

NESTLÉ S.A.

2017 CAGNY PRESENTATION TRANSCRIPT

Zone AOA – Growth Reignited

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Wan Ling Martello, Nestlé S.A., Head of Zone AOA,

Slide: Title slide

Hello everyone. It's been almost two years that I have had the privilege to lead the great team that is responsible for what we call the Zone AOA business.

Slide: Zone AOA: diverse and complex

Zone AOA, it's Asia, Oceania and Sub-Saharan Africa.

It's big, it's diverse, it's complex and it's incredibly exciting. Home to the world's most populous country, home to the world's second largest economy and home to 8 of the 10 fastest growing economies in the world.

Slide: Over 100 Years of presence in many countries

We, at Nestlé, have been in many of these markets for a very long time. If you think about the Philippines we have been there 105 years, in Malaysia 104, India and Japan 103 and it goes on and on. South Africa 100 and Nigeria 55.

Slide: High trust scores in most geographies

So the levels of trust that we see and enjoy in our markets are very high. For a company like Nestlé, where quality and trust are paramount, this gives us a great foundation to build from.

Slide: Our brands are part of consumers' lives everyday

No surprise, our brands are part of consumers' lives every day. Very strong market position. Our share of wallet for instance in the Philippines is the highest in the Group and this is thanks to investments made by our company over many years.

Slide: Nestlé in AOA: Broad-based portfolio

So Nestlé in AOA is close to CHF 23 billion in sales, a balanced portfolio both in terms of category and geographies. It is interesting to note that, if you look at the chart, South East Asia is the same size as China so clearly there is still a lot of runway ahead of us.

Slide: Zone AOA: Accretive to Group in all dimensions

Like François said earlier, the Zone is very accretive to the Group across various metrics. Our trading operating profit is accretive to the Group by 110 bps. In terms of free cash flow we are 600 bps accretive to the group and in terms of return on invested capital we are 700 bps accretive to the group.

So getting AOA back to growth is very important.

Slide: 2016: Growth has re-ignited

We all know on this chart that top-line growth was unfortunately under pressure several years ago. The slowing economy was clearly a factor. Commodity deflation was also a reason. But the fact of the matter is when things slow down it exposed some internal gaps which we have been addressing the last two years. Last May, at our Capital Markets Day, we made a commitment that we should see sequential improvement throughout 2016 and I am happy to say that we were able to do that.

Slide: Almost all markets have turned the corner

We closed the year with almost all of our markets back in growth mode and even in China, with the exception of *Yinlu* which is the joint venture we bought in 2011, most of businesses have also stabilised and broad based improvement in market shares.

Slide: How we reignited growth - Consumer

We re-ignited growth by stepping up our engagement with consumers, with our brands and our products. Innovating beyond products and internally improving our processes that support demand generation. Last but not least, none of this is important if not for our people.

Slide: Strong consumer engagement: #1 enabler of growth.

Let me start with consumers. As we look at our consumers they are very diverse. Having said that there are common themes and dynamics. François mentioned Nutrition, Health and Wellness is top of mind, the trend towards premiumisation and our consumers are heavily influenced by everything digital.

I remember when I was in Yangon Myanmar, I was very impressed, walking the streets, going to coffee shops and seeing how many consumers, how many people were carrying smart phones, tablets and this is not people who are younger generation or millennials, this is pretty broad based. So I am very impressed with how technology, how many places are leapfrogging, embracing technology much faster than some of the Developed markets that we have seen.

Slide: Meet Chinese Consumers

So let me take a sub set of our consumers, let me take the Chinese consumer for instance. Now granted we see this new dynamics clearly amplified with the Chinese consumers.

Slide: I want to live a better life because I can afford to....

Chinese consumers are aspiring to live a better life and so they are trading up to more premium products. You see here. When there is spare money to spend food remains amongst the top categories. And no surprise lifestyle categories such as entertainment and travel are also on the rise.

Slide: “I have access to a variety of products 24/7”

Consumers today are increasingly demanding and that's because they have access to so many products. They want convenience, they want immediacy and they want their products now.

Slide: eCommerce creates infinite Shelf Space

This is because it is made possible by the digital ecosystem developed in the last several years. It's this idea of infinite shelf. If you look at the slide, and this is in China, the number

brands in the category of Coffee and Adult Milk Powder, there are 228 brands on-line vs 42 brands offline. A lot of the brands that are available on-line, 66% are actually imported.

Slide: Change and scale come fast in China

What is exciting though is that the speed and scale of change is simply unprecedented. China might be on the extreme side of the spectrum but we are seeing similar patterns across our region, albeit not like on steroids like China.

Slide: How we reignited growth - Product

Let me start by talking about how we are engaging differently with our consumers, with our brands and our products.

Slide: Milo RTD: Delivering nutrition in the lunch box.

For those of you who are not familiar with *Milo*, *Milo* is a chocolate malt beverage. It is one of our, *Milo* brand is one of our billionaire brands in Nestlé. It is extremely strong in Malaysia and the Philippines. I grew up drinking *Milo* so you can tell it's really great. *Milo* has been traditionally consumed in the morning for breakfast at home. We identified a new consumption occasion which is this idea of nutrition on the go. This has delivered great results for us. *Milo* in 2016 grew 27% in AOA with very little cannibalization on our powdered business.

Slide: Global brands with local insights: NDG Matcha Green Tea

Another example I want to talk about is this. It is often said that global companies cannot compete with local players and I am here to say that is not the case. *Nescafé Dolce Gusto* is now in 80 markets. It is the most global coffee system solution in the world. Yet we are able to take this global system solution and make it even more relevant to our consumers in Japan. This we did with the launch of the Uji Matcha tea.

The preparation of Matcha is highly ceremonial, it's very difficult, it's complex and so leading to low consumption levels. But with *Nescafé Dolce Gusto Matcha* it allows the preparation of a perfect cup of Matcha with the touch of a button. I am happy to say that *Nescafé Dolce*

Gusto Uji Matcha ranked number one today in the Japanese tea category on-line which is unbelievable.

Slide: Nescafé in ASEAN: Locally led innovation

Another example of locally led innovation, and this we did on crowd sourcing of consumer insight. So let's take a look at this two minute video. (Video plays)

We are very proud of the Malaysian team that was able to do that.

Slide: Consumer dynamics pushing innovation beyond products

Let me now go beyond and talk about innovation that goes beyond products.

Slide: KitKat: Engaging with today's consumer

It's *KitKat* Chocolatory some of you are familiar, very familiar, with it. It is a high end *KitKat* store and it is an incredible new way for us to bring, to have our consumers engage with a brand that is 70 to 80 years young. It is artisanal, it is premium, you can customise the flavour and customise the packaging and the beauty of it is, once a flavour takes off, we can scale it very fast by going on-line.

It's amazing. I have been in Sydney where I see our consumers queue up in long lines in order to buy something from our Chocolatory store. So now it is in Melbourne, a permanent store, in Tokyo in Japan, in Kuala Lumpur in Malaysia. It is doing really well. It because of efforts like this *KitKat* grew plus 8% last year in Zone AOA. I just want to call out in the picture down below that is actually *KitKat* Sushi. It was a PR exercise that generated massive earned media and buzz for the brand. The first 2,000 customers who purchased for ¥3,000 at the store in Tokyo, so that's about \$25-26, got three pieces of Sushi *KitKat* as a gift. That was hugely popular.

Slide: Creating value for consumers through systems & services

We also use technology and connectivity to create new experiences for our *Nescafé* brand. So our Barista machine allows you, through an App, to personalise your dosage of how much coffee you in your cup of coffee, re-order coffee and also allows you to connect with

your family and friends through this app. It is interesting in an ageing society like Japan, where your parents might live far away or maybe you just don't want to call them every day. You know in the morning when they get up and have their first cup of coffee, you know that they are up and about and it is up to you if you want to send a text message or not.

It is interesting, *Nescafé* soluble coffee in Japan is 50% of our sales and 60% of our profit and it is precisely because we can innovate, not just on the products but beyond the products to go to systems and services that has enabled our business in Nestlé Japan to grow 5% in last two years. In an economy that is really not growing. So very well done.

Slide: eCom enables quick testing and learning

We are also leveraging eCom as a means to test and learn if products will resonate with consumers or not. We did an Australian country fair with Alibaba last year and it was amazing to see our Uncle Toby's Plus Antioxidants blew out. Completely sold out in a matter of 8 minutes. And the rest of the products within this promotion sold within three hours and so it is a great way to test what products will resonate with consumers.

Slide: MYOWBU: A win-win model

As I end this section on innovation beyond products let me take you to another continent – to Sub-Saharan Africa. This is innovation by how we bring distribution, how we bring *Nescafé* coffee to consumers who otherwise we would not have access to.

It's a fantastic win-win model because it provides a working opportunity for people when they sell *Nescafé* coffee and it also helps us obviously from a distribution standpoint. Today we have more than 3,000 Myowbus operating in Sub-Saharan Africa. Myowbu by the way stands for My Own Business.

Slide: How we reignited growth - Process

So now I have talked about the consumer, I have talked about the product innovation that goes beyond products. Let me talk about internal processes. What have we done differently in terms of generating demand activities that have helped us reignite growth in the Zone?

Slide: Internally developed tools to bring rigour and focus

You know one of Nestlé's great strengths, and François touched on this earlier, is the diversity of categories and geographic footprint that we have. But the thing that is interesting is how do you compare Noodles in India vs Confectionery in Japan, or Coffee in Mexico, Adult milk powder in China. So for the first time, about four years ago, we developed a tool called Atlas. It basically breaks the business down in to cells. Every cell represents a category and geography combination so it is Mexico Coffee, it's Ice Cream, it's Confectionery in Japan. So now we have roughly 2500 cells that we track. It's the first time we have a common language across all the businesses and we track against three dimensions; Growth, Margin and Return. It's a tool that serves really as a basis for resource allocation like CAPEX.

What we have done, we have taken ATLAS that is a Group tool, and take it a step further and develop a tool called Nestlé Brand Accelerator in the market. It is all about driving commercial execution. It's about the Perfect Brand, the Perfect Assortment and the Perfect Store. So let me just talk to you about those three things.

Slide: Perfect Brand: Right marketing mix

Perfect Brand is about getting the marketing mix right. So let me illustrate. Thailand Coffee mixes, 3 in 1. We found out that 87% of our consumers are loyalists which means they know they want to buy *Nescafé* even before they walk in the store. We found out that 70% of our volume was sold in promotion and that our share of voice was only 15%. So we were clearly under-investing in media. So with this analysis, this tool we were able to re-balance the marketing mix, reducing promotional spending and shifting resources behind brand building.

Slide: Perfect Assortment: Focus behind Hero SKUs

The second element of Brand Accelerator is Perfect Assortment and much like the ATLAS tool it is all about making choices. Perfect Assortment is about ensuring that we focus on the SKUs that do the heavy lifting.

So if we look at the Confectionery category in Australia for instance, only 4 brands and 17 SKUs drove all the growth. In Indonesia, once we established a role for each SKU, on the shelf we also saw improved results. So this idea of increased focus has really helped our business in terms of reigniting growth.

Slide: Perfect Store: Win at the point of purchase

The third dimension is the Perfect Store. We want to win at the moment of truth in every store. So we build our own, what we call Picture of Success, based on shopper understanding for all of our categories. We set in-store standards and we measure against them.

What we saw in Malaysia is when we had the perfect merchandising and the perfect store sales actually outperform the channel growth by three X.

In Pakistan when we rolled out this process we saw increase in both our market share and as well as sales. Nestlé Pakistan last year grew in high single digits.

Slide: Perfect Store: on-line to celebrate 150 years of Nestlé Brands in China

When we talk about Perfect Store it's not just off-line it is also on-line. Last year in order to accelerate our eCom capabilities in China we made, in collaboration with Alibaba, we did an event surrounding and celebrating our 150 year anniversary.

This was as much an opportunity to learn as well as a commercial activity. It was the first time Nestlé China went across all businesses and pulled together 27 brands and 154 products, both domestic and international, for our Chinese consumers. It was the first time that the Alibaba Tmall worked on a promotion that worked across 13 Tmall stores. It was the first time a FMCG company, in collaboration with Youku, which is like YouTube in the US, did a VR campaign.

We are really happy with the results, 11 million unique visitors, we sold 2 X our expectations in terms of sales and the brilliant part of it was, for the people who came on-line and bought our products, 70% were brand new buyers who had never bought a Nestlé product on-line. So it was brilliant. Like I said it was as much a learning opportunity as it was a commercial opportunity.

Slide: How we reignited growth.

I talked about consumers, I talked about what we are doing to engage differently with them. Innovation in products, systems and services. I talked about what we are doing differently in support of our demand generating activities. But none of this, none of this would have been possible without our talent.

Slide: It's all about people!!

In the last almost two years we had 25% changes in our Zone and Market, Country management. It's about the right people in the right chair. It is interesting because often times people are like "Well are they bad people?" Well, no they are not but it is look beyond direct experiences. In markets like China you need to look at people who have skill sets that they can bring to bear, more importantly than direct experiences.

We roll out a process called 3-party discussion. You know people development is so important and people always talk about this but throughout the years I have seen that when it comes to having discussions with people about what they can do better, how they can be more effective and what are the things they need to do to continue to grow, it is never really a quality discussion. So what we have started to require so if I am the manager, giving the review to my sub-ordinate, my manager will be sitting in. I can tell you it is amazing to see how the quality of the discussion has shot up and how people have taken it a lot more seriously. The discussions are a lot more deliberate, a lot more thoughtful and for the person receiving the review it's interesting. At first it is a bit intimidating your manager and their manager attending but it has been very motivational to know that we really are invested in development.

The other thing is, despite all the changes and it speaks to the resilience of team AOA, Nestlé does an engagement survey every two years and the last one happened to be at the end of last year. We, across all 15 dimensions, improved significantly in our survey and we, in the Group, came in with the highest participation rate at 98%. In fact the third-party company that helps us with this survey said that they had never seen where there were two markets with 100% participation. The idea is that magic happens when you have the right leaders and the right team. They exceed your expectations and more importantly they exceed their own.

Slide: Leadership in Action: Maggi Noodles

I'll just close the people section with two very quick examples of leadership in action. The Noodle crisis in India, very well documented, very well discussed. We came back six months ahead of schedule. We are now 60% market share. Brand trust which plummeted to I think less than 5% is now back to 95%. So great work by the Indian team.

Slide: Leadership in Action: Floods disruption avoided in Philippines

Another great example was just last month, we had a massive flood in one of our factories in the Philippines. It would typically normally have taken 30 days to come back and if they had done that it would have meant us missing \$150 million of supply that we could not, sales that we could not supply. It is truly amazing that they came back within a week with no supply or quality issue. I am very, very proud of my AOA team.

Slide: AOA: very important pillar for the Group

I will close the AOA section by saying it is a very important pillar to the Group, François said that – highly accretive to the Group on all dimensions. There are very exciting opportunities in the region. For some people it might be scary, for us we are up for the challenge and we think it is a tremendous runway ahead of us.

Almost all the businesses are back on growth mode. Clearly we have to bring that one business in China back which is *Yinlu*.

We will lead the group in terms of digital capabilities and we will be a source of entrepreneurial talent for the Group.

Thank you very much.

End of Transcript