

NESTLÉ S.A.

2020 THREE MONTH SALES INVESTOR CALL TRANSCRIPT

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Speakers:

Mark Schneider, Chief Executive Officer, Nestlé S.A.

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

Luca Borlini, Head of Investor Relations, Nestlé S.A.

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Luca Borlini, Head of Investor Relations, Nestlé S.A.**Slide: Title slide**

Good afternoon, and good morning to everyone. Thank you for joining us on the Nestlé First Quarter 2020 Conference Call and Webcast. I am Luca Borlini, Head of Nestlé's Investor Relations. We hope everyone is doing well and staying safe during these unprecedented times.

The conference call will start with some prepared remarks from our Chief Executive Officer, Mark Schneider. Mark will also cover the 2020 outlook.

Our Chief Financial Officer, François Roger, will follow with a review of the first quarter's 2020 sales performance. We will then open the lines for your questions.

Slide – Disclaimer

Before we begin, please take note of our disclaimer. And now I hand over to Mark.

Mark Schneider, Chief Executive Officer, Nestlé S.A.**Slide – Title**

Thank you, Luca, and a warm welcome to our conference call participants today. As always, we appreciate your interest in our company.

Slide – Responding to COVID-19

Our last call took place only ten weeks ago, and yet, the global, social and economic context seems worlds apart. Many of our basic assumptions, as well as our plans and strategies, had to change in this short period of time.

I'm glad to report to you that in this fast-moving situation, you have seen Nestlé at its best: On the one hand, reacting swiftly and with lots of entrepreneurial spirit where prompt reactions were due; on the other hand, meeting its obligations and acting as a steadfast, trusted and reliable employer, business partner, citizen and neighbor in these uncertain times.

Reliability is also of importance when it comes to our shareholders. As such, it was an important matter of principle to us that we kept our Board's dividend proposal unchanged. It was approved yesterday by our shareholders and will be paid on time and in full.

Let me take this opportunity to thank our associates around the world, our team Nestlé. They have truly risen to the occasion. They have acted with intensity where prompt changes were required, and with compassion where help and support for those in need was called for. Through the darkest days of this crisis, their energy and devotion has been truly motivating. They brought our purpose and values fully to life. This applies in particular to our frontline workers, who are Nestlé's heroes of the hour.

In several factory visits, I was able to see firsthand what they had accomplished in a short period of time to make our facilities safe in the face of this pandemic and to keep our output and performance up. Our measures adopted to protect our workforce are based on latest scientific findings and fully compliant with guidance from local authorities.

Slide – Key messages

Moving to Slide 5. I think it is fair to say that we have proven our resilience in this crisis, François will take you through the details in a minute. It is important, however, not to get carried away by the strong organic growth of 4.3% for the first quarter. Behind this global and consolidated number, you see significant and unprecedented ups and downs by category, channel and geography. This highly volatile situation is expected to stay with us for a while. We will of course try and give you maximum transparency on how our business develops. But I'm also asking for your understanding that we will not have a lot to offer on this call when it comes to forecasting the next quarters or years.

While our operating teams maximize safety, business continuity and output, our strategic business units are working hard to understand and define what this new global situation means for our category strategies going forward. Our ambition is not only to make it through this crisis but also to come out of it in a successful manner. We hope to have more details to share on this when we report future quarters

Slide – Exploring strategic options for Yinlu-branded business

As you saw from today's announcement, we also continue on our journey of portfolio transformation. We announced the strategic review of our *Yinlu* peanut milk and rice porridge businesses. Our highly successful *Nescafé* ready-to-drink business, which also runs on the Yinlu supply chain platform, will be retained. We will continue to invest heavily in the

Nescafé ready-to-drink opportunity as well as the Greater China region overall, given their strategic importance for the group.

On a separate note, I would also like to confirm that we continue to make good progress with our new Nestlé Waters strategy. We have seen some delays due to our focus on business continuity during the COVID-19 crisis, but expect to update you later this year.

Slide – 2020 guidance

Before turning it over to François, I would like to comment on our guidance for the year. There is no reason to remove or change our earlier guidance, even with all the significant changes we have witnessed. But I'm asking for your understanding that beyond Q1, we're not in a position to forecast future COVID-19 effects and the impact on our financial results. We cannot and should not speculate, on which turn the pandemic will take next and what exactly are the global economic consequences and the impact on our business will be.

Our confirmation of the earlier guidance after the stronger-than-expected organic sales growth in Q1 should not be interpreted as a sign of specific bad news that we are aware of. Rather, it is a sign of humility and caution on our part, having seen how quickly the world has changed over the past ten weeks.

With this, let me hand it over to François.

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

Slide – Title

Thank you, Mark, and good morning or good afternoon to all.

Slide – Three-month sales growth

Let me start with the highlights for the first quarter of 2020. Organic growth was 4.3%. Real internal growth was strong at 4.7%. Pricing temporarily decreased by 0.4%, mainly due to the timing of promotions in North America.

We expect to be back to positive pricing in Q2. Net acquisition reduced growth by 4.7%. This largely relates to the divestments of Nestlé Skin Health and U.S. Ice Cream. The sale of the latter was completed on the 31st of January. Foreign exchange had a negative impact of 5.8%, mainly as a result of the appreciation of the Swiss francs against most currencies. Sales for the first 3 months were CHF 20.8 billion, a 6.2% decrease versus last year on a reported basis.

Slide – Business impact of COVID-19

Let me now take the opportunity to share upfront some insights on how COVID-19 has affected our business. While it is still early to quantify its impact, we know that its effects varied materially by geography, product category and sales channel, depending on the timing of the outbreak, the depth of the lockdowns and market-specific consumer behaviors.

From a geographic perspective, a majority of markets, but particularly those in North America and Europe, reported significantly increased growth, partially supported by consumer stockpiling. It happened essentially in a short time frame, particularly in March for EMENA and in the later part of March for the Americas. By contrast, China posted a sharp sales decline due to movement restrictions in place for almost a full quarter, limited consumer stockpiling as well as a relatively higher exposure to out-of-home channels. In addition, we also had to manage some supply chain challenges post Chinese New Year, but we were able to gradually restore production and logistics to levels close to normal by the end of March.

In terms of product categories, product perceived as everyday necessities saw elevated demand. Culinary products, *Purina* PetCare, Coffee and Nestlé Health Science all reported significant sales increases. In some categories, higher sales were driven by consumer stocking up and increased levels of home cooking, for example, Pizza, *Maggi* and Baking products. By contrast, categories such as Confectionery and Ice Cream posted sales declines, reflecting reduced impulse buying and lower demand for seasonal and gift-giving products, such as *Hsu Fu Chi* Chinese New Year products and Easter eggs.

By channel, all markets saw a significant shift from out-of-home to in-home consumption. Businesses which were most impacted include Nestlé Professional, Water in the out-of-home channel as well as Nespresso boutiques. These businesses account for about 10% of sales. In addition, we also saw reduced consumer demand in convenience and moms-and-pops stores for on-the-go products. By contrast, we observed elevated demand in retail and a significant increase in e-commerce sales of 29.4%. The latter now represent 10.4% of total Nestlé sales versus 8.5% in 2019.

Slide – Growth by geography

This slide shows the development of our sales by geography. It includes both our Zones as well as our globally and regionally managed businesses. This quarter saw contrasted growth

in terms of geographies. Organic growth and RIG were strongly positive in the Americas and EMENA and sharply negative in AOA. Pricing was negative in the Americas and EMENA, but flat in AOA.

Slide – Strong growth in developed markets

Turning to the distribution of growth between developed and emerging market. Again, the first quarter should be seen as atypical. Organic growth in developed markets increased to 7.4% based on broad-based and strong RIG across all regions with the exception of Japan. Emerging markets grew by 0.5%. Organic growth was lower than usual as a result of the sales decline in China. We see this as a temporary slowdown, and we remain positive on emerging market as a key growth platform. Excluding China, organic growth in emerging market was in mid-single digits.

Slide – Zone AMS

Let's now look at the results of our four operating segments, starting with Zone AMS, where we saw strong organic growth. Sales were CHF 8.3 billion. Organic growth increased to 7.4%, supported by higher RIG of 7.9%. Pricing was negative at 0.5%, reflecting timing of promotion in North America. Such promotion had already been agreed with customers prior to COVID-19 and saw strong consumer uptake in March.

North America grew at a high single-digit rate, supported by exceptional RIG in most product categories. *Purina* PetCare was again the standout category, with continued momentum in e-commerce and premium brands. Coffee, including Starbucks and Nescafé, reported high single-digit growth. Frozen food posted high single-digit growth, supported by *DiGiorno* pizza, *Stouffer's* meals and *Hot Pockets* snacks. Baking products, including *Toll House* morsels and *Carnation* milk saw higher demand as consumer cooked more at home. *Gerber* baby food reported mid-single-digit growth supported by its organic range and healthy snacking. Water posted positive growth. Nestlé Professional reported a sales decline as the out-of-home channel closed towards the end of March.

Latin America saw mid-single-digit growth with positive contribution from most geographies and categories. Sales in Brazil grew at a high single-digit rate, supported by significant growth in Infant Nutrition, Ambient Dairy and Coffee. Mexico saw mid-single-digit growth with increased sales for *Nescafé* and *Coffee-mate*. Overall, for Latin America, *Purina* PetCare and Culinary products reported double-digit growth. On the other hand, Confectionery saw

a sales decline.

Slide – Zone EMENA

Turning now to Zone EMENA. Sales were CHF 5.3 billion. Organic growth was 7.1% with strong RIG, supported by both volume and mix. Pricing remained negative as deflationary trends continued across most markets in Europe. The Zone continued to see broad-based market share gains across most product categories and geographies. Culinary product, Coffee, *Purina* PetCare and Infant Nutrition all reported double-digit growth.

Culinary products saw increased demand across all segments. *Maggi* posted strong growth, in particular, for soups, noodles and sauces. *Garden Gourmet* vegetarian and plant-based food products continue to grow at a strong double-digit rate, helped by product launches such as the new vegetarian sausage.

Coffee posted increased growth supported by Starbucks and *Nescafé*. *Nescafé Dolce Gusto* also reported strong growth. *Purina* PetCare continued strong momentum led by *Felix*, *Purina ONE* and Tails.com. Infant Nutrition saw increased consumer demand across most geographies. On the other hand, Water posted negative growth, impacted by sales decline in the out-of-home channel. Nestlé Professional recorded a double-digit sales decline.

Slide – Zone AOA

Moving next to Zone AOA with sales of CHF 5 billion. Organic growth was negative at minus 4.6%, mainly due to a sharp sales decline in China. Other subregions saw positive growth. Pricing was flat with negative pricing in China, Japan and Oceania. In China, demand for seasonal items was reduced due to COVID-19 lockdown restrictions. As a consequence, we implemented additional promotional activities, particularly in Confectionery.

China posted double-digit negative growth, reflecting a significant sales decline for businesses weighted to the out-of-home channel and gifting. Examples include Nestlé Professional, *Yinlu* peanut milk and canned rice porridge, *Hsu Fu Chi* Confectionery, ready-to-drink products and Ice Cream. Growth was also negatively impacted by the timing of Chinese New Year as around 3 weeks of preseason shipments took place in Q4 last year. Infant Nutrition sales decreased. The sales decline for Wyeth infant formula and particularly the S-26 range more than offset positive growth for *NAN* infant formula and double-digit growth for Gerber infant cereals. *Purina* PetCare grew at a double-digit rate. E-commerce

sales posted double-digit growth supported by strong demand for Nescafé and Starbucks products.

Southeast Asia posted solid growth, supported by strong momentum in Indonesia and improved growth in the Philippines and Thailand. South Asia recorded high single-digit growth. India continued to perform well with continued momentum for *NAN*, *Maggi* and *KitKat*. Pakistan returned to positive growth based on improved contribution from Ambient Dairy. Sub-Saharan Africa accelerated to a double-digit rate, supported by *Nido*, *Milo* and Coffee. Japan and Oceania saw low single-digit growth. Oceania posted strong growth with increased contribution from all categories, particularly *Purina* PetCare, Confectionery and Nescafé. Japan saw a decline in sales with *KitKat* impacted by a reduced number of inbound tourists.

Overall for the Zone, *Purina* PetCare, *Milo* and *Maggi* delivered positive growth. Within Coffee, Starbucks products continued to see strong consumer demand. Outside of China, Infant Nutrition saw good sales momentum and Nestlé Professional recorded a double-digit sales decline.

Slide – Other Businesses

Finishing with Other Businesses, which includes Nespresso and Nestlé Health Science. Total sales for the Other Businesses were CHF 2.2 billion. Strong growth at 8.5% was driven almost entirely by RIG of 8%. Pricing was 0.5%.

Nespresso maintained mid-single-digit organic growth with strong momentum in the Americas and AOA. Sales in Europe decreased due to boutique closures and significantly reduced demand in the out-of-home channel, especially in the latter part of the quarter. By the end of March, 98% of our boutiques were closed globally. At the same time, e-commerce sales grew by nearly 60% in March, which more than offset the declines in other channels. This shows the strength of the Nespresso business model, which can adapt and recover in one channel whatever might have been lost in the other. Vertuo-line continued to see strong double-digit growth.

Nestlé Health Science grew at a double-digit rate, supported by strong growth for Consumer Care and Medical Nutrition products. *Garden of Life* and *Pure Encapsulations* saw strong momentum with increased demand for supplements that support overall health and the immune system. E-commerce sales saw strong double-digit growth.

Slide – Contrasted category dynamics

Looking now at growth by product categories. There is a clear contrast between segments.

Overall, the first quarter demonstrate the resilience of our business and shows how our diversified portfolio is well-gearred for difficult conditions. Powdered and Liquid beverages grew 3.9% for the 3 months. Coffee grew by slightly more than 5%, supported by Starbucks products, *Nespresso* and *Nescafé*. Starbucks added incremental sales of more than CHF 150 million in the quarter. Cocoa and malt beverages grew at around 3% while other ready-to-drink beverages were negatively impacted by greater exposure to out-of-home channels.

Nutrition and Health Science grew at 2.9%. Infant Nutrition growth was impacted by a sales decrease in China. Outside of China, Infant Nutrition saw a good sales momentum, supported by our science-based products such as infant formula with Human Milk Oligosaccharides. We already discussed Nestlé Health Science.

Milk products and Ice Cream grew 2.1%. Please note that we sold U.S. Ice Cream as at the end of January.

Petcare continued to see an outstanding growth globally, supported by e-commerce and strong demand for premium products. During the quarter, Purina successfully launched *Pro Plan Liveclear* in the United States. This is the world's first and only cat food that reduces allergen in cat hair.

In Prepared dishes and cooking aids, growth was broad-based by region, brand and product segment. Ambient culinary grew in high single-digits, supported by increased demand for cooking aids, sauces, noodles and soups. Frozen and chilled grew in high single-digits. Vegetarian and plant-based food products continued to deliver strong double-digit growth. Confectionery declined, mainly due to reduced impulse buying and gift-gifting, particularly in China and Japan. Waters saw negative growth, reflecting lower demand in the out-of-home channel, offsetting increased growth in retail channels.

Let me now hand over to Luca for the Q&A session.

Luca Borlini, Head of Investor Relations, Nestlé S.A.

Thank you, François. With that we move to the Q&A session and we open the lines for questions. [operator instructions] The first question comes from Warren Ackerman at Barclays.

Question and Answer Session

Questions on;	Supply Chain and cost of growth China Infant Nutrition
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Warren Ackerman, Barclays Bank:

Warren here at Barclays. Two from me. The first one is just around the supply chain and the cost of growth, one for Mark. Mark, I think you were interviewed recently, and you were talking about trying to make this Nestlé's finest hour, that even normal production will be an outstanding achievement. And you were talking about even having to air freight certain products. Just interested to understand how we should be thinking about the supply chain and any kind of sort of risk factors, whether it's raw materials or logistics that we should be sort of thinking about. And then how the interplay between those costs and other costs, things like input costs, François, must be a lot lower than you were previously guiding to six months ago. Just interested to see how they interplay and how you're thinking about those different factors. That's the first one.

The second one is a specific one around China Infant Nutrition. I noticed you didn't mention *illumina* in your prepared remarks, which has been the big driver, the billionaire brand. Could you maybe just talk a little bit about what you're seeing? Obviously with COVID, it's difficult, but you mentioned *NAN* and *Gerber* offsetting *S-26*. But what about *illumina*? What about kind of innovation? What about the outlook in China baby, given the freeze that there is in place regarding new products with the government?

Mark Schneider, Chief Executive Officer, Nestlé S.A.:

Thanks, Warren. This is Mark. Let me handle the first one and then hand it over to François for the second one. That is what I was trying to allude to when I was talking about all the work and all the ups and downs behind the 4.3% organic growth figure. This has been a tremendously demanding period. I tip my hat to the supply chain and manufacturing teams, everyone working in distribution centers and quality assurance labs, because literally everything has been impacted by this.

This starts with in-bound logistics for a number of our raw materials. Clearly, when there were lockdowns, it was sometimes hard to get hold of these, we had to air freight at times to expedite the process. In some of our factories, when it comes to absenteeism, health-related, we had to adjust to that and still keep our performance up. We had to take extra safety precautions that sometimes impacted near-term productivity, and so we had to make up for that. All of this, of course, happened in the face of strongly rising demand for some of our categories. It all really required extra flexibility and making turn-on-a-dime decisions here to be sure that short term, we really meet our safety and output requirements.

And yes, some of that also did come, I think this was the gist of your question, with some extra cost. We're still in the process, of course. As you know, in Q1, we focused on our sales development. We're in the process of analyzing this, understanding it better. Suffice it to say that we also have some savings here, because as you know, for example, business-related travel is way down and some of the promotional activity has also been lowered.

So, we'll be giving you a full picture here as part of our Q2 call. But clearly, yes. On the supply chain side and manufacturing side, keeping that enormous business continuity and output up did require some extra effort, and at times, also some extra cost.

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

Warren, François speaking. Regarding your question on *illumina*. So, the good news is that *illumina* maintained its market share during the quarter, especially supported by *illumina Organics*. If we look beyond *illumina*, *NAN* infant formula and *Gerber* infant cereal gained share. The issue that we have faced in Q1 is much more in particular on S-26 range. COVID-19 reduced the traffic in baby stores where Wyeth and more specifically S-26 have a strong position, especially in large cities. This is a little bit the problem that we had. We see that largely as a short-term issue. We had a minor issue as well which is a decline in Hong Kong local and cross-border business which, once again, we see as a short-term issue. Nestlé brands, on the other hand, saw positive growth, and as I said, *NAN* infant formula gained market share.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Well, thanks, Warren. The next question is from Céline at JPMorgan.

Questions on;	Outlook
	Net impact of COVID-19 and exit level in China

Céline Pannuti, JP Morgan:

First of all, I would like to come back to the outlook. Mark, in your prepared remarks, I got confused and I'm not so sure now what we are meant to read in you having maintained the outlook. So bluntly, if we put in our model, organic sales growth above last year and better margins, is that right? Or at this point, you think you can't confirm that? That will be my first question.

My second question, and I appreciate it's going to be a difficult one, but is it possible to have a bit of an understanding on the moving parts, on the pluses and minuses on the quarter, to understand whether, on a net-net basis, you had a better quarter for -- the help from, a positive impact from COVID? And is it possible as well to get the exit-rate of China, which you said was down double digit in the quarter? How was it as you exited March?

Mark Schneider, Chief Executive Officer, Nestlé S.A.:

Thanks, Céline. Let me start on the guidance. Let me remind you that when we gave you our guidance in February, while this had not turned into a global pandemic yet, it clearly had already impacted China. We told you in February that what we guided was before any impacts from the COVID-19 pandemic, and that has not changed. Because again, what will happen now in Q2, 3 and 4, I do not dare to say. Hence, the guidance now is unchanged from what we had in February. So, we stick by our guidance. It includes now one quarter of actuals and three quarters on which we do not forecast the COVID-19 impact.

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

Regarding, Céline, the moving part and the net impact of COVID-19, very difficult to measure, which is the reason why we don't really want to go there. There would be a lot of judgment to assess what is linked to COVID and what is not. We described to you the moving parts, be it in terms of geography, be it in terms of category or channel. That we can assess because, I mean, we see significant moving parts. The net impact, we don't really know. The only thing I can tell you is that the quarter was slightly better than what we expected. But once again, to relate it to COVID-19 specifically is a difficult exercise, and we don't want to go there.

On the exit-level in China, that's difficult. That's moving, I would say, almost every day. What I can tell you is that we start seeing China coming back, clearly, but we are not at the level

where we were before the crisis. I think it's a gradual improvement on a daily basis, which is better maybe in some instances, in some sub-geographies of China as well. But we start seeing some clear improvements, which was expected anyway, given that we were at a significantly negative level during February and March.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Next question is from Richard at Morgan Stanley.

Questions on;	Contribution from stockpiling M&A landscape E-commerce increase
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Richard Taylor, Morgan Stanley:

Richard Taylor here. One quick one and then a bigger picture question, if I may. The first one is, could you give us a little bit of color of how much stockpiling contributed to the Group like-for-like in the first quarter? I think Unilever said yesterday it was 2% for them. Is that the same ballpark for you as well?

Then the second question, I'm very interested in your perspective on the M&A landscape, perhaps what this crisis means for you, both in terms of opportunities. Also what it means potentially for buyers for any divestments you're planning to make.

I guess related to that, these kinds of crisis bring opportunities to accelerate in areas. I note your strong growth in e-commerce, you're now up to over 10% of sales. Should we be thinking that Nestlé will come out of this crisis making a kind of giant leap in digital, particularly across categories like pet and infant formula and Nespresso?

Mark Schneider, Chief Executive Officer, Nestlé S.A.:

Thanks, Richard. Let me try and take both of these. So clearly, there was some benefit from consumer stockpiling in this quarter, but I would not be in a position to quantify that. To me, it's difficult to judge how much of that has been consumed or has not been consumed. I think this is very hard to measure for any consumer product, and hence, we were trying to stay away from it.

For the second question, we did tell you that we expect a more vigorous year when it comes to M&A. I think looking at our pipeline here, that continues to be the case. We're quite

interested in expanding our business. We're working on a number of interesting leads. If there are some now that may be coming up in addition because of the economic crisis, I think it's too early to tell that. Because remember, this is only month one or month two, depending on where the crisis hit, for most regions. You would probably see M&A opportunities that relate to financial difficulties only come up after several months or quarters. So, it's a little early to speculate on that.

I also would not go overboard on that side of M&A because remember, we're in Food and Beverage. Most Food and Beverage makers did see fairly good business as a result of increased consumer demand. But overall, again, just like we said in February, we're quite interested in M&A transactions to build our business in a very disciplined way, and the pipeline certainly looks more interesting than it looked last year.

E-commerce, I think you're spot on. I think this is a key area. This is where we saw true significant increases. I think some of that will be here to stay. I think one of the side effects of this crisis will be -- it will be kind of a breakthrough event when it comes to e-commerce for Food and Beverage. As you know, Food and Beverage categories tended to be somewhat slower when it comes to e-commerce compared to, for example, books or consumer electronics or something like that. I think some of that is changing now because people see the convenience of e-commerce in Food and Beverage as well.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Next question is from David Hayes at Société Générale.

Questions on;	Consumer behavior coming out of lockdown Cost of support initiatives
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David Hayes, Société Générale:

So, my two questions. The first one, I think, is for Mark. I saw you on TV a couple of weeks ago, I think, Mark, talking about purchasing behaviors in China coming out of the lockdown. You said specifically that you were seeing less premium purchases or mix negative. So, I guess the question is, can you be a bit more specific about how severe that dynamic was? And based on very, I guess, limited data, what kind of behaviors you expect to see from consumers as we go through the second quarter, hopefully see some of these lockdowns coming off elsewhere?

Then the second question on the cost side. You talked in the release about a couple of events or a couple of initiatives, one being dairy farmers, commitment to buying their product; the other one being, I think, CHF 500 million initiative for out-of-home retailers. I'm just trying to understand what the impact that might have on the P&L in terms of writing-off inventory. If it's perishable, in many cases, is that going to be a risk that we should think about? And on the CHF 500 million, is that -- I guess cash. But is some of that P&L and some of that just a working capital? I wonder if you can split that out for us, please.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:

Thanks, David. Let me take the first question, also the first part of your second question and then hand it over to François, especially on our out-of-home and food service business initiative. I think some of the initial reactions we saw in China also apply here for the rest of the world now. There's an increased interest in value-for-money, and that's not surprising because this health care crisis also goes hand-in-hand with an economic crisis. And I think it's safe to say that we're middle of a global recession right now, and hence, people are very value-conscious and there's a strong interest in that.

Looking back at the first quarter, we nonetheless saw our premium products hold up well. And that is something that in hindsight also is very much in sync what the experience we had from previous crisis, including the world financial crisis, where usually it's the two extremes, the value side and the premium side, that do hold up quite well in a downturn. And at least now, for the early innings of this new situation, that seems to apply as well.

The other one, while still early days, that we saw, is an interest in larger pack sizes. That's also not surprising when people spend more time at home, rather than consuming lots of small packs, they rather buy fewer large packs. As I said, our strategic business units are now working overtime to really understand, not only in light of the health care crisis, but also the economic pressure, what that means for each of our categories. To me, that is super-interesting work because clearly this is not going to be a quick recovery. This is going to be several-quarter, if not several-year kind of process, where it is safe to expect some changed category dynamics. We want to recognize those early and adapt to those early and be a leader when it comes to those trends.

To your second question about the cost. On the dairy one, that's easy. There is one thing we have that a milk farmer wouldn't have, we have the ability to turn it into milk powder. And so that's why I think standing by our commitments here is a good one, and that really means that we can stand by the commitment at an acceptable cost to us. There is some extra cost. There is a bit of extra inventory here. But again, the business relationship over years

and generations with those milk farmers around the world, this is what really takes preference here. And this is what Nestlé is recognized for in agricultural circles.

On the out-of-home and food service initiative, François can give you a bit more of a breakdown here. But again, this is something where I think we're combining doing good and doing well in the sense that food service and out-of-home businesses do need support at this difficult hour, but I think we can also strengthen the relationship. I see it as an investment going forward that really helps this channel.

I think when all is over, when all is said and done, the fundamental trend that out-of-home consumption tends to be on the rise around the world. That trend, after, again, some quarters, some years, will certainly continue. As you know, it was one of our strategic initiatives to be well positioned for this trend. Now something happened that no one had foreseen. It's a tremendous burden to the out-of-home businesses. We're there to help. We have a strong balance sheet. We have the ability to work with them. And then going forward, when things go back to normal, I think this will also pay off.

But let me hand it to François for a bit more detail.

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

David, indeed, we want to offer prompt and pragmatic assistance to some of our out-of-home and food service partners, to help them to weather the crisis and help them to restart the business. That's really the idea. One part will hit our working capital and our cash flow. We need more time to assess the exact needs of our business partners, but it's a significant amount, probably a little bit more than half of the total amount. Could be even potentially more. Once again, we have a reasonable idea as of now, but we need more time in order to assess the exact needs.

The other part will hit the P&L accounts. This is a part that corresponds to free goods and suspension of rental fees for Coffee machine. This is a substantial amount. This is probably a little bit less than half of the total consideration that we have there. But there, again, we need a little bit more time to assess these exact needs. We will fine-tune it as we make progress, but certainly, we are fully committed to support them.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Next question is from Alain Oberhuber at MainFirst.

Questions on;	Pricing Southeast Asia performance
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Alain-Sebastian Oberhuber, MainFirst Bank:

Two questions from my side. Regarding the value development which was negative, I have to go back up to 1997 to see a negative number there. Could you elaborate a little bit more, what happened? And then more important, what we expect, as you said, flat for the second quarter, probably in which categories?

The second question is regarding Southeast Asia which had strong sales momentum, in particular, as you mentioned, in Indonesia as well as Philippines and Thailand. Is this hoarding going on there? Or is it really a fundamental improvement in these three markets?

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

Alain, I will take the pricing one. So pricing was negative by 0.4% in Q1. We expect that to be temporary, and this is mainly due to the timing of promotion and more specifically in North America. We had some promotion in North America that had already been pre-agreed with our customers prior to the COVID-19. During the stockpiling and panic buying somewhat, we saw a strong consumer uptake for these products in March. So, it got amplified to a certain extent as a percentage of our total sales. I want to be very specific, for example, it hit more specifically Water and Pizza and Frozen prepared dishes, which is more the type of product that have been hit by this panic buying and pantry building.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:

This is Mark. On the rest of Asia and outside of China, of course, the situation always varies a little bit country by country. But do keep in mind that they did benefit, just like Europe and the United States, from some of the time delays. I think what made China particularly difficult is the fact that this crisis was spreading at the time of Chinese New Year. And hence, people, even if they wanted to get prepared, they had few opportunities to actually do some of the pantry loading that we saw in other geographies.

When the COVID-19 virus spread to other countries in Southeast Asia, they had a better opportunity to get prepared for that. Hence, there was more of a consumer reaction, and hence, less of a negative impact that we saw in China. So, I think it's consistent with some of the patterns that we're seeing in Zone EMENA and Zone AMS.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Next question is from Jeremy. Hello, Jeremy, from HSBC.

Questions on;	Measuring success in 2020 Market performances in the quarter
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Jeremy Fialko, HSBC:

Jeremy Fialko, HSBC. Couple of questions from me. I guess first one is how you would think about success in 2020. Should we think about this sort of narrowly in terms of, if you can hit the guidance despite all of this, that would be how you would be successful? Are there some broader metrics which we should probably be judging you on as to whether 2020 was a successful year for Nestlé? So perhaps you could elaborate on that.

Then the second question is, clearly, there's this issue about sort of stockpiling, stock-building, what you would have expected or what we didn't expect. But maybe another way of thinking about this is, what you think your markets grew at in aggregate during the quarter, and what you think your sort of relative outperformance or underperformance versus those markets might have been.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:

Jeremy, this is Mark. I'm afraid we probably won't be very helpful on both of these. So, second one, I have not seen data on that. I think what all you can do is do a comparison here between the various peers in the industry and how they have been holding up in this time.

On the first one, honestly, the way to be successful in this, and this was how we switched our operating mode in February, this is no longer about several quarters or several years. It is literally day-to-day, week-to-week. What I applaud the team for is, to a person, everyone sort of got it, that a lot of things here that are longer-term are out the window. It is about doing the best under the circumstances in a very fast-moving situation.

This is still the mode we're in. We have not had the opportunity yet to frame this into longer-term financial or success goals. It's really, what are your KPIs? What are your on-time and full deliveries and stuff like that on a day-to-day, week-to-week basis? The entire management team has been handling this very, very tightly to be sure we're on top of this. It remains a top priority.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Next question is from John Ennis at Goldman Sachs.

Questions on;	Infant formula decline in China
	Market share on and off line
	Nespresso channel split

John Ennis, Goldman Sachs:

A couple for me as well, please. The first is on China infant formula again. I wondered if you could detail the magnitude of decline you saw there.

Then going back to your market share comment. I guess from looking at the Nielsen trends, it looks as if Nestlé has been losing share within the offline channels. I wondered if this is also what you're seeing. Or when you say that share is stable, is that because of something else, such as online share being a lot stronger? A little bit of clarity on that would be helpful.

Then the second is on Nespresso. I just wondered if you could give the channel split between e-com, boutiques, et cetera. And then maybe share some insights in terms of the channel performance for your business in Europe specifically to help better explain the decline there.

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

Okay. John, let me take the question on market share. But this is what we had available at the end of March, which does not fully reflect what happened during the COVID-19 crisis. But we look at market share in terms of business cells. A cell is a mix of geography and category. As at the end of March, we gained or maintained our market share in 59% of our cells. It was 51% gain and 8% stabilized, which seems to indicate that, overall, we gained market share. The market share gains were really clear across categories in EMENA. And globally, we gained market share in petcare, in coffee, in ambient and chilled culinary and infant cereal. And what we have as data is that in e-commerce channel as well, we gained market share. So that's what I can tell you. Once again, I would be very careful in drawing conclusion there from the COVID-19 impact.

The question you had on China Infant formula. I think I covered it partly before. Once again, I mean, we gained market share with *illumina* through *illumina Organics*. We gained market share in *NAN* infant formula. We faced some issues and even significant issues with the S-

26 range mainly because of reduced traffic in baby stores. We see that as a temporary impact, and we expect to be back to growth. Our focus will be, again, on innovation. This is very much what we are working upon. And as you know, for example, in China, we have not been able to register yet the HMO, the Human Milk Oligosaccharides, but we are working in order to bring more relevant innovation to our consumers in China and across the globe.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:

John, this is Mark. When it comes to the second question, Nespresso, we ask for your understanding that we're not disclosing the channel breakdown. We see that as competitive, sensitive information.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Next question is from Jean-Philippe Bertschy at Vontobel.

Questions on;	Capital Allocation Premium products
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Jean-Philippe Bertschy, Vontobel:

The first one is with regards to capital allocation. You confirmed the dividend yesterday, you accelerated the buyback in the past weeks quite significantly. If you can share with us your plans with regards to the cash, can it be the CapEx, the investments, but as well the buyback going forward?

And the second one is with regards to the premium products. I think, Mark, you were like saying that it was quite robust. It was 7.4% last year. Can you share with us if it was accelerating or decelerating in the first quarter?

Mark Schneider, Chief Executive Officer, Nestlé S.A.:

Thanks, Jean-Philippe. So, dividend, I think I made that point in my prepared remarks. This whole notion of continuity there is very important for us, especially given the very large chain of retail shareholders among our shareholder base. For them, this cash income, the fact it was coming in as planned and on time, was very important.

On the buyback, nothing new to report. We are implementing this exactly in line with what we outlined last October when we announced this new program. It's a three-year program.

When you look at the last program, which ran over two and a half years, you always saw basically some variation here, depending on market circumstances when it comes to the speed. We're not day trading here on the buybacks. As you know, we typically define periods that run for a month to six weeks at a time and that determine the quantity of buybacks relative to the share price. Of course, when you have a grid like this and the share price goes down, the quantity does go up, that may have explained some of the larger volume here that you saw in March in particular. But when it comes to a time frame and also everything we said around that buyback program, everything we said in October about that, still applies.

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

On the premium products. Once again, I would take this data with care because they're relating to the first quarter, so we didn't have the full impact of COVID-19 yet, but the growth of premium product in Q1 was pretty much in line with what we experienced over the last couple of years and more specifically last year, which means high single-digit. We'll see, it's too early to draw any conclusion at this stage. Even if there was and there is likely to be some trading down in terms of shopping habits in the near future, we'll see. Let's not forget that we have 75% of our sales which are in the mainstream and affordability or what we call PPP segment. So even if some consumers have to trade down in terms of shopping habits, we are reasonably comfortable that we will be able to address their needs.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Next question is from James Edwardes Jones at RBC.

Question on;	Guidance
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James Edwardes Jones, RBC Capital Markets:

Can you just explain your thinking in not withdrawing your guidance, given that it doesn't make any allowance for the impact of COVID-19? I think a lot of your competitors have, in these circumstances, just withdrawn their guidance completely.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:

Yes, James, this is Mark. So, I can't comment for them. On our behalf, nothing is added if we increase the amount of uncertainty for you. So again, we've given you a guidance before COVID-19 in February and we continued with that practice now. What we want to signal here is that many of the underlying things that we talked to you about still do apply, and we want

to take uncertainty out. And yes, I mean, if this crisis takes a very unexpected new turn, that is not something I want to be held accountable for, and I think that's understandable. But under normal base case assumptions, we do feel a large degree of certainty here, and that's what we want to signal.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Next question is from Patrick Schwendimann at Zürcher Kantonalbank.

Questions on;	Premium product percentage
	Emerging markets

Patrik Schwendimann, Zürcher Kantonalbank:

Congrats to the whole Nestlé family. You were mentioning also that value was holding up well. What's your percentage of sales in value? That's my first question.

And second question, you have mentioned that you are quite optimistic about emerging markets. I guess that's also mid-term, but what about the short term? Does this already mean that quarter one could have been the bottom for the emerging markets?

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

Your first question, I think, is on premiumization. So, the value is -- I don't have the figure, but it's pretty much in line with what we had last year. I mean, we were at 25%. I said 75% in mainstream and affordability. So we are at the same level, around 25%.

Emerging markets, obviously, you see that the growth was totally atypical, mainly because of China. Have we reached the bottom? Very difficult to draw any conclusion there. We remain very committed to emerging markets. And we are there for the long term. We have been in many of these countries for more than 100 years. And they are usually, with the exception of this quarter, but once again, it's a very exceptional one, really contributing to growth and margin. We are fully committed to emerging markets for the future.

It might be, you know, emerging markets, it's not always a straight line of growth. It might be a little bit of a bumpy road from time to time, but we are well diversified as well. That's something that we see as part of the resilience that we have been able to offer this quarter, which is a fact of being diversified by geography and by category, does help us as well. And we always have ups and downs.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Next question is from James Targett at Berenberg.

Questions on; PPP percentage of sales Restructuring initiatives
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James Targett, Berenberg:

Two questions. Just actually one was -- just to clarify the point on PPP. Of that 75% which is mainstream and PPP, how much is actually PPP? I think you used to disclose it.

And then secondly, I appreciate, Mark, as you said, you're very much operating for the short term, making sure that everything is running smoothly. But when you look about your own restructuring initiatives, the reorganizational initiatives going on this year or expected to go on in this year, how much of those are on hold, either due to logistic reasons or to preserve cash?

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

To the question on PPP, the value as of last year was at 12% of total sales. It's about the same for Q1 as well.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:

And James, on the second question, very simple answer - nothing, absolutely nothing, is on hold. Okay? And we are proceeding with our plans and our strategies going forward. Of course, as this crisis hit, and I think the water strategy is a good example, you do have a few weeks of delays now as people were working from a home office environment with maybe less efficiency from day one and they had to focus on business continuity issues, and so some of the longer-term work may have been delayed by some days or weeks.

And so that is normal, and I think we all experienced that. All of our plans for the last few weeks and months, I think, got a bit delayed and disrupted. But in terms of what we want to accomplish here, in addition to handling the crisis, nothing here is put on hold or taken off. And to me, it's very important. We got to handle this crisis, but then whether it is business efficiency or strategy or whether it's sustainability issues, the future will still happen. And we want to be ready for it, and we want to be ready for it and be one of the first.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Next question is from Tristan at Redburn.

Question on;	Government regulations
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Tristian Van Strien, Redburn:

Just a question about government regulations, Mark. Are you seeing any changes in government regulations and the loosening or tightening of the rules that may be a bit more permanent post this period? Also, as a second order, effect of some of the stimulus packages? And how do you think the conversation that you have with different regulatory bodies will change on things like food safety and how you guys are positioned going into those conversations post the COVID period?

Mark Schneider, Chief Executive Officer, Nestlé S.A.:

Yes. Thank you. So of course, short term, you saw a lot of emergency regulation. I think that is to be expected. And I think we were always pursuing a very intense dialogue with regulators to be sure that they understand what we're doing and we're in full compliance.

Longer term, I think this was the gist of your question, we're not seeing any significant changes yet. I think there's a lot of interest in recovery work that also meets ecological and green objectives like the European Green Deal. We want to be part of that, and we want to be helpful in that. Specifically, when it comes to food safety, or nutritional products and some of the regulations around that, we have not seen any changes yet.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

We are now at the end of our call. There is still one last question from Jamie Norman at Société Générale.

Question on;	Strength of big brands
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Jamie Norman, Société Générale:

Mark, when you took over in the top job, uppermost in your mind was the spread of challenger brands. And it would seem, I think, to many commentators and observers that this crisis has played into the hands of those owning bigger brands, perhaps down to scale and agility. But I'd very much appreciate your comments on that. And if you agree, your perception of the opportunity you have to consolidate and build on that.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:

Yes. Thank you. I think short term, you're right in the sense, just like people are seeking value for money, I think they're also seeking trust that comes from strong brands and established brands. So yes, this is a phenomenon we're seeing right now. But when you look back over several years and follow some of the conversations that we had here through the quarters and also as part of our Investor Day last May, the more interesting thing was how, through meaningful innovation, we made our powerful brands more relevant to consumers by actually meeting what they want.

This whole notion of faster innovation that we really implemented over the last two to three years, that to me is the more lasting and more important thing when it comes to really making those large, strong, trusted brands resonate with consumers. Because if consumers don't find, even under a strong brand, the products they want, then over time, they kind of go somewhere else. Winning them back, and I think we were making good progress even before the crisis, that to me is the more important thing. Because when this crisis is over, that whole trend, meaningful innovation and filling these large brands with life, that will still apply.

End of Question and Answer session.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

This ends our webcast. So, with no further questions, we thank you very much for participating to the event. And we look forward to interacting with you. IR is always available for your questions.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:

Thank you very much. Stay healthy and stay safe.

END OF TRANSCRIPT