Nestlé Investor Seminar 2014

Nestlé in Mexico

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June 3rd & 4th, Liberty Hotel, Boston, USA
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.
Nestlé in Mexico: 2013 sales by product category

Sales 2013: CHF 3.2 bn

- Beverages (incl. Waters): 31%
- Milk products and Ice Cream: 34%
- Confectionery: 6%
- Other (incl. Nutrition & HealthCare, PetCare and Prepared Dishes & Cooking Aids): 29%
Where do we play?

What have we achieved?

What are we going to do?
Mexico is a country of contrasts...

### DEMOGRAPHICS

- **Population**: 115m and still increasing (+1% p.a. to 2020)
- **Young country** (60% below 35 years)
- **High Urban pop.**: 78%
- World’s #1 overweight & obese pop.: 70%
- **High anemia**: 23% of kids under 5 years

### WIDE SOCIO-ECONOMIC DIVIDE

<table>
<thead>
<tr>
<th>Region</th>
<th>Population</th>
</tr>
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<tbody>
<tr>
<td>A/B</td>
<td>8m (7%)</td>
</tr>
<tr>
<td>C</td>
<td>55m (48%)</td>
</tr>
<tr>
<td>D</td>
<td>46m (40%)</td>
</tr>
<tr>
<td>E</td>
<td>6m (5%)</td>
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### MAJOR REGIONAL DIFFERENCES

- **Modern, US influence**: 27% of pop., 29% of GDP
- **Hectic, Diverse**: 51% of pop. 51% of GDP
- **Traditional, Rural**: 22% of pop, 20% of GDP

Source: EIU, AMAI
... undergoing major economic & political reforms

**ECONOMICS**

- GDP: CHF 1.127 tn
- GDP per cap.: CHF 9,700
- GDP per cap. PPP: CHF 16,220
- Strong dependence on the US economy: 80% of exports
- 60% of employees in the informal sector
- GDP growth:
  - 2012: 3.7%
  - 2013: 1.1%
  - 2014 (f): 2.7%

**STRUCTURAL CHANGES**

- New government focusing on implementation of structural reforms
  - Energy
  - Fiscal
  - Education
  - Labor
- External investors’ confidence growing

- Oil
- Remittances: USD 22bn – 33m people of Mexican descent in the US
- Tourism
The F&B universe is worth CHF 95 bn; Nestlé is the 2nd largest player in the market.

- #11 in the world
- CHF 95bn
- 115m population

- F&B accounting for an increasing share of household spent
- Expected growth at 6% p.a.

F&B Sales in Mexico (excl. carb.) / CHF bn

- Competitor 1: 3.2 CHF bn
- Competitor 2
- Competitor 3
- Competitor 4
- Competitor 5
- Competitor 6
- Competitor 7
- Competitor 8

Source: Nielsen, Euromonitor, company reports, trade press
The Mexican consumer is genuine, grasping modernity but staying true to their roots

**Proud of its traditions**

**Attaches great importance to family values**

**Looking for stability and remaining loyal to its brands**

**Remaining loyal to price points**

**More connected than ever, speaking on social media and more informed**

**Strong culinary heritage**

**MEXICAN CONSUMER**
The retail environment is polarized

Modern Channel

48% of the Market
19,000 Outlets

Traditional Channel

52% of the Market
700,000 Outlets
We see great opportunities…

**OPPORTUNITIES**

- **Further room for growth**

  - **Coffee consumption**
    - Cups per capita
    - 237, 535, 775

  - **Chocolate consumption**
    - Kg per capita
    - 0.4, 1.9, 2.1

  - **Milk consumption**
    - Liters per capita
    - 35, 41, 57

- Expected long term **category growth**
- **Growing** and **enriching** consumer base
- **Polarized** consumer base (premium & PPP)
- Increasing awareness for **better nutrition**

- **Regionalization**
- **Digital**
- **Structural economic reforms**
...but some challenges need to be overcome

**CHALLENGES**

- 2013 with low GPD (1.1%), economy slow to pick up in 2014
- Consumers’ disposal income challenged
- Short term low consumer confidence
- Increased competition
- Insecurity & organized crime
- Corruption

Source: INEGI, Worldaudit
Where do we play?

What have we achieved?

What are we going to do?
We have been operating for more than 80 years, growing our business and impacting society...

1930:
- Starts as importer
- First dairy factory in Ocotlan
- Starts CSV programs in Dairy

1940’s:
- 1942: Factory in Coatepec

1950’s:
- 1956: Factory in Chiapas
- Setting up of coffee & culinary factories

1960’s:
- 1960: Global acquisition of Carnation

1970’s:
- 1970: Global acquisition of La Atzeca

1980’s:
- 1985: Global acquisition of Danesa 33 Ice Creams
- 1988: Acquisition of Santa Maria

1990’s:
- 1995: Acquisition of La Atzeca
- 1999: Acquisition of Gerber

2000’s:
- 2000: Acquisition of Consomate
- 2002: Acquisition of Purina Mexico
- 2006: JV between Santa Maria & Modelo
- 2006: New factories
- 2007: Acquisition of Gerber
- 2013: Inaugurated world largest coffee factory in Toluca
- 2014
...and now have a strong footprint throughout the country

- 13 factories
- 36 distr. centers
- 42 sales offices
- 1 R&D center

- 2013 Sales of CHF 3.2 bn
- 6th largest market for Nestlé Group

80 years of presence...
...strong footprint...
...unmatched portfolio...
...for all occasions...
...for all consumers...
...leading to strong market positions...
...and results
We have an un-matched portfolio of strong local and global brands, in which we invested over time.

80 years of presence...

... strong footprint...

... un-matched portfolio...

... for all occasions...

... for all consumers...

... leading to strong market positions...

... and results

Local brands

Global brands perceived as locals

Global aspirational brands
Our products are entrenched into Mexican consumers’ lives…

FOR EVERY LIFE STAGE

- Babies
- Kids
- Adults

FOR PETS

FOR EVERY OCCASION

- Breakfast
- Cooking
- Hydration
- In home & out of home

80 years of presence...

... strong footprint...

... un-matched portfolio...

... for all occasions...

... for all consumers...

... leading to strong market positions...

... and results
... and reach all layers of socio-economic classes

80 years of presence...
... strong footprint...
... un-matched portfolio...
... for all occasions...
... for all consumers...
... leading to strong market positions...
... and results
As such, we lead most of our categories and have been continuously gaining market share.

- 80 years of presence...
- ... strong footprint...
- ... un-matched portfolio...
- ... for all occasions...
- ... for all consumers...
- ... leading to strong market positions...
- ... and results

#1

Nescafé

Milk

Nido

Camton

Lechera

#1

Nesquik

Nestlé Dessert Club

Gerber

Candies (impulse)

#2

Maggi

Purina

Nestlé Ice Cream
This translates into solid sales and TOP growth for Nestlé in Mexico

80 years of presence...
... strong footprint...
... un-matched portfolio...
... for all occasions...
... for all consumers...
... leading to strong market positions...
... and results

<table>
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<tr>
<th>Year</th>
<th>Sales (in local currency)</th>
<th>Trading Operating Profit (in local currency)</th>
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<tbody>
<tr>
<td>2011</td>
<td></td>
<td></td>
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<tr>
<td>2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
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+4.0% CAGR\(^{(1)}\)

+5.6% CAGR\(^{(1)}\)

(1): 2011 to 2013 change
Where do we play?

What have we achieved?

What are we going to do?
Nestlé Mexico

**Our vision**

“... Ser reconocida como la empresa líder en nutrición, salud y bienestar, teniendo la confianza de los grupos de interés

Be recognized as the leading nutrition, health and wellness Company, trusted by all its stakeholders...”

**Our mission**

“... Deleitar a las familias mexicanas con productos nutritivos que les brinden salud y bienestar durante toda su vida, ofreciendo precio/calidad superior y creando valor compartido

Delight Mexican families with nutritious products that provide health and wellbeing throughout their life, offering superior price/quality and creating shared value...”
Creating Shared Value is not just a statement, we live with it daily

Strengthening leadership in Nutrition

Nestlé perceived as a leader in NHW by consumers…

- 58%
- 45%

Closest comp.

… and KOLs

- 53%
- 15%

Closest comp.

Key initiatives:

- Reaching 3 million kids with Nutrir initiative
- United for Healthier Kids

Driving best in class rural development programs

- #1 buyer in the country
- 20% of domestic production

Pioneering CO2 and water reduction programs

- 80% of Nestlé’s energy comes from renewable energy
- Treatment plant & usage of rain water

Nestlé #1 buyer in the country
20% of domestic production

Nestlé #3 buyer in the country
8% of domestic production

Nestlé #1 buyer in the country
20% of domestic production
Our strategy is articulated around 5 must win battles

- **Strengthen our pillar businesses**
- **Increase availability and improve visibility in traditional channel**
- **Train, align and empower our people to become a high performance organization**
- **Balance portfolio creating new stars and resolving value destroyers**
- **Increase operational efficiency throughout the value chain to accelerate growth**
Driving growth of our pillar businesses where we have the greatest ability to win

**Drive consumption** towards one cup per capita a day, while maintaining leadership of NESCAFÉ

**Nutrition** that best supports a mother’s love for her child throughout the growing years

To help next generation to develop their full potential and live healthier lives

**Invest in the 4th pillar**
2013: Licensed our chilled dairy business to a **strong local partner** and keeping our brands in the market.
... and re-invest in stars

- Grasp opportunities
- High growth, high marginal contribution
- Leverage high ability to win
- Investing in long term brands
- Balancing portfolio
Support growth by accelerating Digital

Growing Digital Media Investment
- Digital media spend: 10% in 2014 to 18% in 2016

Using digital to support innovation
- E-shopping on Facebook

Setting up a dedicated team
- 1st “DAT” in LATAM
- Performance KPI’s tied to digital media investment

Education + Training
- Digital Academy + 150 marketers trained
- Silicon Valley visits
Excel in RTM and POS execution

Adapt sales strategy and structure to regional differences

Boost the North

Capitalize the Center

Leverage the South

Increased Availability
Better Visibility

Availability & visibility
Put capital behind strategic priorities: USD 1 bn in capital investment

- New factory for Nutrition
- New factory for PetCare
- Major factory expansion for Breakfast Cereals
- 700 direct new jobs and 3,500 indirect jobs created

Source: El Universal, La Jordana Jalisco, CNNexpansion
Optimize operational efficiency to accelerate growth

- Simplification of our planning and distribution model
- Simplification of industrial setup
- Capacity utilization improvements
- SKUs reductions
- Factory overheads reductions
People fully committed and supporting the market’s must win battles

- **People:** Train, align and empower our people to become a high performance organization

- **Efficiency/ availability:** Increase productivity and operational efficiency throughout competitive structures and functional capability building

- **Growth:** Excel in compliance throughout competitive working conditions, evolving leadership and wellness mindset
Our strategy is fully aligned

Nestlé Group

Roadmap

Priorities

Focus areas

Nestlé Mexico

Our Vision & Mission

Our Must win battles

Our focus areas
Nestlé Mexico deeply rooted in the country and committed to the long term

- strong portfolio with products entrenched in consumers’ lives
- leading market positions
- very deep consumer reach
- making the right choices to sustain performance
- impacting society