2020 CAGNY PRESENTATION TRANSCRIPT

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Slide: Title slide

Good morning everyone. It's a pleasure to be with you today. Let me start my presentation.

Slide: Disclaimer

I will take the disclaimer as read.

Slide: Global, balanced and diversified business

I am sure that you all know Nestlé, so I am not going to go into too much detail, but I just want to do a quick reminder of who are and what we do and to highlight a couple of points that are relatively new.

Nestlé is the largest Food and Beverage company in the world, with sales of nearly CHF 93 bn last year. We are operating in 190 countries with a very strong presence in the Americas which accounts for nearly half of our sales.

We have a well-diversified portfolio of categories; the three largest categories Beverages, which includes Coffee, Nutrition and Health Science and PetCare account for more than half of our sales.

I just wanted to point out something which has evolved over the last couple of years. If you look at the number of employees that we have, we have less than 300,000 today. We used to have 340 – 350 thousand, four to five years ago.

The same applies to our manufacturing footprint. If you look at it four or five years ago, we had around 450 plants and even if we kept investing with new units, especially for businesses like PetCare, Nespresso coffee, we are left now with 403 plants.

This means that our business is now far less labor and capital intensive than it used to be a few years back in spite of the fact that we have a higher level of sales. Just as a reminder as well we are the largest spender in terms of R&D in the industry, with CHF 1.7 bn a year.

Slide: Iconic global and local brands

You know we have a lot of brands we actually have 34 billionaire brands, brands which have more than a billion dollars' worth of sales value. We keep on adding brands to the list, actually if you look at illuma it became a billionaire brand last year. It is quite amazing, I often have the question 'Do you manage to develop new brands?' That's a good example, illuma did not exist seven years ago and it's a brand that we have been able to develop to more than a billion in seven years, in China alone, which shows you the power of what we can do.

We increased the list as well with Felix which came to the list last year as well. We have a mix with a lot of local brands as well. I see Coffee-mate there which is obviously very strong in the U.S.

Slide: Strong 2019 financial results

2019 was another strong year with a good set of results. Our organic growth increased to 3.5%. Our operating margin increased by 60 bps to 17.6% and we reached our 2020 margin guidance one year ahead of time. Our underlying EPS grew for the second year in a row at double-digit level to CHF 4.41. Our Return on invested capital we had five years of consecutive improvement in ROIC, even the underlying return on invested capital was at 13.5% if we exclude the impairment that we did at Yinlu and to a lesser extent at Hsu Fu Chi which gives us confidence that we will be able to be at 15% going forward. Free cash flow was at CHF 11.9 bn or 12.9% of sales.

It is quite amazing to see that we have been able to deliver Free cash flow consistently at around 12% for the last couple of years and we expect to deliver the same amount of cash flow going forward. We returned as well almost CHF 17 bn to our shareholders in the form of share buyback and dividend. This is a record amount that we have ever done. You might have noticed as well that we increased our dividend last year by 25 centimes which is more than we did in the last couple of years. We don't have a dividend policy *per se* but we have a dividend practice of increasing our dividend year after year in Swiss francs which we did over the last 25 years.

Slide: Key growth platforms

If we look quickly at our Key growth platforms, the US our largest market by far. It is quite amazing to see that we reached 4.1% last year, we were at 0% two years ago which shows the capabilities that we have to turn around businesses, improve and deliver growth over time.

This comes as a result of portfolio management. We disposed of, for example, U.S.

Confectionery, we bought Atrium Innovation; we bought the Starbucks rights. It is very much the result of innovation and the drive that we had in e-commerce.

PetCare had an amazing year, 7% growth, we are very happy with that figure. It happened across geographies, across brands and across product segments as well. Largely as a result of innovation in that case.

E-commerce grew 18.5% and reached 8.5% of our total sales. We are very happy with that as well. Premium products, and I will come back to that a little bit later, grew by 7.4% last year.

Slide: Delivering strong total shareholders returns

We value shareholder return. We have returned to our shareholders almost CHF 110 bn, and it is in Swiss francs, a currency that tends to re-value against most currencies. We returned that amount over the last 10 years. As a combination of dividend and share buyback. The dividend accounted for about 60% of it and share buyback about 40%. The share buyback as you know we completed CHF 20 bn share buyback program last year in December and we started the new one for the same amount at the beginning of this year.

Net net with all these financial results for the year 2019 we had a strong TSR under any time frame, one year, three years or ten years we exceeded the stock Food and Beverage index significantly.

Slide: Top and bottom line sequentially improving

Looking forward we expect to see organic growth gaining some further momentum in ‘20, ‘21, ‘22. So as to reach a mid-single-digit level on a sustainable basis, which is what we are targeting. We are a little bit late versus our original target for 2020 given that we may not necessarily reach the mid-single-digit level in 2020 but we expect to reach it a little bit later. It is more a function of time.

Underlying trading operating profit as I said earlier, we reached the 2020 target one year ahead of time. We expect to see our operating margin to continue to increase.

Slide: Creating value through portfolio management

For the rest of my presentation and Sanjay's presentation we wanted to walk you through the way we create value through portfolio management. I will cover only the part that has to do with our current portfolio and the way we manage our current assets. Whilst Sanjay will show you how we create value through portfolio management externally, essentially through M&A.

Slide: Driving profitable growth through our portfolio

You know that our portfolio is essentially geared towards growth. This didn't happen by chance it happened by choice and by design. If we look at our high growth categories, PetCare, Water, Infant Nutrition, Coffee and Consumer Healthcare they account for 59% of our sales and they grew faster than the Group average. In spite of the fact that we were clearly underperforming in Water last year because we were flat with Water. Without Water we are already actually at 5%.

Emerging markets, which accounts for 42% of our sales, grew by 4.7% last year, and Premium products which accounts for 26% of our sales, grew by 7.4%, two times faster than the average for the group.

The beauty of the exercise is that all of these growth drivers, individually and combined have a better margin which is above 18.5%, to be compared to the average margin of 17.6%, which means that not only do they drive the top line, but they drive the bottom line as well through a mix impact.

Slide: Mix is driving our organic growth

Beyond the numbers, in terms of growth, what matters is the quality and sustainability of the growth. You know that we report our growth with RIG and OG, the difference between pricing. I know that there was some interest and some appetite from many investors and analysts to understand better what RIG is about, as combination of Mix and Volume.

I am happy to share this analysis which covers 90% of our business, which shows that over the last three years 2/3rds of our growth came from Mix. This is quite interesting, this is where we really create value.

Slide: Mix is driving our organic growth

Let me take you through each component individually. Pricing is relatively limited at a time when we see commodity pricing at a relatively low level in terms of the cycle to start with. At a time when we see deflation or no inflation in most of the world, pricing does not really exist anymore.

Pricing is limited to the passing through of commodity and packaging cost inflation. As well as the impact of foreign exchange. If you look at it last year for example, we had an input cost increase for commodity and packaging material in the range of CHF 350 million and we increased our prices by about CHF 500-600 million. So we did a little bit more than what we had but we don't expect a lot in terms of pricing. Even if we could probably do a little bit more.

Slide: Mix is driving our organic growth

Volume matters, volume is important. Last year it was about 1% growth out of the 3.5% that we had. Volume matters because this is about share of stomach. This is about share of shelf space in the trade – online and offline, in consumer cupboards so we value volume and we had a positive contribution from volume.

Slide: Mix is driving our organic growth

Mix is 2/3rds of our growth over the last three years on average. Within mix we can itemize category and geography mix which is the mix of our geographies and a mix of our categories. The mix is slightly positive in both cases, but the vast majority of this mix is actually coming from product mix which is clearly about premiumization and we are very happy with that.

Slide: Mix and volume are gaining traction over time

If we look at it over the last three years, we see that the volume has increased, year after year, which we are pleased by.

We see that pricing is relatively flat to slightly declining, reflecting again commodity cycle and the global deflationary or non-inflationary environment.

We see that mix contribution is increasing year after year, once again this is a result of what we do in terms of premiumization over all.

Slide: Our portfolio is becoming more premium over time

As a consequence of that, our premium products now account for 26% of our total sales while it was 11% in 2012. So, we are there again very happy with it. Premium products bring growth as I showed earlier, they bring profit on average with premium products we have about 4% points higher margin over all. We are walking away from commoditization and we are really building brand equity.

Premiumization as well works across categories, across geographies without any problem whatsoever. If you take Coffee, you have the example there of Bluebottle. I could mention Nespresso, I could mention Starbucks, which are really premium products. If we take illuma in Infant nutrition, we take KitKat in Confectionery. Even in categories where we have been disappointed by the results, or geographies, like Water. In Water we were flat last year but premium products, more specifically San Pellegrino, Perrier and Acqua Panna, they grew between 8 – 9 % last year worldwide. The mainstream offering that we had in Water was actually declining.

If you take China, we had a disappointing year in China, no drama though, we grew by 1.5% last year which is pretty much in line with the Food and Beverage market growth last year. So 1.5% is lower than we were the year before, we were at 5%, but if we look more specifically at our premium offering within China – I am talking of Nespresso, I am talking of PetCare, I am talking of illuma, even on a large base it's a 1 bn dollar base, all of these products grew double digit. Most, not all but most, mainstream offerings in China were flat to declining.

So it works across categories and across markets and countries.

Slide: Key consumer trends support premiumization

Just to give you a little bit of flavor, to finish my presentation, on what premiumization means. We are really leveraging on two trends. One of them is key consumer trends. So there we are pushing hard with consumer demand. There is a pent-up demand for natural products, naturalization is something that is important. Take the example of Coffee-mate, it's a $1.7 bn business here in the US. We started with the mainstream offering, moved into natural even developing a new, sub brand which called Natural Bliss, moved into plant-protein based products into premium, artisan products.

Take the example of Vegan and Plant-based food where there is a pent-up demand for these products. We had been in that business for quite some time already. We already have about CHF 200 million of sales, growing double digit.

Take organic, very strong momentum. I just took the example of Garden of Life, which we bought, which is part of Atrium. Very differentiated products in the vitamin, mineral supplement space. Differentiated in terms of offering, organic, GMO free and different distribution channel as well, growing double digit.

Sustainability is something that consumers are demanding very strongly as well so we are moving with less plastic, more carton, more paper. Different ways of distributing our products as well. So we are really accelerating on key consumer trends.

Slide: Driving premiumization through differentiation

The other way to drive premiumization is through differentiation. What we do is to push, as much as we can, in Direct-to-Consumer DTC, that's what we do obviously with Nespresso, but we go beyond that. That's what we do here in the US with Ready Refresh which is growing very nicely.

We move as much as we can, not only for PetCare but for Food as well, in the business of solutions beyond the mere supply of food. If you take the example of PetCare we need to bring solutions to pet owners, which is for example ageing for dogs, which is obesity for dogs and cats which are issues, or dogs are barking too much because they are stressed for example. So we developed a product called Canine Care which reduces barking for dogs, which is not a sleeping pill, but it is a probiotic which reduces their stress level. These are examples.

Research and Development as I said earlier, we spend about CHF 1.7 bn in R&D that does make a difference, especially in some categories like Infant Nutrition. You have heard what we have done in HMOs which brings CHF 850 million in sales in year two. I could mention as well this Hypo-allergenic Infant formula that we developed which is a sizeable business as well, with high-single-digit growth.

Personalization is another way to drive premiumization.

Slide: Creating value through portfolio management

That concludes my part of the presentation. So really, I would say to summarize a good year in 2019 but beyond the number what is important is the quality of what we do and the sustainability of what we do and I wanted to show you the example through the breakdown of our RIG, through the breakdown of our growth and through the premiumization effort that we embarked upon that we are really creating value beyond the raw number.

Thank you very much. I pass on the mike to Sanjay. Sanjay is the newly appointed member of the executive board in charge of M&A, partnership as well as strategy.

Sanjay Bahadur, Head of Group strategy and Business development, Nestlé SA

Slide: Title slide

François, thank you very much. Good morning, as you know my name is Sanjay Bahadur the head of Group strategy and Business development at Nestlé. I am long time Nestlé employee, I have been with the company more than 37 years. I would like to take this opportunity to talk to you a little bit about the role that portfolio management plays in our value creation strategy. How portfolio management has been used to drive growth at Nestlé and to give you some insights into our processes and our strategy.

Slide: Portfolio management is an important driver of growth

Portfolio management is a very important driver of our growth. Growth is what motivates Nestlé employees and of course it is very good for our shareholders as well.

A few years ago, we realized that growth was not meeting the expectation level that we had set for ourselves and we decided to focus on three key pillars. One of them being fixing underperforming businesses, portfolio management and investment in high growth categories.

As you will see from the attached chart growth increased from about 3% in 2018 to 3.5% in 2019, which is an improvement of about 50 bps. Of that 35 bps or 70% came from portfolio management. So you can see that Portfolio management is indeed contributing to growth at Nestlé.

Slide: There has been a step-change in our level of M&A activity

There has also been a step-change in the level of activity that we have at Nestlé. 2018 and 2019 were very busy years for us as we worked hard to re-shape our portfolio and we recently announced divestitures of our Skin Health business, our Herta charcuterie business in Europe and also our U.S. Ice cream business. Recent activity has been biased towards divestitures which is really in 2019 and for 2020 we would like to bring the focus back on to acquisitions and to have a better balance between divestitures and acquisitions.

The start in 2020 has been good, we acquired a business called Zenpep. Zenpep is actually a series or combination of enzymes. It is classified as a drug, but it is really just enzymes and this is really to help people to digest their food better. It is really a very good supplement and a very good complement for our Nestlé Health Science business.

Slide: Positioning our portfolio for growth

We have completed more than fifty transactions since 2017 which seems like a very large number and in fact it has helped to contribute to change about 12% of our portfolio. If 12% doesn't sound large, then think of this in absolute – that's about CHF 10 bn in sales. Most of these transactions have been small and mid-sized which is really the sweet spot for Nestlé. We do see more transactions coming up in 2020 as we progress.

We divested businesses which were non-core to Nestlé such as Gerber Life insurance business and our Nestlé Skin Health business, Herta charcuterie and at the same time we focused on acquiring businesses in the high growth categories. As François mentioned these are Coffee, PetCare, Nestlé Health Science, Infant nutrition and Waters. We also obtained access to new trends in the market, in new areas such as personalization.

Slide: We have three main criteria for assessing acquisitions

At Nestlé we have three main criteria when we look at acquisitions.

The first, not very surprisingly, is the strategic fit with our company. We really want to sharpen our focus on Nutrition, Health and Wellness and focus on the Food and Beverage business. We want to access new Consumer trends and to build capabilities in areas that are there. In general, what we want to do is to invest in categories where we benefit from tailwinds, whether it is a category, a geography or a channel.

Second criteria, also not very surprisingly is financial return. We like businesses to be both margin accretive and growth accretive. Not very easy always but that is certainly our objective. In terms of financial return, we like the business to achieve a ROIC, return on invested capital in excess of our WACC with 5-7 years.

The third criteria is something which people often underestimate which is the cultural fit. Assessing the people who would join our organization – their mindset and their thinking is a very important part of our acquisition process because this is what leads to a successful integration into Nestlé.

Slide: Assets are expensive and we have been disciplined

Assets have been very expensive in our core categories, in our high growth categories, and as you can see from the chart the multiples have been very high and in some of them have been at levels that we did not think was meaningful for us and we walked away from some these transactions.

The transaction that we did do in the space was our major transaction with Starbucks a $7 bn transaction where we paid a multiple of 15x. Given the business that we acquired we are very confident that we will earn a good return for our shareholders for this transaction. Once again, this also points out that we focus more on mid-sized acquisitions rather than very large ones.

Slide: Disciplined M&A is crucial to protect ROIC

Disciplined M&A, as François also pointed out is very important to us to protect our return on invested capital. We have improved on our return on invested capital every year for the last five years and we have no intention of changing this and our medium-term goal remains to get to about 15%.

ROIC is now in the management incentives of our senior management and this obviously helps to drive our ROIC agenda.

Slide: Innovation business models and deal structures have enabled us to create value

Given that prices are very high we have also focused on innovative business models and creative transactions to help us create value and accelerate growth. I will talk about Froneri and Starbucks separately in a minute, but I would like to mention two other transactions that we done in recent times.

One was the acquisition of Atrium which took us into a new space for Nestlé which is vitamin, minerals and supplements. This is not the generic or commoditized space, but this is really the high end value added VMS space which also enabled us to access new channels in the health care channel and health care stores. We have found that to be a very good acquisition so far. We also invested in Persona which is a relatively small acquisition but is opening up the window towards personalized nutrition.

I would also like to mention a minority stake that we took in the IVC group. The IVC group is the largest Vet clinic business in Europe with more than 1,100 veterinary clinics all across Europe. This is part of building an ecosystem for our PetCare business, where we get access to information that we would not normally be able to get. In this case we have access to all the veterinary clinics, the advisory panels of these clinics all over Europe. This is really helping us to work on our product portfolio, making it more therapeutic, more value added and more premium and from which we can see the benefits in our PetCare business in Europe already

Slide: Froneri presented a unique opportunity

Moving on to Froneri, Froneri presented a unique opportunity for Nestlé in 2016. It was created by the combination of our branded European Ice cream business with the largely private label business of a company called R&R. It's a unique ownership structure with a 50% ownership by Nestlé and 50% by our partners which is PAI partners based in Paris. Froneri itself has a very unique portfolio. They have their own brands, they have licensed brands. Largely Nestlé but also Mondelez, Disney and other companies. They have also private label contracts with many of the key customers. This has enabled them to really be category captains and become leaders in the Ice cream space.

They have an amazing management team, agile, nimble, entrepreneurial that move really fast with their specific category knowledge, to transform the business and create value for us and also for our partners.

Slide: Froneri has a strong track record of operating excellence

If you look their track record has been really strong over the last couple of years. The business has grown by 6% CAGR in the last couple of years. EBITDA margins have increased very significantly by almost 600 bps or in absolute terms more than €200 million.

They have gained market share against the competition by about 130 bps in the markets where we compete with each other. The additional profit has of course significantly increased the value of the Nestlé stake during this period.

Slide: Creating a global pure-play leader with the addition of Nestlé U.S Ice cream

Froneri now has moved on to the next stage in its journey where Nestlé has contributed, or divested, its U.S. Ice cream business to Froneri. We call it Froneri 2.0. This will take the business turnover from € 2.8bn to € 4.3 bn and the margins from € 500 m to € 800 m on a pro forma basis. This gives Froneri real scale, geographic diversification and the ability for the management team to once again execute and to bring value for us in terms of accelerated growth, procurement synergies and also manufacturing synergies.

Slide: We completed a creative deal with Starbucks

Moving on, I wanted also to mention our transaction with Starbucks which has attracted quite a lot of attention over a period of time. This deal was done in 2018. We acquired Starbucks very successful North American CPG business and the same time we entered into a global and perpetual license for the brand in the CPG channel all over the world. This led to the creation of the global coffee alliance between Nestlé and Starbucks.

With this transaction Nestlé now markets the three most iconic coffee brands in the world; Nescafé, Nespresso and of course Starbucks.

Slide: Global Starbucks roll-out at speed: new formats and markets

The initial prognosis and execution has been very good. We started to launch products six months after completion which is really very quick and by the end of 2019, we have launched products in over 40 countries all over the globe. This includes countries in Europe, Latin America and also in Asia.

We had CHF 300 m in incremental sales in 2019 and we expect and hope that this trend will continue and accelerate in 2020.

Slide: Access to innovation through venture funds

Staying with the theme of innovation but in a different way. Nestlé has also been investing in venture funds in the last couple of years. The first investment that we made was in a fund called Flagship. Flagship is a Boston based biotech fund and they are investing in companies with break-through technologies in the areas of nutrition science. This is a very good fit with our Nestlé Health Science business.

We also took a stake in a fund call Five Seasons which is a European fund and it focuses on Nutrition science, food and food tech as well. Just recently we also took a stake in in the U.S.

in a fund called Powerplant ventures. Powerplant ventures as its name suggests only invests in plant-based food and beverage companies and this brings us access to all the innovation, the deal flow that is happening in this space. As you know this is a very high growth area and we are very pleased with this initial investment.

Slide: Business as a force for good

We also believe at Nestlé that business is a force for good. Our CEO recently announced that we would spend up to CHF 1.5 bn in creating a market for food grade recycled plastics. There are quite a lot of recycled plastics going around but very little of the food grade quality. So by paying above market prices we intend to create a market and to ensure that there is enough supply and make our contribution to a better planet.

Similarly, we also announced an initiative to invest CHF 250 m in a venture fund in the sustainable packaging area to focus on two aspects. First to invest in companies who provide innovative technologies for packaging and recycling and secondly in larger enterprises which would actually help us to get better supplies of food grade plastics and materials.

Slide: Key takeaways

In summary just a few key takeaways for you.

Nestlé has sharpened it’s focus on Food, Beverage and Nutritional health products to help accelerate our journey towards a more Nutrition, Health and Wellness company.

M&A and portfolio management has been an important part of strengthening our portfolio, creating value and accelerating growth.

We have three main criteria when assessing acquisitions which are strategic fit, financial return and cultural fit.

We have been disciplined in the price that we have paid. We do not intend to change this but at the same time we remain very open to innovative business models and creative deal structures wherever it can create value for Nestlé.

We have improved our governance for acquisitions, put solid acquisition plans in place with a greater follow up to make sure that the deals that we do are successful and create value for our shareholders.

M&A will continue to be an important part of our value creation model. 2020 has started well and we expect that this will be another busy year for us with both acquisitions and divestitures coming up.

Thank you.

Q&A Session

Question on:	**Valuations of assets**

Participant:

You mentioned potentially another busy year for acquisitions and divestitures. Can you give some color on your perspective on where the market is for valuations, both in terms in buying in emerging growth businesses where it seems like valuations are pretty high and how that stands in relation to the market for divestitures? What's transacted, at least in the Food industry in terms of divestitures of non-core assets, the valuations have been relatively low. So just how you think about those two things in the context of the value model you have in terms of assessing M&A.

Sanjay Bahadur, Head of Group strategy and Business development, Nestlé SA:

So you are right we are indeed in a kind of a dichotomy kind of situation. The market for good quality assets with good brands, good business models and good management teams remains very solid in the low interest rate environment. This actually helps us in divestitures because we have been achieving very good prices, for example for our Nestlé Skin Health business and U.S. Confectionery and others. On the other hand, it is more challenging when we are buying assets and when valuations exceed the level where we think we can create value for our shareholders based on our criteria. We would walk away from those acquisitions. We have done that in the past and we will continue to do that in the future.

At the same time this also enables us to be creative and that is why I pointed out the example of Froneri and Starbucks where we think we did very creative transactions which helped to create a lot of shareholder value without basically risking our return on invested capital.

Question on: Working with partners for partnerships and joint ventures

Participant:

As you have noted you have been very good in coming up with creative ways to do either M&A, partnerships, JVs and such. As we know they can also come with pretty significant challenges if they are not structured right or if both parties don't go in on the same page. We have seen plenty of examples of that over time. So I am curious, how do you ensure, as you go into these more creative partnerships and I assume you look to do more, that everyone is on the same page. What are those key factors that you take into account before you can really feel good about that type of structure?

Sanjay Bahadur, Head of Group strategy and Business development, Nestlé SA:

I think that's a very good question and a very important one. That again goes to the cultural fit that I talked about when we looked at acquisitions. For example, when we did the transaction with Froneri, this is with PAI partners. It's a private equity company quite different in outlook from Nestlé, more short term oriented, we are more long term oriented. Before we actually signed up, we spent two days with the board, it's a joint board between Nestlé and PAI and also the CEO. We spent two full days before we signed up deciding what we are going to do, what we are going to agree to do and what we, more important, agree not to do. Similarly, when we did the transaction now recently with Herta, with a very distinguished Spanish family in the charcuterie business, we spend a lot of time with the family. I myself spent days with them deciding what we should do together and once again what we should not do.

So we haven't had bust ups, or blow ups and that's because we invested a lot in the cultural side of these acquisitions. If we felt the partnership was not good, we wouldn't do it.

Question on: Water Category

Participant:

I would like to come back to the Water category. You decided to re-integrate the Water category into the existing business units you've got. The challenge is that on the one hand you have got the sparkling, premium water that is doing very well but the mainstream business is challenged by private label by lower price. So should we think about this business also as a temptation to divest from the mainstream business or could you explain rather more than just the organizational change, what you are planning to do with the Water category.

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

I cannot tell you too much at this stage. We have said that we will come back to the market in the next six months with more color on our intention. We are fully aware of the fact that we have a problem with Water, given the fact that Water, which is classified for us a high growth category, is not delivering up to our expectations. We were at 0% last year.

If we look at it, first of all the dimension that I shared earlier is the fact that within water we have some extremely attractive assets, premium assets, and we have some assets which are more challenged and especially in the mainstream category.

We like the category to start with and first of all we would not want to divest the category. We would have done it last year rather than merging the business into the three Zones if we had wanted to do that.

The category remains an attractive one, it is largely leveraging on two consumer trends which is healthy drinking in the developed world and safe drinking in the emerging markets. We have an attractive position as well because we are number one in that category world-wide. That being said we are overly dependent to start with, if I can say that, on the U.S. It's 55% of our market and by the way the growth is probably more attractive in emerging markets where we are underweight.

The second thing is, that within the U.S. and to a certain extent within Europe, we are clearly overweight in the mainstream segments. There is ends up very quickly with a price war against private label and this is where we are struggling. So we will come back to you with a certain number of solutions within the next six months. Part of it might be, I don't want to pre-conclude, portfolio management. Portfolio management might be in and out by the way, not necessarily only one way. Part of it can have to do with premiumization as I explained earlier, especially in the Water category we have been able to premiumize very well some of our brands. It goes beyond San Pellegrino, Perrier and Acqua Panna, we have some local brands that have done reasonably well within the premium segment as well. Not all brands are eligible for premiumization though. Through their brand attributes and their brand essence with their own history.

Question on:	Coffee category and Starbucks in China

Participant:

I wonder if you could just give us a bit of color on the Coffee category overall on what you are doing there because if you actually look at the organic sales figures for last year you don't really seem to see that CHF 300 m incremental sales, maybe if you could just explain that. I know that you have already mentioned some other parts like Milo and Nesquik weren't growing that quickly but just generally, what you see in Europe at the moment with the launch of Starbucks capsules, how you are doing in terms of market share and what your plans are for the Starbucks brands maybe into China specifically because it is really a café culture type market rather than a supermarket or retail culture. I just wondered what your plans are for Starbucks in China.

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

There are many questions within your question, but I will try to address most of them. First of all, we are happy with the Coffee category. Indeed, when you look at the Beverage category that we report, the growth is relatively low and lower than it used to be. But within that Coffee is actually very close to the mid-single-digit level so we are overall very happy with what we have done last year. It's a little bit under pressure because of the pricing of the raw material, green coffee prices that went down by almost 25% last year. We had, in a certain number of geographies and starting with Western Europe, to pass on to the trade and to consumers some of these price decreases. We recovered most of it by volume but not entirely. So it's more the function of the commodity cycle rather than anything else. If you take even the context of Western Europe, we actually gained market share last year in Coffee which we are very pleased with. So did we in the U.S. as well. Overall, we are very happy.

Talking more specifically about the Starbucks product line we are extremely happy. We added as you know CHF 300 m of additional sales, which is a combination of mid-single-digit growth here in the U.S. as well as a strong development outside of the U.S. where we entered into 40 countries in the course of last year, with original 24 SKUs which we have extended after that including coffee creamers and so forth. We are very happy with that.

The Chinese market is an interesting market. It is like some of the other markets in the past like the UK for example or Japan which were traditionally tea markets which are steadily converting in to coffee markets. Nestlé has been instrumental over the last couple of decades to make Japan and the UK to move them from traditional tea markets into coffee markets. We are relatively confident that we will manage to do that, with other parties at the end of the day – it is even better to have other parties joining it and doing more buzz about the category, so we remain extremely positive. So we have an interesting franchise in China with Nescafé. We have one as well with Nescafé ready-to-drink as well which is part of Yinlu, which is part of the reason that we should not consider that everything within Yinlu is negative. With Yinlu, which is a beverage company, we have been able to develop an interesting franchise in ready-to-drink and to have the number one position in ready-to-drink coffee in China.

You're right as and I mentioned it already in our call last week that the Beverage category is a little bit depressed as well because of other business lines that are there. I talked about Nesquik which is under pressure for a certain number of reasons, and Milo is doing well but we had some specific issues which are more one-off issues in some countries, which put pressure on the category last year. But no specific concerns.

Question on:	**Water sourcing**

Participant:

Could you talk about your sourcing of the water? There have been some issues arising around removing water from the earth. Is that a real concern? If so, what are you going to do about it, if not why not?

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

It's always a concern when there is background noise about some of our business. So we are very much on the top of it. What I can assure you is that we are not over using natural resources obviously. We take the water but always making sure that we don't take more than what can be replenished naturally. There is a lot of noise which is not always rational by the way, which is something that we need to take into account. There are places for example around the world where we have been accused of being the source of the issue where actually what we use is, I don't know, something like 0.001% of the water. You may have in that specific area over 10% of the water which is used for golf courses, which means that it is not always rational but this something that we have to take into consideration. We are working very actively with local players to make sure that everybody understands what we do and understand that we are not overly using natural resources. We act as a responsible citizen.

Question on:	**2020 sales growth target**

Participant:

You mention being a couple of years behind on hitting that sales growth target of 4% plus let's call it. You mentioned a couple of items that perhaps have let you down, Waters you mentioned, pricing I guess was less than you anticipated. Are there any other specific areas that have not delivered that you would highlight, as you would have expected to deliver? I guess related to that, going back to the portfolio management is part of the shortfall getting deals done and changing the shape of the business is taking longer than you expected and you are running behind in that area by a couple of years as well?

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

In 2017 we gave two guidance for 2020, one on the top line, one on the bottom line. The bottom line one we achieved one year ahead of time, so we are happy with that. The top line one we are likely to achieve it, maybe one year or so late. We do not totally discount the fact of getting there this year, but it is unlikely. What is important for us is rather than the timing of it, is to make it sustainable. If it is in '20 or '21 matters less than the sustainability of it. The root cause of it is not pricing actually, I did not mention pricing as a reason. The weak performance of Water certainly has contributed to it as well to a certain extent.

Beyond that portfolio management, you are right, the timing of portfolio management didn't help. The same way that the portfolio action did help us in the last two years does not help us in 2020 due to the fact that we have sold Nestlé Skin Health, that we have sold Herta, Ice cream as well which doesn't help. Mark Schneider, our CEO, mentioned it during the call last week. We could have decided for example to sell Nestlé Skin Health one year later, or Herta one year later and we would have got to the 4%. We didn't want to do that because we saw that it was the right thing to dispose of these assets at the right time. So once again what is important for us is to reach the mid-single-digit level of organic growth on a sustainable basis. Maybe not in '20 but probably in '21 or possibly '22.

End of Transcript