2020 HALF-YEAR RESULTS 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.

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

Slide: Title slide

Good afternoon, and good morning to everyone. Thank you for joining Nestlé's First Half Results 2020 Conference Call and Webcast. I am Luca Borlini, Head of Nestlé's Investor Relations. We hope everyone is doing well and staying safe.

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 half results. We will then open the lines for your questions.

Slide: Disclaimer

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

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

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

We're witnessing extraordinary times with extraordinary challenges. In this context, I'm glad to report that Nestlé has truly risen to the challenge. We have proven the resilience of our business model and have acted in a dependable, consistent and responsible manner as we dealt with the consequences of the epidemic.

We were able to live up to our three key objectives in this crisis. First, assuring the health and safety of our associates and business partners around the world. Second, ensuring business continuity so that critically needed food and beverage products were on shelf even in the darkest moments of this crisis. And third, acting as a caring citizen and neighbor in the communities where we operate and providing a helping hand. Safety, action and solidarity will be a good way to summarize these three objectives.

My sincere thanks go out to the 290,000 Nestlé associates around the world. Your flexibility, hard work, dedication and also your grace under pressure has truly made this one of our finest hours.

Slide: Key Messages

As you can see from Slide 4, we have not only been responding to the COVID crisis, we have also continued to drive forward key initiatives from portfolio transformation to sustainability and diversity and inclusion.

Slide: On a continued path to attractive high-growth categories

As shown on Slide 5, we continue to reposition our portfolio towards businesses that offer more profitable growth. Compared to 2019, significant divestments and strategic reviews are now increasingly balanced by acquisitions in high-growth areas, namely Nestlé Health Science and PetCare.

Slide: Exploring strategic options for North American Waters

Page 6 provides more detail on one particular review that we announced in June. We had promised you a new strategy for Nestlé Waters in the first half of this year. The COVID crisis did not stop us from delivering it on time. The new strategy focuses on premium mineral water brands and functional water products. Our new focus will lead over time to an increasingly differentiated product lineup with improved growth and profitability. Short term, the water business is impacted by the COVID crisis, but we remain committed to this category and the concept of healthy hydration, which we pioneered.

For our North America Waters business under review, we have seen very strong interest from potential buyers. We anticipate that we can complete this review in early 2021.

In our Q1 conference call, I told you that the entire company had a very strong, short-term and operational focus in the early stages of this pandemic to ensure safety and business continuity. While this remains a priority, we have wasted no time in thinking through the strategic implications of a pandemic.

Slide: Developing solutions to meet fast-changing consumer needs

As you can see from Slide 7, most of the long-term trends we have been working on still very much apply. Some of them have even been accelerated, in particular, e-commerce and digital engagements as well as Health and Nutrition with particular focus on plant-based nutrition and the immune system.

One major short-term change has been the rapid shift towards at-home consumption. This shift heavily impacted our out-of-home business in Nestlé Professional, Waters, Confectionery & Ice cream. While the recovery will take some time, we remain fully committed to our out-of-home business. Now is the time to reimagine and rethink this part of the business to help our business partners in this area.

Our *Always Open For You* initiative, which we unveiled in April, has been met with enthusiasm from the many small to midsized business partners we have in this area. It strengthens our business relationship with them through support, such as extended credit terms and free products. It also helped to stabilize communities and employment where we operate. As such, it is a great example of doing good and doing well.

Slide: Refreshing our company purpose statement

Moving to Slide 8. I would like to talk about our new Nestlé strategy narrative and the new purpose language. Following our divestiture of Nestlé Skin Health, we focused our purpose and strategy much more in unlocking the unique power of food and beverages.

Next to the healthy nutrition theme, which we have patiently pursued for over 20 years and to which we remain fully committed, we also strengthen our sustainability commitment in everything we do. Food that is good for you and good for the planet, these two strategic directions go hand-in-hand.

Over the coming months, we will publish more detail on how this new purpose language translates into the company's strategy narrative.

Slide: 2020 Guidance

Before handing it over to Francois, I would like to talk about our guidance on Page 9. Previous guidance in February and April was prior to any COVID impact, as it was practically impossible at that time to estimate the size and shape of this pandemic and the economic fallout. This crisis is far from over. Guidance under these circumstances is riskier than in normal times. We nonetheless feel that guidance is helpful and important to you to calibrate your expectations and reduce financial uncertainty.

We are pleased to confirm that our expectations regarding underlying trading operating profit, underlying earnings per share in constant currency and capital efficiency can remain unchanged from what we told you in February.

Let me say in all modesty, this is no small feat. Regarding organic sales growth, we have to reflect the impact of the crisis on our out-of-home business. This is a reality we cannot escape. We, therefore, expect organic sales growth for the full year to be in the range of 2%

to 3%. As always, we will work very hard to fully meet or even exceed your guidance commitments.

For the sake of good order, let me underline that this guidance is based on our current knowledge of the COVID-19 developments and assumes no material deterioration versus present conditions. With this, let me hand over to Francois.

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

Slide: Title Slide

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

Slide: Half-year financial results

Let me start with the highlights for the six months. As you can see from these numbers, Nestlé has proven to be resilient in a rapidly changing environment. Total sales for the first half were CHF 41.2 billion, organic growth as 2.8%, and the underlying trading operating profit margin reached 17.4% of sales, an increase of 30 basis points. Underlying EPS grew by 0.5% on a constant currency basis.

Slide: Half-year sales growth

Looking in more details at the components of our sales development, organic growth was 2.8% in the half. After a stronger-than-expected start to the year, organic growth moderated in the second quarter to 1.3%, reflecting the full effect of lockdowns on some consumer destocking.

In the first half, RIG was solid at 2.6% and pricing contributed 0.2%, having returned to positive territory across all three zones in the second quarter. Divestitures reduced sales by 5.3%, largely related to the disposal of Nestlé Skin Health and the U.S. Ice cream business. Foreign exchange reduced sales by a further 7%, reflecting the appreciation of the Swiss francs against most currencies. Total reported sales decreased by 9.5%.

Slide: Contrasted momentum by channel

In the first half, the effect of COVID-19 on organic growth varied materially by channel as a result of lockdowns. As this slide shows, organic growth for retail sales accelerated to 6.3%, reflecting the significant shift from out-of-home to at-home consumption.

Within retail, e-commerce saw exceptional growth of almost 50%, with a strong acceleration in the second quarter across all geographies and categories. E-commerce now accounts for 12.4% of total sales as compared to 8.5% in 2019.

Before COVID-19, the out-of-home channel accounted for around 10% of group sales. If we include on-the-go consumption and products typically bought on impulse, then the total contribution was closer to 15% of sales. Out-of-home sales declined sharply as a consequence of movement restriction and the closure of many offices, restaurants and hotels, to name just a few. The rate of decline bottomed out in April at around minus 60%. Since then, we have seen a modest sequential improvement, but the full recovery will take time.

Slide: Strong momentum in the Americas

This slide shows the development of our sales by geography. It includes both our zones as well as our globally and regionally managed businesses.

The first half saw contrasted growth in terms of geographies. The Americas continued to see strong momentum with positive contribution from both North and Latin America. We saw the strongest impact of consumer stockpiling in North America. EMENA posted positive growth after an exceptionally strong first quarter at 6%, growth slowed to 1.7% in the first half, reflecting a significant decline in the out-of-home sales channel. AOA was negative but returned to positive territory in the second quarter.

Slide: Strong growth in developed markets

Turning to the growth dynamic in developed and emerging markets. Organic growth in developed markets was 4.1%, based on solid RIG for most regions. Pricing improved to almost flat in the second quarter.

Emerging markets grew by 1.1%. Organic growth was lower than usual as a result of a sales decline in China. Excluding China, organic growth in emerging market was in mid-single digits with strong performances in Brazil, the Philippines, Russia and India. We are positive on emerging markets as a key growth platform for the years to come.

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 again.

North America grew at a mid-single-digit rate. Most product categories performed very well. Purina PetCare remained a standout. We saw continued strong growth driven by e-commerce and our premium brands. In Beverages, Starbucks at Home, Nescafé and Coffee-mate grew at double-digit rates. Starbucks Food service saw a sharp sales decline in the second quarter. Frozen food accelerated to double-digit growth with increased sales for DiGiorno, Hot Pockets and Stouffers. At the end of the second quarter, we launched Life Cuisine, offering on-trend meal solutions ranging from gluten-free to high protein.

Water reported negative growth, impacted by reduced sales in the out-of-home channel, and international premium brands in the United States saw positive growth, led by San Pelegrino.

Latin America maintained a mid-single-digit growth rate, with positive contributions from most geographies and product categories. The Brazilian market performed well with strong growth in most categories and broad-based market share gains. Sales in Mexico grew at a low single-digit rate, supported by Coffee and Dairy. The Zone's underlying trading operating profit margin increased by 60 basis points. The increase was driven by a combination of portfolio management, reduced in-store activation during lockdowns and the direct store delivery transformation, which more than offset COVID-19-related cost and commodity inflation

Slide: Zone EMENA

Next is Zone EMENA. After an exceptionally strong start to the year, organic growth turned positive in the second quarter due to a sharp sales decline in the out-of-home channel, particularly for Water and Nestlé Professional. The other product categories performed well and posted high single-digit growth. Each region saw positive growth, particularly in Eastern Europe with strong momentum in Russia.

Our four largest markets in Western Europe: France, Germany, the U.K. and Spain, all delivered solid growth. By product category, Coffee, Purina PetCare and Culinary products all grew at a double-digit rate with market share gains.

In Coffee, the improvement was broad-based across brands, with Starbucks products and Nescafé Dolce Gusto the highlights. Purina PetCare reported strong growth for Felix, Purina One, Tails.com and Lily's Kitchen, supported by e-commerce. Sales of Culinary products were boosted by increased at-home consumption across most segments, particularly Maggi and Garden Gourmet Plant-based Products.

In early July, we upgraded our plant-based sensational burger with a new meatier recipe. Water recorded negative growth but gained market share. The Zone's underlying trading operating profit margin increased by 40 basis points as reduced in-store activation during lockdowns and lower commodity spend outweighed COVID-19-related costs.

Slide: Zone AOA

Moving to Zone AOA. The Zone reported negative organic growth, as a double-digit decline in China outweighed mid-single-digit growth in the other regions. The Zone returned to positive growth in the second quarter, helped by improved trading conditions in China. In China precisely, growth was negatively impacted by a significant decline in the out-of-home channel and the timing of Chinese New Year. Sales growth was almost flat in the second quarter.

Coffee, Dairy, Ice cream, Culinary & Confectionery all returned to positive growth. The contraction in Wyeth's infant formula sales moderated. In June, Wyeth launched the locally manufactured infant formula Belsol. The new brand strengthens Wyeth's offering in the super premium segment and lower-tier cities. Infant cereal grew double digit.

Purina PetCare saw continued double-digit growth, driven by Proplan, Purina One and Felix. E-commerce sales gained momentum with broad-based improvements across most categories. Southeast Asia saw mid-single-digit growth. The Philippines grew at a double-digit rate with elevated consumer demand for Bear Brand, Milo and Maggi. Indonesia delivered high single-digit growth, led by Bear Brand and Dancow. South Asia reported mid-single-digit growth. India performed well, supported by NAN, Everyday and Nescafé. Maggi saw solid growth despite temporary supply chain constraints in the second quarter.

Sub-Saharan Africa grew at a double-digit rate, led by strong sales development in South Africa. Japan and Oceania saw negative growth. The Zone's underlying trading operating profit margin decreased by 20 basis points as commodity inflation and COVID-19-related cost outweighed reduced in-store activation during lockdowns.

Slide: Other Businesses

Finally, turning to other businesses, which includes Nespresso and Nestlé Health Science. Nespresso grew at a mid-single-digit rate as a strong increase in direct-to-consumer sales more than offset significant declines in the out-of-home channel and the impact of boutique closures for almost 2 months. E-commerce sales surged by 40%. Growth was also supported by a significant sales acceleration for the Virtuo system. North America grew strong double-digit growth with continued market share gains. AOA grew at a double-digit rate with positive contribution from most markets. Sales in Europe decreased, reflecting significantly reduced demand in the out-of-home channel and boutique closures, primarily between March and May. By the end of June, 86% of our boutiques were open.

Nestlé Health Science posted double-digit growth. Vitamins, minerals and supplements that support overall health and the immune system continue to see elevated demand. Garden of Life and Pure Encapsulations saw increased growth, particularly in e-commerce. In Persona, the subscription-based personalized vitamin business more than tripled its sales.

Medical nutrition experienced strong sales, particularly in pediatric food allergies, adult medical care and Vitaflow products. The underlying trading operating profit margin increased by 260 basis points with positive contribution from both Nespresso and Nestlé Health Science.

Slide: Contrasted category dynamics

Looking now at growth by product categories. There is a clear contrast between segments. Overall, the first half demonstrate the resilience of our business and shows how our diversified portfolio is well geared for fast-changing trading conditions. Powdered and liquid beverages grew by 1.3%. Despite a sharp sales decline in the out-of-home channel, Coffee grew by 2.9% and gained market share, supported by Starbucks products, Nespresso and Nescafé. Powder formats in cocoa and malt beverages, including Milo and Nesquik, grew in high single digits.

On the other hand, across sub categories, ready-to-drink formats reported double-digit sales declines due to reduced on-the-go consumption. PetCare continued to see outstanding growth globally. Most segments grew in double digits with market share gains. Purina's performance was driven by continued strong momentum in e-commerce and increased demand for premium products. Innovation also continued to make a significant contribution, as demonstrated by the recent launch of Pro Plan LiveClear, the first allergen reducing cat food.

Nutrition & Health Science grew at 1.2%. Infant nutrition growth was impacted by a sales contraction in China, but the performance improved during the second quarter. Outside of China, the category saw low single-digit growth. Infants cereal saw strong growth, boosted by increased demand in China, Brazil and India. We already discussed Nestlé Health Science.

In Prepared dishes and cooking aid, growth was broad-based by region, brand and product segment. Frozen grew in high single digits. Chilled grew at a double-digit rate, supported by the expansion of our vegetarian and plant-based food offering, which grew by 40%. Ambient culinary in retail grew in high single digits. Growth was supported by new product launches and increased digital engagement to maintain a strong level of at-home consumption.

Milk products and Ice cream grew at 7%. Within the category, Dairy performed strongly with elevated demand for fortified products such as Ninho and Bear Brand. Coffee-mate also saw solid growth.

Waters saw negative growth, reflecting lower demand in the out-of-home channel. Confectionery declined, mainly due to reduced impulse buying and gift giving, which most offset increased demand for tablets and baking products.

Slide: Underlying trading operating profit margin by category

Moving now to product margin by product categories. As we saw with growth, the contrast in margin evolution strongly reflects each category's level of exposure to the out-of-home channel. Milk products and Ice cream, PetCare and Prepared dishes saw material improvements, reflecting strong sales growth and the benefit of operating leverage.

Nutrition & Health Science also posted improved margins based on increased contribution from Nestlé Health Science and Infant cereals, which benefited from strong sales growth. Powdered and liquid beverages saw a marginal decline in margin, mainly impacted by a decline in out-of-home and ready-to-drink product sales. Both Nescafé and Nespresso saw improved margins. Water & Confectionery posted strong declines.

Slide: Continued margin expansion

This slide shows the progress of our underlying trading operating profit margin on a reported basis and illustrates the impact of the Nestlé Skin Health divestiture, which reduced gross margin and improved SG&A. It's really more relevant to look at the margin expansion on a like-for-like basis, excluding the impact of the Nestlé Skin Health divestiture, as shown on the next slide.

Slide: Continued margin expansion

So excluding Nestlé Skin Health, our underlying trading operating profit margin increased by 40 basis points. In the first half, COVID-19-related costs were CHF 290 million, including expenses for bonuses paid to front line workers, employee safety protocols, donations and other staff and customer allowances. In addition, the group absorbed cost of CHF 120 million related to resources made idle during lockdown measures imposed by governments. These retain costs are essentially related to salaries of staff made idle and depreciations of boutiques and other facilities that were temporarily closed.

At the same time, consumer-facing marketing expenses decreased by around 60 basis points, as some in-store activation and other promotional activities could not be executed during lockdowns. Examples include in-store demonstrations, sampling and event sponsoring. On the other hand, we increased media spend, particularly in digital channels, to support brand building and consumer engagement.

Digital media spend now accounts for 45% of total media spend. Lower media rates allowed for increased consumer reach. We also saw some cost savings, such as reduced travel spend and conferences. Gross margin was negatively impacted by higher commodity and packaging costs, which are expected to soften going forward.

We continued to deliver structural cost reduction across the P&L.

Slide: Significant increase in net profit margin

Moving on to P&L items from underlying trading operating pro to underlying EPS. Just a few items to call out. The group underlying tax rate remained stable at 21.4%. Net profit margin increased by 340 basis points to 14.3%, reflecting the impact of one-off income coming from disposals as well as improved operating performance. Underlying earnings per share increased by 0.5% in constant currency and by 5.9% on a reported basis to CHF 2.01.

Divestitures had a negative impact of 2.4%, while lower contributions from associates and joint venture had a further negative impact of 2%. Nestlé's share buyback program contributed 1.4% to the underlying earnings per share increase, net of finance costs.

Slide: Free cash flow

Free cash flow was CHF 3.3 billion in the first half. The decrease in adjusted EBITDA reflected the impact of foreign exchange and divestitures. We continue to be disciplined in our capital allocation with positive contribution from both CapEx and working capital. Our cash flow was reduced by CHF 500 million as one of our associates delayed its dividend payment from April to July. When adjusted for this delayed payment, our free cash flow as a percentage of sales increased by 40 basis points to 9.3%. This improvement reflects our stronger operating performance and improved capital discipline.

Before closing my remarks, allow me to give you a brief update on our *Always Open For You* initiative. We had planned to make CHF 500 million available to support our customers. By the end of the second quarter, we had used around 1/3 of this consideration, predominantly through extended payment terms granted to our foodservice partners.

Let me now hand over to Luca, who will monitor the Q&A.

Q & A Session

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

Thank you, François. With that, we move to the Q&A session. We open the lines for questions from investors and financial analysts. (Operator Instructions)

So, the first question is coming from Richard Taylor at Morgan Stanley.

Questions on:	**Ready-to-drink Coffee** **Performance in Japan**

Richard Taylor, Morgan Stanley;

My first question is on the bottled coffee. Can you talk a little bit more about your rollout plans for that business, particularly in China in the medium term?

Second one, you talked a little bit about the full year about the specific issues that you've been having in AOA. I suppose when I look at it, your performance in Japan particularly has been a little bit below from what I think you'd hoped for some time. So, can you give us a bit of color on what's going on in Japan please?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

Richard, let me take the question on AOA, more specifically on Japan. Actually, in Japan we are suffering a little bit from the fact that there are less inbound tourists from China, which are actually usually buying quite a lot of our products, and especially Kit Kat products. But there is no specific point of concern in Japan.

If we look at our sell out, which is really our sales in the market and our market share, we see both drivers moving in the positive direction. So, we are gaining market share on our sell out is growing nicely. I don't forget that Japan is an economy with an aging population and low GDP growth. But in that context, we are doing actually quite well.

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

Richard, this is Mark. Let me apologize first and foremost for my poor voice. I have a bad cold. Did I understand your question right, that you are referring specifically to ready-to-drink coffee? Is that correct?

Richard Taylor, Morgan Stanley:

Yes.

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

Yes, okay. So, look, this is an area we're super committed to and where we do have key plans for expansion, not only in China, but also in the rest of Asia, Latin America, North America, good market. I think eventually, also in Europe, you see that category taking off.

In China now, it's all eyes on our strategic review of Yinlu and making sure that whatever we decide to do, that we're not impacting and hurting the prospects of the ready-to-drink business. So, this is something that's more operational in nature.

Our main brand there when it comes to expansion is Nescafé, and it's quite established even as a ready-to-drink product. Then in other markets, we'll pursue other brand names. As you know, one of the brand names we're using in the U.S. market is Chameleon, as an example. So, around the globe, I think one after another, you will see us tackle these markets and expand. When it comes to younger consumers and also coffee consumption in hotter and more humid climates, ready-to-drink is certainly on trend, and it's a category we're very committed to. When it comes to manufacturing, we're investing where necessary in aseptic filling. We're investing in more capullar distribution. So, we're all very bullish on this category.

Luca Borlini - Nestlé S.A. - Head of IR

Next question is from Warren Ackerman at Barclays**.**

Questions on:	**PetCare and market shares** **Full-year guidance**

Warren Ackerman, Barclays:

It's Warren here at Barclays. Two for me. The first one is on pet food, incredible growth, 12.5% in the half, 14% in Q1. I guess most people thought there was going to be some destocking effects in Q2, but you're still double-digit in the second quarter. A scan of data in the U.S. is showing negative growth. So just really interested to know how you've managed to do so well, what's the growth in e-commerce and maybe non-tracked channels in PetCare. Maybe you can talk a little bit about market share in pet food because that's an incredible number. Maybe what kind of growth should we expect ongoing in pet food, given it's so good?

Then the second one, maybe for François, just on the guidance, François, obviously, lots of moving parts, a lot of volatility around COVID, but you're quite a wide range on the 2% to 3% organic for the year, given 2.8% in H1. That does kind of infer a slowdown in the second half, if I think the midpoint of 2.5. Just wondering whether you can talk through the moving parts that you see in the back half on the top line? Then on the margin, how some of those buckets that you outlined in your slides might progress in the second half?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

Actually, I will take the first question and then I will give the second one to Mark. For the pet food, obviously, we are very happy with what we have seen, both in the U.S., but in Europe and in emerging markets as well. The market has been growing at a strong mid-single-digit rate even before COVID-19. Don't forget the rates that we grew by 7% last year. We saw strong performances across most markets and segments. We have clearly been gaining market share, and especially through e-commerce.

Even when you look at, for example, some of the panels with market share, they don't totally reflect the reality, but we have gained significant market share and especially through e-commerce once again. There might have been some stockpiling in Q1, we have seen a little bit of destocking in Q2, maybe more to come. We don't know, difficult to assess, but we will see as it comes.

We continue as well to focus on premiumization, personalization, innovation and it's working very well, and you could see what the latest innovation that we have with this first product that is reducing allergens for cats, for example, which is actually quite interesting. So, it's a combination of good market momentum, gain of market share and innovation.

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

And Warren, this is Mark. Let me push back a little bit when it comes to the guidance. I hope that everyone does appreciate, we are providing guidance. As you know, we're one of the very, very few players in the industry right now that's doing that. Against the backdrop of what everyone else is doing, it would be tempting to just say, okay, let's go without guidance. It's a very fluid situation. So, we're trying really hard to give you as much as possible financial stability and dependability here.

The one percentage point band at the half year point is nothing unusual. In fact, when you go back several years, even in calmer times, that sometimes used to be the band for the second half of the year. Given the volatility and given remaining uncertainties around Corona, this is a situation where the usual H2 metric, like you take H1, you now take the full year guidance and you back into what exactly we're thinking about H2. This is not how it works.

So clearly, we're trying to do as well as we can here, but we need a little bit of downside protection. So, I hope the fact that we're giving guidance is seen as calm, determined confidence. Again, you may have noticed my comment on meet or exceed. So, we are clearly aiming here not so much to just meeting the downside of it, but really doing better.

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

Next question is from Céline Pannuti at JPMorgan.

Questions on:	Out-of-home outlook New mission statement

Céline Pannuti, JP Morgan:

My first question may be rebounding a bit on that. I wanted to understand how you see the different out-of-home. You give the global number for out-of-home. But if you could give us a bit of color, I'd presume China has been opened for longer now than other regions. You said that we should see a progressive improvement. If you could maybe help us understanding how that will move into the second half?

My second question is on the new mission statement. I noticed that Beverage is not included in that. So, I was wondering if you could elaborate why that is the case? Well, I think it was in the previous mission statement and if water is still one of the four pillars of growth. Also, maybe on the same comment, if you could comment about your pipeline for M&A since you've been talking about the potential strategy review of water, and we've not yet seen any deal announced. So, I was wondering if you could also update here.

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

Céline, I will take the first question. So, in the out-of-home, we reached the bottom in the month of April, and we were even slightly less than minus 60% versus last year in the month of April. We saw some gradual improvements since then, month after month, in May, in June, probably even furthermore in July. But we have not recovered the level where we were before, and it will take some time. It will certainly not happen in 2020, probably not even in 2021. It will take some time, obviously, by geography, given that the COVID-19 hit Asia first.

We saw an earlier recovery there, and it's the opposite in the Americas, obviously. So, we are following it very closely. The challenge is obviously to recover at-home whatever we can of what we lose in out-of-home, and we did reasonably well, even what you can see with Coffee, for example, that's an interesting recovery. While as we got part or even all in some instances of what we lost in out-of-home that we got back at-home business.

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

Céline, this is Mark. So, on the purpose statement, other than the fact that we are not trying to cover skin health anymore and other than the fact that we are also pointing out future generations to stress the whole sustainability aspect, there's nothing else we want to exclude.

So, I mean, basically, all the categories you're seeing today are fully covered by that purpose statement. There was no hidden messaging here to de-emphasize anything. So, we're remaining committed to all of the categories we are in.

Specifically, when it comes to Water, that continues to be one of our four targeted high growth categories. Let's underline the word category. So just the fact that's a high-growth category doesn't mean that our performance every quarter or every year is high growth.

As you know, we're coming out of a few disappointing quarters and years. Hence, we're having now this new strategy to be sure that we benefit from that strong category growth in the future and bring it back to high-growth performance with us as well. I believe that in premium spring waters and the functional water products, our opportunity for doing that is the best. So, we're working on this. What I was trying to indicate to you is that implementing this now will take a bit of time. Of course, COVID is an additional burden on the Water business because some aspect of Water is out-of-home and on the go, but we'll get there. And I hope that you see from our pretty strong moves that we're taking that we mean business. We really want to lead that business back to success.

When it comes to acquisitions, you've seen increased activity already in H1 over the entire year 2019 on the acquisition front. So, let me just remind you of Vital Proteins. I think we just announced that in late June. Zenpep, which we already closed and also Lily's Kitchen. So that's why I'm saying, compared to last year, acquisitions are now becoming a larger part of the picture, and we continue to work on an attractive pipeline. Hopefully, there will be some more.

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

Next question is from Guillaume Delmas at UBS.

Questions on:	Category polarization: Premiumization and affordability Latin America

Guillaume Gerard Vincent Delmas, UBS:

A couple of questions for me, too, please. First one, it's on polarization. Mark, you talked about some ongoing polarization across many of your categories that was back in April, the Q1 trading update stage. So, wondering whether you're already seeing some acceleration in this polarization trend, for instance. Would be helpful if you could provide your organic sales growth for premium and for the PPP in the first half. I guess, more broadly, looking forward, do you see this trend as being an opportunity or more of a threat from a gross margin standpoint?

Then my second question is on Latin America. Because there seems to have been very limited sequential deceleration between the first and the second quarter, maybe with the exception of Mexico, now this is in sharp contrast with what has been reported by most of your peers so far. So, wondering if you could shed some light on what's happening in this region and why Q2 was so resilient and whether you would expect some imminent slowdown over the coming months?

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

Thanks, Guillaume. Let me take the first one. So, the fact that in a crisis, traditionally, the premium end of the spectrum and then the affordable end of the spectrum have done better than the middle. I think that is something that's likely to happen this time again.

It's very hard right now, as you can imagine, with all these major moves in the market, to tell what is the trend, from some of the week after week, or month after month noise. But overall, we feel that, that pattern will come true again, and we're seeing some signs in that direction.

When you look at our performance even before COVID, I think over the last few years, we have done really well on the premium side of things. When it comes to the affordable side of things, this PPP in extremely affordable products. There, we've done okay, but we've not entirely met our goals.

So even before COVID, we had started to get this more emphasis inside the company at all levels in the value chain to be sure that we're more competitive in this segment. This price range is important to us because affordable products in many parts of the world are really important to assure the basics of nutrition, and that is something that we see part of our mission here. So, we'll give this more emphasis, and again, with the crisis, all it does is gives it more reason to succeed here because affordability, especially when it comes to the economic consequences of COVID, will become ever more important.

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

François speaking. Let me give you some color as far as Latin America is concerned, I will talk to more specifically about the two largest markets, starting with Brazil.

So, in Brazil, we had a strong performance in the first half with a good focus on innovation and improving execution. We've done very well as well in e-commerce. We had a very strong growth there. Brazil grew in high single digits, supported by strong contribution from RIG as well as positive pricing and more specifically in Dairy. This growth, strong growth that we enjoyed, we saw it in most categories from Infant nutrition, Ambient Dairy, Coffee, Culinary, Biscuits. We gained market share, clearly and more specifically, in Infant Nutrition, Coffee, Culinary, PetCare and Chocolate.

As far as Mexico is concerned, so we did well as well. We grew in low single digits, supported by Coffee, Dairy creamers, Chocolate beverages, PetCare. There again, it's very much about innovation and strong execution. We did a lot of innovation as well with new flavors, with organic local recipes, lactose free items and so forth. I cannot give you any further color for the second half. You know that we operate there with a lot of volatility as well, but we saw strong momentum, and innovation certainly helped as well as the market share gains.

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

Next question is from Alain Oberhuber at MainFirst.

Questions on:	**Coffee business** **Infant nutrition**

Alain Oberhuber, MainFirst:

Alain Oberhuber from MainFirst. Two questions from my side. The first is regarding the Coffee business. Obviously, you had a good start of the Coffee business in Q1. It somehow decelerated. Could you elaborate a little bit more on that case? Why did so? And what we could expect then for the remaining of the year?

The second question is regarding Nutrition. Obviously, you told us that Health Science had a good performance. I assume now that Infant Nutrition was poor. Was it mainly in China? Or did you have also poor development of Infant Nutrition in other markets? Then what we could expect, particularly in China for the remaining of the year?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

As far as Coffee is concerned, so we had good performance. We grew by 2.9% in H1. That is made of a double-digit growth in Coffee at-home, which increased quite significantly, but it was partially offset by a sales decline in the out-of-home channel as well all is in the ready-to-drink format. The net of the 2.9% is actually, in our opinion, a good performance.

We gained market share as well, which is probably the most important thing. Particularly in North America, with Nescafé in EMENA, with ready-to-drink even. Pricing was relatively stable versus the last couple of years, close to flat actually. The growth was obviously very supported as well by Starbucks products, Nespresso and Nescafé.

Just to give you an idea of the major differences between the in-home and out-of-home market in coffee. In March and April combined for the Coffee market worldwide, it's an estimate, we believe that there has been about 40, 4-0, 40 billion cups, which were lost in the out-of-home market and only 9 billion were recovered in home. This is once again not for Nestlé but for the market. This is largely the consequence of the fact that coffee is part of the social fabric that has been severely impacted by lockdown.

You also have, in coffee, some consumers, who are drinking coffee only at the office, whilst they are not drinking coffee at home. So good performance overall.

You had a question on Nutrition as well. So, Nutrition, we had negative performance as far as China is concerned. We had a sales decrease in China and a negative mix impact as well in the U.S., which is linked to an increased demand via the WIC contracts.

Outside of China, Nutrition grew in low single digits with strong contributions from Brazil, South Asia, Philippines, Russia and the Middle East. We saw in Infant formula, solid growth, supported by innovation outside of China. On HMO product, we have been doing very well, and we have launched now in 60 markets.

Finally, Infant cereals posted double-digit growth, supported by most markets, including China in that case.

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

Alain, let me just build on that. When it comes to China Infant formula, clearly, we're not happy with the results there. Let me just add that we also, in the second quarter, changed the leadership in that business in China. So again, we have not fully met our objectives there, and we're committed to improving.

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

Next question is from Jeremy Fialko at HSBC.

Questions on:	**Pricing outlook** **M&A strategy**

Jeremy Fialko, HSBC:

Jeremy Fialko, HSBC. A couple of questions for me. The first one is on the pricing, which clearly improved quite a bit in the second quarter. To what extent was that down to lower promotion, particularly within some of the developed markets? Do you think that will be sustained in the second half?

Second question is just on M&A more broadly. I guess with the Water divestments pending you're looking at probably contribute double-digit millions of Swiss francs that have been divested over the course of the last few years. Is there a point when Mark you're happy to say, look, I think I'm going to draw a line in the sand here? This is it as far as divestments are concerned, this is the portfolio, which I run with for the next, say, 2 to 3 years.

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

Jeremy, I will take the question on pricing. So, the increased pricing in Q2 has nothing to do with lower discounting or things like that, because what I was referring to earlier in terms of lower promotional activities, it's essentially around in-store activation, which is below the line, actually. It doesn't hit the top line. So, the fact that we had the better pricing in Q2 has nothing to do with COVID-19.

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

Jeremy, I think the last few calls, we have mentioned our interest here in building the business through acquisitions, and that continues. At the same time, look, if for a certain business, a review or divestiture makes sense, we will continue to do that.

Overall and broadly speaking here, over several years, what I would want to assure is combined with our internal growth, that our earnings growth and EPS growth and dividend growth story doesn't get interrupted. So, this is something where I sort of broadly watch that we are in balance. But again, you cannot always pinpoint that down to one quarter or one year.

So overall, I guess, as we signaled in the winter, the portfolio transformation process will continue towards higher growth and more differentiated products.

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

Next question is from Jon Cox at Kepler.

Questions on:	**Out-of-home business, Zone-by-Zone breakdown** **Margin outlook**

Jon Cox, Kepler Cheuvreux:

Jon Cox, Kepler Cheuvreux. Just to come back, François, maybe on the out-of-home. You've obviously indicated, a lot of it is in Coffee and in Water. I wondered if you can give a bit of granularity in terms of the regions. Is it really split 1/3, 1/3, 1/3? Or is it weighted to some particular region? Just to help us a little bit maybe with the modeling for the next little while.

Just on that, are you thinking about rightsizing that business at all? Because I think a lot of people think this extraordinary situation we're in could lead to widespread societal change, that could go on for quite a few years in terms of avoiding some public places and going out to restaurants, et cetera. So that was on the first point.

Second point, just to come back on my colleague's question about margin. Is there really any reason to believe your margin should go down in the second half of the year, given the fact that, I guess, some of the COVID costs will tail off? But on the other hand, maybe you'll ramp up marketing or advertising a little bit? Or is there something we're maybe missing on the profitability side for H2?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

Jon, let me take the second question on the margin. So, as we said earlier, and as is included in our guidance for the full year, we expect to see some improvement in our underlying trading operating margin for the full year.

Just to give you a little bit more color, we expect a neutral to positive gross margin evolution for the full year versus last year on a like-for-like basis, excluding the impact of Nestlé Skin Health because I think it makes sense to do it that way. To give you some more color as well, we do still expect some COVID cost, obviously, and significant ones in H2, but probably not to the same extent as what we experienced in H1, provided that the crisis does not deteriorate. So, we will have some, but less.

On the other hand, we expect to have more in-store promotional activities as you know we did less in H1 because we could not execute it in the trade, provided there again that the crisis does not deteriorate.

Finally, the efficiency that we are delivering in terms of structural cost decline, which continued in H1, we expect that to continue for the full year as well, about at the same run rate as what we experienced over the last 3 years.

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

Jon, let me comment on the out-of-home business. This may have been sort of drowned out in my prepared remarks because I had a coughing spell here. But I think this is the right time to reimagine and rethink this business. So, it's not about rightsizing per se. It's about adapting to change that I think is inevitable now in the out-of-home business.

Yes, probably, there'll be less hotel and restaurant business for a while going forward, and people may be eating less at some company cafeterias for a while. But imagine how many more people, for example, ordered-in from restaurants and dark kitchens and what have you. So clearly, there's a change in nature. There's almost like a blurring of the lines between what is in-home consumption and what is out-of-home consumption. So, when you order in you clearly eat it inside your own four walls, but it's prepared and assembled somewhere else outside and you order in because of the convenience and freshness and what have you. So I think this is where there's a lot of rapid experimentation now on the ground, and it's different market-by-market because the circumstances are different market-by-market. But there's lots of opportunities on how we can embed our products and services into some of these new delivery services that are showing explosive growth.

So rather than just trying to cut cost here, it's much more important now to take that resource, that highly qualified out-of-home resource that we have built up, and then really be sure that we put it to the best use so that we benefit from that new growth going forward.

To me, that blurring line between in home and out-of-home consumption, it's just another manifestation of this anytime, anywhere, where the traditional channels mean less and less. So, you need to do business with these new ways of reaching the consumer, new companies that have new ways of reaching the consumer. So, I see an opportunity there. It's going to be some choppy quarters, no question, and we may have to do some adjustments here and there. But overall, we want to maintain a growth focus.

Then also, let's not forget, for several decades prior to COVID, our categories in out-of-home have shown growth that was superior to in-home consumption. It may take a while. Again, as I explained earlier, it may change in nature, but I would not be surprised if for some years, we see that trend come back. Hence, this is not the right moment to take a short-term view. As François explained to you from the margin situation we're doing well. So again, investing for the future is a key theme for us, and we're committed to it.

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

Next question is from John Ennis with Goldman Sachs.

Question on:	**Ready-to-drink** **PetCare inventory levels**

John Ennis, Goldman Sachs:

A couple of follow-ups from me. The first is on the Powder and liquid beverage business, can you tell us how big the RTD part of that is in a normal quarter for you? And then maybe give us a bit of color on how it trended throughout the quarter?

Then my second question is on the PetCare inventory levels. Can I just confirm, do you see your inventory levels for PetCare as largely normal when you look at levels with your retailers? Then can you maybe just comment on whether the growth rate was relatively similar throughout the quarter for that particular division?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

John, on the Liquid and powdered beverages, the ready-to-drink part, I think it's around probably the same as what we have in other categories. It's about 10%. But it depends, you need to look at it because it's probably higher for some brands like Milo. It's probably lower for some other ones like Nescafé, for example, although it's growing fast. So, it has to be looked at by category but around 10%.

In PetCare, we don't have necessarily the full visibility on the inventory level in the trade. So, it's a little bit difficult. Once again, we did very well in H1. There was a little bit of stockpiling for sure in March. We saw a little bit of consumer destocking in Q2. What is the net situation at the end of June is probably a little difficult to assess at this stage? So very difficult to comment on that question.

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

Maybe just building on the first part of your question, the whole question on ready-to-drink. So, to me, the poster boy here is Milo and think about Southeast Asia, where this is a standard part of children's lunchboxes at school. So, with school closures and lockdowns, this was a business that was quite impacted. Hence, we saw good development in powder, but not so much in ready-to-drink. But this is against normal trends. This is one of those typical COVID kind of turbulence items.

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

Next question is from David Hayes, Société Générale.

Questions on:	**Market share** **Pantry loading in the U.S.**

David Hayes, Société Générale:

So two for me as well. First one on market share, second one on U.S. trends. So, on the market share, it's pretty consistent market share gains across a lot of the categories you've mentioned through the call. Obviously, Nestlé is a very agile, well-resourced company and I guess, would have come back from disruption, perhaps quicker than some of the local smaller players. Is that a dynamic that you've seen? And is that something that we should take account of in the second half that might mean that advantage is a little bit less impressive as we go forward?

Then the second question, just in terms of U.S. trends. Obviously, a lot of pantry loading in March, we saw, but I'm guessing in some areas, Florida, California and so forth are we seeing re-pantry loadings? We are seeing spikes up at certain points over the last few weeks. Is that something you expect maybe to happen as we see some second waves coming through maybe in the U.S. and maybe elsewhere as well?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

David, let me comment on the market share. So, our market share gains have been improving. Actually, we have about 60% of our business cells. A cell is a mix of geography on a category. So in 60%, 6-0, of them, we either gained market share or we have been holding market share. It's actually 52% gaining and 8% holding market share, which is slightly better than what we have experienced over the last couple of years, which tends to support what you said. We have noticed as well that during the crisis, consumers had the tendency to move rather to trust brands, which is largely what we sell, obviously. So, we may have benefited a little bit and probably a little bit less consumer experience with new brands during the crisis.

This market share gain is actually close to the highest levels that we experienced in 2013. There are different trends by region, product category and channel, but we had significant market share gains in EMENA and overall in PetCare, in Coffee, as I mentioned earlier, Ambient and Chilled culinary as well, and interestingly as well in e-commerce, which is actually quite good.

On the U.S. trend, the latest trend and even with some granularity by state, it's a little bit difficult to say, but what we have seen, though, is that there will be probably less stockpiling even if there is a second wave because many consumers have understood that the products are available or have been available during the first wave in stores. So, we do expect that there will be less of it. There might be some of it, but probably a little bit less.

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

It's probably going to be choppy. As François said, the confidence is there that shelves remain stocked. So, there will be probably, as people stay home a bit more in home consumption, but not so much the kind of spikes that we have seen especially in March.

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

Next question is from James Targett. You have the honor to conclude our webcast

Question on:	**E-commerce and Market share**

James Targett, Berenberg:

Just one follow-up for me, actually. Just coming back on your answer on e-commerce and market shares. I was just wondering how material has been the strong growth you've been seeing in e-commerce, how material has it been to drive your market share improvements? Can you maybe give some color on the categories where the growth in e-commerce is materially accretive to your shares?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

Okay, James. So, e-commerce has been really important in the gaining of the market share, as I just mentioned. You saw that we had a very strong growth. It's actually very close to 50%, it's 49% of exceptional growth in H1 in e-commerce. It's actually even without

Nespresso, 54%, so which is really good. E-commerce sales now represent 12.4% of our total sales. We expect that to continue to increase. It will not go back to where it was before, just as an example, we were at 8.5% last year.

The interesting thing as well is that we have had an even stronger performance online than offline in terms of market share, which is evidenced by the fact that about 2/3 of our business cells show online share above offline. So, in 2/3 of the cases, we have a better market share online than offline.

In addition, we are gaining market share online in about 64% of the cases. So, which is actually even better than what I mentioned earlier in terms of market share gains.

So, to answer your question, yes, e-commerce has been really instrumental in driving our market share up.

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

Okay. Well, Patrik, you're the last one on the list. I see that you have added your name.

Questions on:	**Organic growth** **Restructuring costs**

Patrik Schwendimann, Zürcher Kantonalbank:

Patrik Schwendimann, Zürcher Kantonalbank. Would you say the H1 organic growth of 2.8% gives a good picture of the real demand? Or is it still distorted by stockpiling each in milk products?

My second question regarding restructuring costs in H1, just CHF 66 million. But what is your best guess in terms of restructuring costs for the full year?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

In terms of restructuring costs, so we had a little bit less. We always need to be careful on looking at it over a 6-month period. We had, obviously, some programs as well that we put on hold during the crisis. I cannot give you a number for the full year, but it might be a little bit at a lower level than what we have experienced over the last couple of years.

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

Patrik, look, on the growth, it's pretty hard to handicap that first half growth number. But do remember, pre COVID, our plan was to grow at north of 3.5%. So, we've done very well sort of benefiting from some of these in-home trends and so forth.

But as François explained to you in his prepared remarks, with this very strong presence in out-of-home consumption, on-the-go and impulse products it's very hard to escape some of the consequences from this crisis. So, I think on balance, we're quite pleased with the performance. I think you also saw the underlying confidence here when we look at the second half and beyond. But rest assured, we would have preferred to play our original game plan, which called for north of 3.5% and not this crisis that really struck so much difficulties to the world.

End of Q&A session.

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

Okay. Thank you. With no further question, we come to an end of our session today. We thank you very much, and please stay in touch and stay safe and healthy. I think here at IR, we are available in case of further questions.

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

Thanks, everyone.

End of transcript.