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GROWTH AND RETURNS PRESENTATION

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Speaker:

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François-Xavier Roger, Chief Financial Officer, Nestlé S.A.

Slide: Title slide

Good morning everyone.

Slide: Disclaimer

I will take the disclaimer as read to start with.

Slide: Our long-term value creation model

I will start with a short reminder of our long-term value creation model. The four pillars of our value creation model are Increase in growth with its own components. Improving margin is the second one, the third one is Capital allocation with a very prudent strategy in terms of capital allocation and the fourth pillar of our value creation model is about Creating shared value. For each of these parts obviously there are sub-components and that's part of what I will cover during my presentation.

Slide: Strong half-year financial results

This long-term value creation model is clearly totally supported by our H1 results which were once again a very good set of results in H1 following a good set of results already last year.

We saw our organic growth accelerating to 3.6% in the first six months of the year. We saw our underlying trading operating profit margin increasing 100 basis points to 17.1%. Our underlying EPS grew to 15.7%, which is actually quite high, you will see later on the historical perspective.

Whatever had to go down went down as well, so working capital went down. This is the average of the last five quarters, to 1.7% we aim at probably being at zero in the next one or two years. Free cash flow increased by more than 40% but we have to take that with care as it is only for the six-month period but it is very good by itself.

Then the cash that we returned to shareholders increased by CHF 500m over the amount we distributed last year. So a good set of results again.

Slide: On track to deliver our 2020 targets

Our ambition for 2020 is clearly to be in mid-single digit range in terms of organic growth. To get there we will land in 2019 around 3.5% so we are clearly on track to deliver our 2020 target.

Same for the bottom line we ambition to be between 17.5% and 18.5% next year. We will already reach the bottom end of the range in 2019, which means one year ahead of time. So we have a good level of confidence on reaching these targets for next year.

Slide: Balanced and diversified portfolio

Just as a quick reminder of our geographic footprint. We are operating in 190 countries, so we are really a global company, with sales of CHF 91.4bn last year. We are present basically everywhere with a very strong footprint in what we call Zone Americas, 45% of our sales, EMENA 29% and AOA 26%. You can see that our organic growth is well distributed between these three regions, that's the combination of globally managed businesses, regionally managed businesses and locally managed businesses. Obviously, the territories like AMS and AOA where we have a stronger footprint in Emerging markets is contributing to a higher level of organic growth.

Slide: Growing across all product categories

We have a very diversified portfolio from a category point of view as well. We are playing in a certain number of categories the largest one being Powdered & liquid beverages, which is essentially Coffee, which accounts for 24% of our total sales. Second largest category is Nutrition & Health Science, which includes Infant nutrition, Nestlé Health Science and Nestlé Skin Health, and that accounts for 18% of our sales.

You can see on the right-hand side as well that there again the growth is well distributed amongst all of our categories which is a good illustration of the strength and value of our portfolio with all categories growing with two highlights, more specifically Nutrition & Health Science which is almost growing 6% and PetCare which is growing north of 6%.

Slide: Portfolio geared for profitable growth

Our portfolio is clearly geared for profitable growth as we can see there. If we look at the first six months of the year, we had 3.6% of organic growth and 17.1% of underlying trading operating margin. All the growth drivers that we have, the three main ones, are really contributing to both top line growth, accelerated top line growth, and improved margin as well.

If we take our High-growth categories, which is PetCare, Infant nutrition, Waters, Coffee and Consumer healthcare, they account for 57% of our sales and they grow faster than the average of Nestlé.

If we take Emerging markets that contributes about 43-44% of our sales and Emerging markets are growing at about 50% higher in terms of organic growth than the average of the Group.

If you take Premium products that accounts for about 23% of our total sales and they grow about 80% faster than the average of Nestlé.

The beauty of it, as well, is that each of these growth drivers; High-growth categories, Emerging markets and Premium products, they have individually and obviously collectively a margin that is better than the average of Nestlé which means that they have a positive impact on the bottom line in terms of mix and they contribute to our margin improvement by themselves.

Slide: Faster innovation: 40 fast-track project since 2018

One way to accelerate our growth is to accelerate innovation as well so we are really in the business of innovation with an ambition that we developed over the last couple of years to reduce time to market. When we used to take about two years on average, I will put Infant Nutrition aside because this about deep science, but in the past we took about two years to develop new products and put them on the market. Now we ambition to do it within six months. It doesn't mean we succeed at all times but this is really what we ambition to do and we have been able to do that for quite a large number of products over the last two years, which is really extremely positive.

That means that from time to time we put products on the market that are obviously 100% safe but they are maybe not 100% final I would say. Then we wait for the consumer to provide us with some feedback in order to fine-tune the products and improve the products with a version 2.0, version 3.0. Pretty much what start-ups are doing as well.

Slide: Global Starbucks rollout at speed

A good example of this acceleration of innovation is what we have done with *Starbucks*. We took over these products in October 2018, less than six months later in February/March 2019 we entered into 14 new markets and we launched 24 new SKUs including totally new products like Coffee creamers under the trademark *Starbucks*. So this is really a very good illustration. We did it to align with *Starbucks*, we did it to align internally because we had different organization within Nestlé covering Coffee, *Nescafé, Nespresso, Nescafé Professional*. We needed to align with the trade as well because if you want to launch these products in February/March you need to align with them in October/November already. So that's an excellent illustration of the acceleration of innovation and speed.

Slide: Portfolio management plays a strategic role in value creation

To accelerate our growth as well we been more active in portfolio management which means that we disposed of a certain number of businesses that were either non-performing or non-core for example Gerber Life or other businesses or in businesses where we had a limited ability to win and a good example of that is US Confectionery. We like Confectionery as a category but as far as the US is concerned, because we did not have the *KitKat* license, with around 4% market share our ability to win was limited.

On the other hand we did invest quite a lot in new businesses be it small businesses like *Terrafertil, Sweet Earth, Chameleon* and so forth, or larger businesses like the *Starbucks* rights as I just described or *Atrium innovations* for vitamins, minerals and supplements. We did quite a lot of it and this contributed, between the disposals and acquisitions, to accelerate our growth and to a certain extent to improve our margins as well.

Slide: Creative business models and structures for value creation

To do that we do not hesitate to enter into creative business models and deal structures. So it is not the classical M&A always. Look at what we did for example with Ice cream in Europe through this joint venture with Froneri, so even if we had to deconsolidate that business that is an excellent way to create value and that is what we did. We actually partnered with a private equity firm and as you know over a couple of years when do this kind of transaction you expect to double or triple the value of your contribution which is likely to be the case, we will see later on.

We do not hesitate as well to go into licensing, licensing in, it can be licensing out of some products, which is what we did with *Starbucks*, which I would not say is an unusual deal but not the type of classical deal we did. A very interesting transaction given that we expect obviously to double the size of the business over a few years.

We entered into totally new businesses. That is what we did with Tails.com, which is about personalization of pet food and this is about e-commerce as well with direct-to-consumer offerings to consumers. Or we can do minority investment as well which is exactly what we did with IVC in PetCare taking a minority stake in a network of clinics in order to get access to this network and in order to get access to an ecosystem. PetCare is much more than a pure supply of pet food it is about an ecosystem and we have to work with external parties like veterinarians as well.

Slide: 2020 Savings program on track

Moving to the bottom line. We set a fairly ambitious savings program about three years ago with an ambition to take away from our P&L about CHF 1.8bn of structural costs by 2020. We already upgraded that program to CHF 2 – 2.5bn one year later and if you look at it this year, by the end of this year we will probably have delivered about CHF 1.9bn of savings by the end of this year.

You can see that it is fairly well distributed between the three main categories, Manufacturing, Procurement and G&A. We will have delivered about 80%.

What is quite interesting is to see that we saw a clear acceleration of the delivery in Manufacturing because a few months ago, at the beginning of the year, we were about at 35-40% so we see a clear acceleration there. We have done quite a lot to close plants to close lines to drive efficiencies in our manufacturing units with very good results. Just as an indication of fixed factory overheads, which is a substantial amount of fixed industrial costs, are declining by about 4.5-5 %. When you measure that against a growth of 3.5% that means about 8% productivity increase in one single year. To be added to about 5% productivity increase that we delivered last year. So a very good performance overall in Manufacturing.

Slide: DSD exit in the US leverages existing strong capabilities

We do not hesitate as well to revisit the way we operate. A good example of it is DSD. We were in direct store delivery for Ice cream and Pizza in the US which is a business that was relevant a few years back which is not necessarily relevant anymore for us or for the trade. So we decided to exit that business and to transfer the business to a warehouse model, which is the business model that we were using for our Frozen business as well in the US.

This impacts obviously significant restructuring costs; we will spend about USD 0.5bn in restructuring costs. This will have a slight negative impact on One-time sales that we will probably record between 2019 and 2020. We will probably lose about 0.5bn of sales net net but we will do quite significant savings as well so the net impact will be positive on the bottom line. Both in absolute value and as a percentage of sales.

Slide: Capital allocation options

Moving to Capital allocation, we have two options. Deploying capital for profitable growth. We like to do that. We like investing in organic growth because this is our business. We know our business. We like investing in CAPEX, in marketing, in R&D and we do quite a lot of it. We are very much committed and interested in investing in M&A as well whenever we see a good return. There we are very disciplined, especially in terms of return on invested capital.

Obviously, the second option that we have is Returning capital to shareholders, either in the form of Dividend or Share buybacks.

Slide: Dividend increased for 24 consecutive years in CHF

Dividends, we have been increasing our dividend for the last 24 years in Swiss Francs, I insist in Swiss Francs because, as you know, it is a currency that has a tendency to re-value every year, which is putting a bit a pressure for us to continue with this policy of increasing the dividend in absolute value.

When we review the dividend payment every year with the board we take into consideration different factors like our EPS growth, we take into consideration the payout and the competitiveness of our payout, competitiveness of our yield as well. But we take other factors into consideration starting with Forex for example, I was just talking about it with Swiss francs parity especially versus the US dollar and the Euro.

Slide: A track record of regular share buybacks

Share buyback is part of what we have been doing as well. If you look back over the last fourteen years, we returned to shareholders north of CHF 60bn which is quite significant. We keep having the question is it still relevant or attractive to do a share buyback at the price, at the current share price. You can see that we had the question during the last fifteen years and if you look at it we have created significant value given that, even if you take the current program that we will complete by the end of 2019, we have bought these shares at, on average, CHF 86, and our share price is currently at around CHF 107.

Slide: Pulling all levers to improve ROIC

We put much more emphasis today on return on invested capital and we have been putting a really clear focus on it introducing it for example in the incentive program for executives, both in the short term program and the long term program with good results. We have seen our return on invested capital improving every single year of the last four years, moving from 10.8% to 12.1%. Really pulling all levers to improve the ROIC. Acting on the numerator, sales growth has improved, margin improvement, responsible tax planning - our underlying tax rate has declined significantly. Acting on the denominator as well, reducing our working capital that went at 8.5% of sales a few years back which is now close to 1%. Disciplined capex - we reduced from 6 to 4.5 or even closer to 4, and disciplined M&A. I think I mentioned it in a former conference as well we looked at CHF 35bn of acquisition opportunities over the last two years that we decided not to pursue, essentially because the price tag was too high and not to destroy value, so we are really clearly focusing on return on invested capital.

Slide: Underlying EPS growth

EPS is also very important for us. If you look at the development of our EPS over the last five years, it's 5% average growth in Swiss francs but if we take it in constant currency, given that the Swiss franc has revalued by 10% I think at the beginning of 2015, which explains why we were in negative territory there, if we take it in constant currency on average we have increased our EPS by 8% per annum. There again pulling all levers. So clear focus on ROIC and EPS.

Slide: Creating shared value: living our purpose and values

The final slide, Creating shared value is very important as well for us. Creating shared value is taking care of all stakeholders that we are interacting with. We are engaged in many programs. We want to act in a responsible way *vis-à-vis* the communities where we operate. So we have a lot of programs. I would mention the Nestlé for Healthier Kids initiative, our commitments to reduce sugar, our commitment to reduce fat and to reduce salt as well which we have made in the past, which we have delivered but where we are embarking on new commitments as well.

We are taking care of the environment as well so we have made some very strong commitment to have 100% of our packaging reusable or recyclable by 2025, which is coming quite fast. We have just created an Institute of Packaging Sciences as well.
We made a commitment, I think it was last week, to be at zero net greenhouse gas emissions by 2050, and we are working very actively on it. This is not just about 2050 because we will give, in a couple of months probably, some milestones as well. Probably in the next few decades to make sure that we deliver on the plan.

We are working actively as well to develop diversity and inclusion, how we work towards gender balance. We are taking care as well to support our farmers and their communities.

So creating shared value is extremely important for us. We usually do not communicate enough on it but we are starting to communicate a little bit more because we do quite a lot.

Slide: Key Takeaways

That concludes my presentation and we can move to the Q&A session.

Question and answer session

(Andrew Wood from Bernstein is asking questions on behalf of the audience)

Question on: Data

Andrew Wood, Bernstein:

I can start with a question that every Bernstein analyst is going to ask every CEO and CFO presenting over the next two days and try to get a sense of commonality amongst the answers. To improve the job that you are trying to do if you could have better data on something, what would it be?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

So clearly it would not be about financial data, I think that I have enough although we could improve. I think that what matters more is to have better data on consumers. Whenever we understand better consumers, whenever we understand better their trends, look at what is happening for example for new development with plant protein based products which are growing very fast. So understanding consumers, understanding their reaction, understanding their interest is absolutely critical.

So this is the reason why we are interested in developing whenever we can, there are limits to what we can do, direct to consumer businesses which we do for example with *Nespresso,* But it goes beyond that. We have for example *Ready Refresh,* which is a direct to consumer business that we have in Water in the US. We do it with Confectionery in Asia having our own stores. So whenever we can get access to data directly from consumers without depending on external data, without depending on e-commerce data for example that does make a big difference when we can control the entire value chain.

Question on: Achieving the mid-single digit target.

Andrew Wood, Bernstein:

You are at 3 – 3.5% organic growth in 2018, H1 2019 but your intent is to get to mid-single digit. How are you seeing that acceleration coming? Is it through improving the base business or how much does portfolio restructuring play a role in improving your growth?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

Portfolio will play a role as well so I think it is a combination of innovation, which will be the main driver of what we do. There will be some contribution from pricing as well, so we do expect pricing because we do expect to have some additional pressure in terms of commodity input prices next year, it will increase by a couple of hundred millions which we will predominately pass on to consumers and to the trade. Then there will be some portfolio contributions as well

Plus, as you know, we are working actively in order to address underperforming businesses, which will help. So it is a combination of several factors, there is not a predominant factor.

Question on:	Effect of slowing growth on Nestlé

Andrew Wood, Bernstein:

How does slowing global and trade growth relate to Nestlé's performance? How sustainable is your growth in a slowing economic environment?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

We often say that we don't sell GDP, which means that we are not extremely dependant on GDP development. It doesn't mean that we are totally immune to it; it does impact our business from time to time. But we believe that even if there is an economic crisis, even if there is the GDP slowdown globally or in a given market it doesn't prevent us from growing.

Let me just give you some examples, that are maybe extreme examples but I will give you two. In Japan the population is declining by a few hundreds of thousands of people every year. The GDP is flat and we have been growing 4 – 5 % every year over the last five years. So it is purely the result of innovation. We know that whenever there is no growth in a given economy we can find pockets of growth.

Let me give you another example, which is quite interesting as well, which is Infant nutrition in China. The number of babies in China has declined over the last two years by 16%, which is quite massive. In spite of that, we grew by about 4 – 5 % every year of the last two years in

China. So once again this innovation, this about premiumization, this is about gaining market share, bringing relevance to consumers. This is really the ambition that we have. It doesn't mean that whenever there is an economic crisis somewhere we cannot grow but we have to find growth in these markets.

I would say that another example is the US where we are actually growing nicely, the US certainly grows but we are growing nicely as well, probably at a better level than many of our competitors.

Question on:	**Infant formula in China**

Andrew Wood, Bernstein:

You mention China and there is a question here on China. I would like to dig into with a little bit more detail on China Infant milk formula. How is the competitive situation developing particularly relating to small local players, how is the regulatory environment changing in relation to the government control over this category?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

We are number one in that category in China. As I said, we are growing nicely in spite of the fact that the number of babies is declining and we don't see the number of babies growing again significantly. So we have to drive growth through innovation, premiumization and so forth. There has been already hundreds of local competitors in the market for quite some time. We don't necessarily see that as an issue, these are guys are predominantly acting in the mainstream business which we have not totally exited but almost. So we are almost entirely in the premium to super premium segment with brands like *Iluma*, *S26 Gold* and so forth where we are doing extremely well. Mothers are ready to pay a premium for functional benefits so we do grow.

We grow as well entering into new spaces, taking care of the mother; the pregnant mother, because when we look at the baby we look at the first 1,000 days, which includes pregnancy. So we are now marketing products that take care of the nutrition for the pregnant mother and we are expanding into new territories like infant cereals. These are products that were not sold so far on a large scale in China and we are selling these products under the Gerber brand. Manufactured locally by the way, it is not imported from the US. So we are very positive about it.

The regulatory framework is evolving, it has always been evolving. There have been new regulations which is coming on which is encouraging local production which is not an issue at all for us. We have large manufacturing facilities in China, which are largely underused today, given that the Chinese mother prefers to buy products imported predominantly from Europe, which is what we do. The quality of what we produce in Europe and the quality of what we produce in China is the same. We have capacity available locally so it is not an issue at all for us.

Question on:	**Over-reliance on Premiumization**

Andrew Wood, Bernstein:

A semi related question regarding premiumization. Premiumization has helped boost Nestlé's topline results recently however volumes have remained soft for you and the industry. Less so for you than for the industry I think. How do you guard against become overly reliant on premiumization as a component of growth? Is this something that you explicitly focus on?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

Premiumization has been an outstanding driver of our growth. If you look at it over the last six years we grew premium products, which are products that have about 30-40% price premium over mainstream offerings, they accounted for 11% of sales six years ago and we are at around 23% as we speak. So it has been an outstanding driver of growth. It has been an outstanding driver of margin as well given that we have on average about 4 percentage points of higher margin for premium products versus mainstream products.

Maybe some people could be a little bit concerned. Are we overly dependent on it? I don't think so at 23%. Premium products are very attractive as well because this is a better way to differentiate ourselves against mainstream offerings. Take the example of Water. In Water we are not happy with the results that we have today but one of the reasons why we are faced with some issues, we are still growing 2% but we ambition to grow mid-single digit, is the fact that we are too exposed to the mainstream offering and may end up from time to time in a price war against private label for example. When you are in premium, take the example of *S.Pelligrino* and *Perrier*, which are sold roughly speaking at two times the price of a mainstream offering, there we don't have any issue in terms of pricing activity, price wars and so forth. So it does protect our business much better.

Just as final comment on premium products, if there is a deep economic crisis tomorrow, it can happen in a given country, we are not overly dependent on premium anyway. We are still active in both categories. I said in Infant formula in China not that much, but in other categories we are still very active in mainstream offerings. Take the example of Coffee. In premium and super premium we have *Nespresso*. If consumers need to trade down for whatever reason, we get them back with *Nescafé*. Within *Nescafé* we have *Nescafé Gold*, which is a premium offering of soluble coffee, then we have *Nescafé Red* which is the mainstream offering. So we are present anyway in premium, mainstream and affordability as well, what we call PPP; Popularly Positioned Products.

Question on:	**China**

Andrew Wood, Bernstein:

You mentioned Infant milk formula in China. There is a more general question here on China. At the Q2 results you mentioned some weakness in your business in China. What is happening in this market?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

So in China we are not doing poorly, in H1 we grew between 2.5 – 3 %, which is not necessarily bad. That being said it is half of the growth that we had last year. Last year we were at 5%, which is obviously an area of concern. I would say most of it is coming from a slowdown in terms of consumption. When you look at Nielsen or Kantar you can see that both organizations are reporting that the growth in food and beverage in Q2 has been the lowest quarter over the last twenty years. So we clearly see a slowdown in terms of consumption, which is impacting more the mainstream offerings. Actually, premium is doing very well; consumers are ready to pay a premium for quality products and relevant products in China. We see exactly the same thing within our portfolio, which means premium offerings are doing very well, with mainstream offerings we are suffering a little bit more.

After that, I don't want to blame only the macro economic conditions and the slowdown in consumption, as I said earlier we have to find a way to get growth in these categories, which we do fairly well with some of our products. We have our own issues as well. We have been talking for some time about *Yinlu,* which, as you know, goes through ups and downs. We have been doing extremely well with *Yinlu* with ready-to-drink coffee under the *Nescafé* brand. We are facing some issues with the traditional products that we have there which are mainly congees and peanut milk. We are a little bit disappointed as well with the results that we have with *Hsu Fu Chi,* which is our Confectionery franchise there.

Question on: Opportunities in Plant-based products

Andrew Wood, Bernstein:

I don't know if you consider peanut milk to be a plant-based product but more generally how big is plant-based within Nestlé at the moment? Can you talk about the opportunity that you see in plant-based? What challenges do you face as this category becomes increasingly crowded?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.

So I don't like to throw numbers about the value of what we have because as you say it depends very much on the way we classify it. So if we classify some of these products, if they have 2-3% plant-based ingredients I would not classify them in that category. If we look at really pure plant-based products and especially in Europe, what we sell for example under the *Garden Gourmet* brand in France or under the *Tivall* brand in Israel and some other countries, that's a three digit number in millions of Swiss francs already. We are number one, by the way, in plant-based offering in some countries like France where we have been in that business for some time. We are extremely interested in that category. First of all, because we have been playing there for some time. We have the capabilities from an R&D point of view, from a technology point of view. We have the capabilities from a manufacturing point of view as well so we have our own plants in Europe and the US. It makes a lot of sense for the environment because it has a much better profile in terms of water usage, in terms of carbon emissions and consumers are understanding the category and are asking for it. So it is not only about vegetarians, it's about flexitarians which means people who want to eat less meat, maybe better meat but less meat, but then eat their protein daily intake, as a consequence of that they are moving into plant protein based products. We have quite interesting products and we are investing quite a lot in meat alternatives both in Europe and the US. We are launching this week an alternative to a beef burger called Awesome Burger which the equivalent to the one that we launched in Europe already.

Question on: Licensing

Andrew Wood, Bernstein:

There is an interesting question here on licensing and I suppose it could apply to licensing in or licensing out. Can you give some examples of licensing products at Nestlé, why do you do it and does it work?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

Licensing in, I gave the example of *Starbucks*, which is working very well. We are extremely happy with what we have achieved in the US after one year. The business, the *Starbucks* business that we took over in the US is growing mid-single digit. We have launched in 14 countries at the beginning of the year, we are launching in more than 10 countries, predominantly in Europe. We are extremely happy with the results that we have had in the first wave of launches that we had at the beginning of the year. It looks very promising as well for what we are currently doing in Europe. So that is one example of licensing in.

Licensing out I would mention Dairy in Europe so for example the joint venture we have with Lactalis with fresh dairy products where we license our products including the Nestlé brand. There are many other examples actually but I think this is the most compelling one. The other one is Froneri in Europe, which is again a joint venture where we have an equity stake where we have licensed the Nestlé brand for Ice cream in Europe and some other countries. We are very happy with it, both with Froneri and fresh dairy products in Europe.

Question on:	**ESG**

Andrew Wood, Bernstein:

I have got two questions on ESG that I am going to read out because they somewhat overlap. How committed is Nestlé to ESG, how many people are dedicated to it in the organization and is it included in incentives like ROIC? Can you discuss where you might be able to generate price and sustainable differentiation in terms of sustainability or is it simply a cost of doing business?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

We are fully committed on ESG. I think we are putting a lot of resources behind it. I don’t think it can be measured in terms of numbers of people, it could be measured in terms of financial commitment as well but we don’t really like to throw in numbers. We are publishing quite a lot of reports on the activities we are performing. I think we have quite a lot of depth. I gave some examples of what we are doing. We are highly committed to it, including at an executive level.

I can tell you for example all these issues of packaging that goes beyond plastic by the way, it’s packaging as a whole, laminates are a big issue as well especially with multi-layer laminates. These are issues that we are tackling at the highest level, including Mark

Schneider our CEO who is very much on top of these issues. As I said earlier probably we need to communicate a little bit more. I think we do a lot but we probably don't communicate enough which is what we are trying to do a bit more.

It is not part of any incentive for the time being for executives, not part of ROIC, I am not sure we would mix the two but we could probably one day have an ESG KPI but we don't have for the time being.

The cost of ESG, take the example of plastic – I don't think this is mainly an issue of cost. Cost is one item in the equation but this is about taking care of the environment, this is about addressing consumers concerns, this is about addressing regulatory moves and addressing some technical matters as well. Some of these technologies are not ready yet. We will probably see some biodegradable plastic in the coming years but it is not ready yet. This is about machinability, there are some technical issues – can we do it on the machines we have or do we need to change machines? I can tell you one thing. We look at the financial side of it, which means there is one implication in terms of cost that we need to take into consideration but the cost is not usually a reason not to do it. Take the example of plastic bottles, take the example of recyclable PET – there might be a cost implication but this is certainly not a reason to not do it. We need to find efficiencies somewhere else to be able to finance it. Maybe in some cases we may need to pass it on to consumers but I would say this is the last recourse. We need to find efficiencies in our system to make sure we can integrate these costs.

Question on: Opportunities and threats for Starbucks

Andrew Wood, Bernstein:

I have got a couple of questions on the *Starbucks* deal. Is there a risk of product cannibalization for *Nespresso* from the *Starbucks* product portfolio and can you give some tangible examples of the success of the *Starbucks* rollout so far, what further opportunities do you see in the medium term and what are the threats?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.

Cannibalization? There might be some, which we factored in when we signed this transaction, we were fully aware of it and we factored it into the model that we set up. Cannibalization is probably on the *Nespresso* compatible capsules but this is not really an issue. *Nespresso* today is available only and exclusively in our own boutiques, we have 800+ of them, as well as through our e-commerce platform. *Nespresso* capsules are not available at all in the trade. So if you go to Tesco here, if you go to Carrefour in France, if you go to Lidl or wherever in Germany you don't find *Nespresso* capsules but you find *Nespresso* compatible capsules. Take the example of France, which is the largest market for *Nespresso* for us, the *Nespresso* compatible market is € 0.5bn and we are not there. Now with *Starbucks* we have a premium offering of quality, by the way these capsules are branded *Starbucks* by *Nespresso* – same sleeves as the *Nespresso* capsules, manufactured in *Nespresso* plants, same quality as well. Slightly different taste as this is slightly more roasted so from that point of view it might be perceived by consumers as a slightly different offering. But this is much more about availability. There might be some cannibalization but it doesn't really matter because we will do less marketing spend as well on this product so margin wise I am not sure that it will be really dilutive. So we are not too concerned about the cannibalization but we do expect, if take the example of France, to have this € 0.5bn market which we are not participating in today but we are launching from this month and obviously we expect to gain part of this market and I don't think cannibalization will be too much of an issue.

First successes, we launched in Asia at the beginning of the year, in Japan and Korea and so forth and China. Very quickly we ran out of stock. So we had to ship products, actually airfreight, directly from Europe because we could not supply the markets. The demand has been extremely strong. In the US, which is the base business that we bought originally it, is a $2bn business. The business has been growing since we took over with a strong mid-single digit level.

Question on:	**US Frozen Food**

Andrew Wood, Bernstein:

You mentioned the US. There is a question here on US Frozen food. Is this a category that is fundamentally flawed given changing consumer preferences?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

No, it is not a bad category to start with. Frozen may have a negative perception of being junk food or of being emergency food, but it is not junk food, it is as good or as bad as what you put in it. If you freeze junk food, it will be junk food when you thaw it. If you freeze organic and natural food, it will be organic and natural when you thaw it. If you freeze plant protein stuff, it will be plant protein when you thaw it. This is not bad at all to start with; there is a perception issue there. The second thing is that it is seen maybe as emergency food which is perhaps an alternative, perhaps you are coming home late from the office and you don't feel like going shopping you open your freezer and take some food. But it goes beyond that. It is next after fresh. It is fresh and frozen. So I think the category is not bad at all from that point of view. By the way, Millennials like frozen much better than their parents. So the category to start with is not bad.

Second, we have a very good position in that market because we own 40% of the frozen prepared meals in the US in terms of market share and we have a market share of about 40% of frozen pizza in the US as well. So usually when you command the leading position, as we do, you have good margins and attractive cash generation. So we are very interested in that category. This is a category that responds well to innovation so this is where we have been both good and bad over the years because we went through ups and downs. In some years we grew 7% in some years we declined by 10%. This is largely the consequence of our capacity to innovate, which is really what we are focusing on today. But once again we do not believe that the category is a bad category.

Question on:	**Margins**

Andrew Wood, Bernstein:

I have got two similar questions on margins. I will read them both out. What level of margin expansion should we expect to see post 2020? Do you still opportunities for growth and where in particular do you see the biggest opportunities?

Second question what happens to margins beyond 2020 will you be able to sustain the level of current growth or will growth naturally slow?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

So we have said for the time being let's focus on delivering on '19, I am not particularly worried about it. Then '20 is the medium term target that we gave in 2016 so we have a clear target there. After that, post 2020 is something that we shall share with the market at the beginning of '21, so let's starting delivering on what we have committed to for the time being.

Directionally you can expect that this will be a combination of growth and margin, that's very clear. Are we are going to sustain? Currently we have been growing over the last two years and that will be case again this year at a pace of about 50 basis points improvement every year. Will we sustain that level? It is still too early to answer but clearly we like growth as well and we believe that there is value in investing for growth, which is what we are doing today. Since the beginning of the year, which is something that has not happened for a couple of years, we are starting to invest more in marketing as a percentage of sales and it will be again the case in H2. This is interesting because we have been, to a certain extent, so efficient with our savings program that we are now in a position to be able to re-invest in marketing in a very selective way. This means that this is not just about throwing money on the table. We have to be selective on some acceleration programs. To give you some examples – *Starbucks* for example – given that we see that it is working extremely well in the first markets where we launched we believe that there is a case to accelerate, moving faster in some markets or moving deeper in some markets. Take the example of Tails.com. this personalization of pet food that we bought here in the UK. We launched it in France. Can we extend it faster and deeper in some other European markets? Can we extend it as well in other territories? This is the kind of thing that we can do now and spending more marketing resources.

Still too early to answer but we clearly have an interest in growing. It doesn't mean we don't have an interest in margin improvement but we have always to strike the right balance between the two.

Question on:	**Level of re-investment**

Andrew Wood, Bernstein:

That's the perfect segway to the next question actually. In the period of strong margin growth, how do you, as CFO, know that the level of re-investment is sufficient?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

That's always a difficult question and especially on marketing. Marketing is always a little bit more complicated because to measure the return that you get from marketing campaign is not always easy. This is not an exact science. It doesn't matter anyway. We have to take risks.

Investing in innovation pays off. Even if the churn rate and the death rate is high I think it does make sense. I think investing in marketing makes sense as well but we know that investing in some areas, provides a better return than in others. The examples I gave you with *Starbucks* with Tails.com and let me give you another example, which is *Nespresso* – opening *Nespresso* boutiques. We are in direct to consumer, your first question, we know extremely well what the consumer answer and the consumer sales will be when we open a boutique. It works because we have a very nice set of data, historical data. This is the kind of investment where it is relatively easy to understand what we are likely to get with some of these acceleration programs. Once again, it is not an exact science.

Question on:	**Portfolio change and M&A activity**

Andrew Wood, Bernstein:

I have got five minutes and five questions left. What further opportunities do you see for portfolio change? Should we expect any M&A activity to be solely focused on the core categories?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

Do expect some more activities on portfolio management. We had indicated that we would expect to rotate about 10% by 2020. We have already done 9%, it doesn't mean that we are stopping there. I am not pre-announcing anything, just for the sake of clarity, but do expect to hear more in terms of portfolio management. This is something that we are interested in doing.

It is not limited purely to the five high growth categories. There might be some other opportunities as well. By the way, outside of the high growth categories we have some very good pockets of growth, we mentioned *KitKat* for example, I would mention *Maggi* in Emerging markets. *KitKat* is growing strong mid-single digit and *Maggi* in Emerging markets is growing double digit.

Question on:	**Working capital**

Andrew Wood, Bernstein:

What are the further opportunities for Nestlé in terms of working capital reduction?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

So we are at about 1%, we aim – it's not a guidance – but we are confident that we will probably be able to reach zero working capital in the near future. Not this year but maybe next year or the year after. We are working on it. Can we go further than that? To be seen. I wonder if there are not other topics that we need to look at such as, for example, our asset base, industrial real estate asset base. We have about CHF 33bn of value there, can we optimize that value? There might be more interest in focusing more on some of these other possibilities but that doesn't mean that we can't put further pressure on our working capital.

Question on:	**Atrium**

Andrew Wood, Bernstein:

How is the *Atrium* business doing? Is your interest in Consumer health limited to VMS – vitamins, minerals and supplements or where else might you want to invest in Consumer health?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

Atrium innovations is doing very well. Growing close to double digit. Perfectly in line with the original plan. We are very much interested in Vitamins, minerals and supplements whenever it is differentiated. What we like with *Atrium* is differentiated VMS. VMS is a category that is highly commoditized but *Atrium* has products that are on the premium segment, very differentiated both in terms of distribution channels and in terms of positioning. It is doing extremely well. We are not only interested in VMS we are interested in other categories like food allergies and we are interested in nutrition as a whole. We are interested in GI which is gastro-intestinal that has to do with the gastro-intestinal tract which is very close to nutrition. We can always consider other areas but these are the main areas where we want to focus.

Question on:	Share buybacks

Andrew Wood, Bernstein:

Penultimate question. How can you justify buybacks at current valuation levels?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

Buybacks, first of all we believe in the future, we believe in our share price appreciation, which is one quick answer to that. After that even if you look at the return on invested capital, if you look at our expected EPS growth I think that there is no evidence that we will destroy value by doing share buyback at the current share price. This is what I presented earlier in my presentation is the fact that we kept on having the question, saying you will destroy value by buying at that price and we never did. Once again it doesn't mean that because we never did we won't so we are very careful about it. But this is something that we are always taking into consideration as well, our share price, when discussing about share buybacks with the board.

Question on:	L'Oréal

Andrew Wood, Bernstein:

Last question. You are not going to be surprised by this but what would cause Nestlé to re-consider its position on the *L'Orèal* stake.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.

No specific answer on *L'Orèal*. I think that we have publically stated the fact that we want to keep all options open. So we do not want to entertain further discussion on that so we stick with this statement. We are very happy in the meantime with the development of *L'Oréal*, they are doing extremely well growing strong single digit number so very happy with the development. Very impressive growth especially in China.

Andrew Wood, Bernstein:

That's all we have time for. Thank you very much everybody.

End of Transcript