 R&D centres all across China

- 35 million products sold every day
- ~90% of Nestlé products sold in China are locally manufactured

Regional & local headquarters
R&D Centres
Factories (under construction)
Our partnerships have enhanced Nestlé’s capabilities

- Large portfolio: 6 China famous brands, 1 strong regional brand, leadership in 11 categories

- 3 focused platforms with clear strengths and expertise

- 2 different “cultures”, same values

- Need to respect what makes our partners unique

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**Nestlé Dry Grocery** → Key accounts, few key distributors

**Yinlu / Ready-To-Drink coffee** → Ready-To-Drink beverage distributors, high point of sales coverage, lower-tier cities

**Hsu Fu Chi** → Direct distribution, Pick & Mix, impulse model

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**Multinational company vs. Chinese entrepreneurs**

**Structured approach vs. speed / planning vs. hyperactivity**

**Team-minded vs. great leader**

**Different focus and KPIs – percentages vs. absolute amounts**

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**Support & develop**

**Listen and change only if all partners:**
1. understand why
2. agree
3. see clear benefits
The 2 latest partnerships have drastically changed the capabilities of Nestlé

Actual 2011 Sales
CHF 2.5 bn

2012E Sales
CHF 5 bn

Nestlé F&B
Globally/Regionally Managed Businesses

Partnerships

Nestlé F&B
GCR division

Dairy, Ice Cream,
Coffee & Beverages,
Infant Nutrition,
Hong Kong, Taiwan

Yinlu + RTD Coffee
HFC + Nestlé Confect.
Food (Totole, Haoji, Maggi)

Note: Yinlu sales only 1 month in Actual 2011, Hsu Fu Chi sales in 2012E figures, not in Actual 2011; Nestlé F&B GCR includes Infant Nutrition
Greater China Region is on track to become Nestlé’s #2 largest market

<table>
<thead>
<tr>
<th>2011 Rank</th>
<th>Market</th>
<th>2011 Sales (CHF bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>21.5</td>
</tr>
<tr>
<td>2</td>
<td>France</td>
<td>5.6</td>
</tr>
<tr>
<td>3</td>
<td>Brazil</td>
<td>5.4</td>
</tr>
<tr>
<td>4</td>
<td>Germany</td>
<td>3.4</td>
</tr>
<tr>
<td>5</td>
<td>Mexico</td>
<td>3.0</td>
</tr>
<tr>
<td>6</td>
<td>UK</td>
<td>2.7</td>
</tr>
<tr>
<td>7</td>
<td>China</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Greater China 2012 Sales est.: CHF 5 bn
Rank: ?

16% CAGR

Nestlé Greater China Region’s sales (excluding Yinlu & Hsu Fu Chi)
2011 has seen significant investments to support our fast growth

Trading net working capital* as a percentage of sales

Capital expenditures* as a percentage of sales

*Excluding Yinlu & Hsu Fu Chi
The new Nestlé China: 47,000+ employees

Jan. 2011
14,100 employees

Jan. 2012
47,000 employees

Nestlé F&B
Globally/Regionally Managed Businesses
- Nestlé Professional
- Nestlé Waters, CPW
- Nestlé Purina Petcare
- Nespresso
- Nestlé Health Science

Partnerships
- Yinlu + RTD Coffee
- HFC + Nestlé Confec.
- Food (Totole, Haoji, Maggi)

Note: Yinlu & Hsu Fu Chi employees are accounted starting from Jan. 2012; Nestlé F&B GCR includes Infant Nutrition
Agenda

1. China: Favourable yet challenging business environment


3. Vision, objective & ambition

4. Winning in the new reality: China-relevant portfolio, region & channel focus, success with partners

5. Creating Shared Value
Our Nestlé Greater China vision

Be the recognised leading NHW F&B Company by helping to build healthier and happier generations at every stage of life

- Delivering innovative, safe, tasty, trusted and good value-for-money products
- Building partnerships with all stakeholders from farm to chopsticks
- Creating Shared Value and sustained development
Our ambition is to grow double-digits while Creating Shared Value
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The Nestlé strategic Roadmap to win in the new reality
Comprehensive product offer matching all income levels

**Chinese Urban Household Annual Income (’000 RMB)**

- **Global Affluent:** >250 (6% of population)
- **Mass Affluent:** 125-250 (12% of pop.)
- **Upper Middle Class:** 50-125 (39% of pop.)
- **Lower Middle Class:** 30-50 (22% of pop.)
- **Poor:** <30 (21% of pop.)

**Dairy & Nutrition**

- **Coffee**
- **Beverage**
- **Culinary**
- **Confection, Ice cream**
- **Hsu Fu Chi**
- **Yinlu**
- **Waters**
- **Cereals**
- **Pet food**

Source: Nestlé GCR analysis, selected units from Nestlé Greater China portfolio, sizes non representative.

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Adapting product tastes & formats to local preferences
PPP: *Crispy Shark* chocolate wafer
The right consumer insights

- Right recipe
- Right brand & price positioning
- Right communication campaign
- Right in-store promotion

1998: Launch Nestlé Wafer in China
2005: Explore *Pick & Mix* opportunity
2006: Reach 10,000 tonnes
2008: 1st Above-the-line communication
2009: Re-launch *Crispy Shark* brand
2011: Continued innovation and growth

*The right consumer insights*

- Right recipe
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- Right communication campaign
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*PPP: Crispy Shark chocolate wafer*

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*The right consumer insights*
R&D: Senior Nutrition, addressing the needs of the ageing population

Ageing society

- Chinese aged 55+ will reach 335 million by 2015
- They allocate half of their expenditure to food: RMB 5000 per year & per capita

HEART and BONE are top 2 health concerns for Chinese senior consumers

Source: National Statistics Bureau 2010/Kantar consumer panel/McKinsey insight China
I&R: Focus on winning regions with winning products
The Ice Cream success story

Focus on regions
with strong ability to win

- Concentrate on North & South Regions
- Close East Region

- YTD growth 45% like for like
- Improvement of Trading Operating Profit

Portfolio optimisation
More selective & better innovations

- Out: 46 SKUs
- In: 14 SKUs

- More competitive portfolio
- Increase of Marginal Contribution
Out-of-home: *Nestlé Professional*, helping operators win!

- Dedicated organisation with strong channel & customer intimacy
- The widest F&B portfolio in the out-of-home market
- Nestlé Group expertise & capabilities
- Ability to customise products & solutions
We will keep on developing the professional channels as out-of-home consumption increases in China

- **US**: largest out-of-home market, followed by Japan and China
- **US/Japan**: size driven by spending; high out-of-home spending / capita, but low growth
- **China**: size driven by population; low out-of-home spending / capita (RMB 1,800), but high growth

Source: Euromonitor, *Nestlé Professional Global Food service Industry Channel Quantification Report 2012*
We will keep on developing the professional channels as out-of-home consumption increases in China

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Source: Euromonitor, Nestlé Professional Global Food service Industry Channel Quantification Report 2012
**Totole: A successful partnership in culinary products**

- **1988**: Start manufacturing chicken bouillon
- **1997**: Opening of Totole factory
- **1999**: Nestlé acquires 80% of Totole
- **2001**: Opening of Nestlé R&D centre
- **2009**: Opening of Totole’s second factory
- **2012**: Mr Rong Yaozhong, founder of Totole, is still General Manager of the company after 13 years of successful partnership

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Totole local insights + Nestlé technology = Winning recipes

Aroma
Taste
After
Overall

Flavor

- 5
- 4
- 3
- 2
- 1

0

Nestlé Proprietary technology
MHT STB
… leading to a relevant portfolio for Chinese consumers

MSG range

3 ‘Xian’ granulated chicken bouillon

Dehydrated bouillon

Paste and recipe mixes

Premium soya sauce & premium oil

Gel & liquid concentrated bouillon
Totole: A proven track record of managing sino-foreign partnerships

Nestlé-Totole way to success: Common values, mutual learning, respect of differences

- Nestlé R&D opened
- JV established
- 2nd factory opened

~12 x in 12 years

Source: CNCS, 2011
Yinlu is an ideal platform to become a major player in healthy dairy-based beverages and nutritious congees.

Traditional trade & deep penetration
- 8,000 sales people
- >700,000 outlets covered

High operational efficiency & aseptic experience
- >700,000 outlets covered

Chinese relevant products
- Leader in Ready-To-Eat congee and Ready-To-Drink peanut milk

60/40 partnership with founding families
Headquartered in Xiamen

3 large-scale factories

8,000 sales people
>700,000 outlets covered

Leader in Ready-To-Eat congee and Ready-To-Drink peanut milk

3 large-scale factories
…with a range of leading healthy & nutritious products

Peanut milk range

Red date peanut milk

Milk peanut

‘Eight Treasure’ congee

‘Hao Zhou Dao’ congee
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## Quality, food safety and compliance are our non-negotiable priorities

<table>
<thead>
<tr>
<th><strong>✓ Quality is our biggest boss</strong>...</th>
<th>Making it the cornerstone of our operation, we never compromise with food safety and compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>...a consistent engagement</strong></td>
<td>Continuous consultation and cooperation with authorities, academics and trade associations</td>
</tr>
<tr>
<td><strong>...across the whole value chain</strong></td>
<td>Long-term partnerships with farmers and very stringent selection and control of raw and packing materials</td>
</tr>
<tr>
<td><strong>...in each of our factories</strong></td>
<td>Strict implementation of the Nestlé Quality Systems with comprehensive quality controls at each manufacturing step and full compliance with regulation</td>
</tr>
<tr>
<td><strong>...with the most advanced technology</strong></td>
<td>Investment in state-of-the-art equipment and best-in-class analytical capabilities</td>
</tr>
</tbody>
</table>
Long-term cooperation benefiting thousands of farmers

1. Fresh milk collection

- Local fresh milk collected and processed every day
  - Daily fresh milk payments to farmers
  - With multiplying direct/indirect effect on local communities: ~ 200,000 people

- In 2011, Nestlé agronomists trained ~17,000 farmers

- World-Class Dairy Farming Institute
  under construction in Shuangcheng, to support the sustainable development and the modernisation of the dairy industry in China

![Graph showing volume in '000 tonnes/year from 1994 to 2011, with a 17x increase in 17 years]
Long-term cooperation benefiting thousands of farmers

2. Coffee culture

- Nestlé has helped pioneer coffee growing in Yunnan province
  - Nestlé Agriculture Technical Assistance: world class support to coffee growers
  - Experimental training and demonstration coffee farm: model of best practices
  - Trusted, reliable buyer of coffee beans at stable and competitive price

- June 2012, Rio, Brazil: Received the World Business and Development Award for Innovative & productive business practices that benefited Chinese society
## Key Enablers

### Human Resources
- Attract, develop & retain local talents

### Sales & Distribution
- Expand distribution depth, strengthen effectiveness & expertise

### Research & Development
- Transfer & build expertise and know-how with strong Chinese insights

### Technical
- Anticipate growth with best-in-class production capacity & organisation
Greater China Region: a strong growth engine for Nestlé

- Double-digit sales & profit growth “the Nestlé way”
- Positive 2012 outlook
- A quantum size leap: 2 new partners in 2011
- Proven track record of winning with local partners
- Comprehensive portfolio & deep Chinese insights
- Creating shared value from farm to chopsticks

Winning in the New Reality
Thank You！

谢谢！