

NESTLÉ S.A.

**2020 BARCLAYS GLOBAL CONSUMER STAPLES CONFERENCE
FIRESIDE CHAT TRANSCRIPT**

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Speakers:

François Xavier Roger, CFO, Nestlé S.A.
Steven Presley, Chairman and CEO, Nestlé USA
Warren Ackerman, Barclays

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Warren Ackerman, Barclays;

Hello, everybody. Welcome to the Barclays Consumer Conference. I'm Warren Ackerman, head of the European Consumer Staples Research Team and a long-time follower of Nestlé. It's my pleasure to welcome François Xavier Roger, Nestlé CFO and Steve Presley, chairman and CEO of Nestlé US. We appreciate your support and hope to see you in person in Boston in 2021.

So, the format today will be a fireside chat for about thirty minutes, maybe a bit longer if we run over, where I'll be posing the questions. So, with that brief intro, let's get into the session.

Question on:	Guidance for H2
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So, first question for François. It's just really around the numbers. You delivered 2.8 percent organic growth in the first half. You're guiding to two to three percent for the year. Clearly, a lot of volatility due to Covid, but maybe François, could you walk us through the swing factors for the second half by geography and by category please?

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

Good afternoon, Warren, and hello, everyone. Before we go there, I want to just make sure that everybody understands that we wanted to maintain the practice of providing guidance because many companies in our industry did not do so.

Given the lack of visibility that we have, especially on what can happen in H2 we decided to go for a conservative guidance, between two and three. So have a look at it with a conservative view. Especially so as we were at 2.8 percent organic growth already in H1, you can understand that we were already at the upper end of the range. Rather than providing you with some highlights of what could happen potentially by category and by geography in H2, I would rather focus on the channels because actually what does make a difference is the less the categories and the geographies, but more the channel.

What we continue to see now is a relatively solid growth in the at-home consumption, obviously, we had more of it in H1, but we continue to see a solid momentum there. Whilst we see a sequential improvement since the month of April, which was the worst month since the beginning of the year, as far as the out-of-home business is concerned, which accounts for about 15% of out-of-home sales. In H1 we were at minus 35%. Just for the out-of-home channel, which includes on-the-go consumption as well. We don't expect to be back to where we were in 2019 neither this year, probably not next year either, but we start seeing a gradual recovery, month after month.

Question on: Zone AOA**Warren Ackerman, Barclays;**

Looking a bit more deeply into the Zones. It does seem to me that Zone AOA is a region where, to get to the mid-single-digit, you need to get Zone AOA firing a bit more. Is the issue in AOA portfolio? Is it execution? Is it some combination? How do we get AOA back to the mid-single-digit or even above the average that you need for the medium term?

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

Clearly, AOA deserves to be at the level of mid-single-digit growth, and we should go there anyway. I would not draw any conclusion from the level where we were in H1, and especially in Q1, because we had some calendar events to start with. With the timing of Chinese New Year we lost about three weeks of pre-season shipments this year versus last year. You can guess three weeks out of thirteen weeks in Q1 does make a big difference, which is a reason why as far as China is concerned, we were at minus 27% in Q1. We did start to recover fairly well in Q2 already, and AOA was actually positive in Q2. But you're absolutely right. We should be in the mid-single-digit space in AOA. We were already, outside of China, in the mid-single-digit space, clearly in H1 2020.

Question on: Turnaround in USA**Warren Ackerman, Barclays;**

Okay, maybe to you, Steve, the renaissance in growth in the U.S. in the last few years under your leadership has been really impressive. I'm sure you've had this question often, but it would be great just to get your color on the one or two things that have really been pivotal to that strong turnaround.

Steven Presley, Chairman and CEO, Nestlé USA;

Yes, thanks, Warren and thanks for having me. For us, as we look at it and turning around, growth in the US, it's really been centered around what we call this hybrid growth model. It's been a renaissance behind our big brands. Really for us, when we think about how you grow in this market, no matter how great your innovation is or how strong some of the other things are that we'll come to, you've got to have healthy base business. Reimagining and reinvigorating our big businesses is what we've really focused on. That's including driving product quality into the product, really focusing on consumer obsessed innovation that's driving big wins and some of our big categories. Absolutely just being relentless around this

pursuit of what does a consumer need, how do we get it quickly and how do we bring it to our big brands with speed? So that's really been the focus in the base part of the business. The other part that's been big is portfolio transformation. The second tenant of our growth model is around portfolio transformation.

We've been aggressive in the US. If you look at our core Food and Beverage business, we've actually rotated almost half of that portfolio through portfolio transformation and we continue to be aggressive in that space. I think you saw the Froneri transaction last year in Ice cream and recently completed our pasta business on Buitoni. We'll continue to look at that. We'll continue to look to add in this portfolio, and that's been strong.

Then the last piece for us is really these new innovation models. How do we find a way to incubate and develop innovation in a different way through open sourcing, tapping into the 40 thousand consumers that work for us every day and are passionate about this company? That's actually brought a good lever of growth for us, so we've really been focused on that.

Question on:	PetCare performance in USA
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Warren Ackerman, Barclays;

Just tapping into U.S. Pet food. I mean, it's by far your biggest piece, I think it's at 30%, just under, of your U.S. business. The growth there has been phenomenal. I remember a few years back you were struggling for growth, you were underweight in e-commerce. We were worried about Blue Buffalo and General Mills. Here we are with, stellar growth. What's driving that and how sustainable is that?

Steven Presley, Chairman and CEO, Nestlé USA;

Oh, we believe it's absolutely sustainable. When you look at the category, it's a really structurally attractive category with a lot of things leading towards long term growth even with Covid. Pre-Covid this category was very strong going into the crisis, it stayed strong through the crisis and I think with the increase in pet adoptions through the crisis, that actually bodes well for the future as we move ahead on PetCare.

When you look at it, we've really been focused around these tenets of premiumization, personalization and innovation. Innovation like the Pro Plan Live Clear, which is the allergen reducing petfood, which has really been a breakthrough for us. As we think about it, that's driven this just really strong growth in the category to push Pet food forward. Then the second piece is for us, e-commerce has exploded. We've really invested in building our

capabilities, changing the things necessary for our brands. And we continue to be near triple digit growth in e-com in Pet food.

Question on:	Margins
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Warren Ackerman, Barclays;

Wow, amazing. Maybe moving back to François and talking a bit about margins. You've been pretty clear with us the underlying margins will be up this year. But beyond that, I'm interested in how much has been done on structural costs.

A few years ago, you talked about all these different structural buckets that you had. It would be interesting to know where we are in terms of improving the asset intensity of the portfolio. And what's next, not just on the EBIT margin but also on the gross margin, looking forward.

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

So, we have basically done what we expected to do back in 2017. You remember that we established a saving program to take about CHF1.7 -1.8 billion initially, out of our P&L, and then we even raised it to CHF 2.5 billion.

By now, we have done most of it. So, which is really what we addressed, as well as in terms of structural cost, which is the non-consumer facing activities which is made of fixed industrial costs, fixed distribution costs and G&A, which is a bucket of about CHF 17 billion.

The objective was relatively simple to reduce these costs in absolute value in Swiss francs each and every single year. We managed to do it over the last three years. We will do it again this year. And when you take that against the operational leverage with the growth of 3-3.5%, we manage to get as a consequence of that 50 to 60 basis points of margin improvement each and every single year over the last three years.

We will continue to get these efficiencies. We will continue to reduce our structural cost. This is not over as a program. So, we found new ways to get there and we are confident that the program can continue for a couple more years. So, which means that, in theory, we should be able to generate 50 to 60 basis points of margin improvement. Except that there is a big difference in the future. In the past, we let that flow entirely to the bottom line, which is the reason why we increase our margin by 50 to 60 basis points. In the future there will be some margin improvement, but not to the same extent because part of the savings, part of the cost efficiencies, we will use them to support our growth, which means essentially potentially marketing spend. We will use a significant portion as well to finance sustainability cost, which is going to rise in the future.

Question on: Acquisitions**Warren Ackerman, Barclays;**

OK. Very clear. Just turning to the question on everybody's minds on M&A. Obviously, we had the news yesterday on the NHS acquisition we'll come to that in a moment.

But before that, there's been a lot of disposals on the ledger. Not many acquisitions. I think Mark said in the past there's been concerns around valuation levels. You've looked at lots of things but turned down lots of things. Is it valuation? Why haven't we seen you transacting more? Is it because, you know, the WACC crossover is tough to reach? Any kind of thoughts around that because people are a bit worried that the actual reported revenue number is going down in Swiss francs.

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

Absolutely. So, first of all, we do not want to deleverage the company and we don't want to reduce our scale either. So clearly, which is a reason why Mark said it during our call at the end of July and he said that the beginning of the year as well, we want to be much more acquisitive side now. Especially so as, over the last 18 months, we have clearly disposed of more assets than we have bought. That being said, it's not just about going shopping because we have a strong balance sheet, we have a credit card or whatever. We want to be disciplined in what we do as well. So, we want to make sure that when we go for acquisition, they meet our three main criteria; strategic fit with what we want to do, which is essentially around Nutrition, Health and Wellness or high growth categories, but not on an exclusive basis. We can invest even outside of these high growth categories if we find the right opportunities. Then cultural fit, we want to feel like managing these assets. We want to feel we share the same values as well with these businesses. And the third one is we want to make sure that we get a proper financial return. One of the KPIs is exactly what you said, which is to make sure that over time, which we define as five to seven years, we can get a return on invested capital, ROIC, superior to the WACC, not necessarily the WACC of Nestlé, but the WACC of this specific acquisition. This has been the limitation somewhat for some of the assets but looking backwards at what we did not take over the last couple of years, I'm quite happy we didn't go there. I think we are very disciplined. That did not prevent us from doing sizable acquisitions. Starbucks rights, Atrium, now Aimmune and then there will be probably more in the future as well because we really want to go there. I can tell you for these three assets, for example, we will reach a return on invested capital above the WACC probably before five years. So, this is absolutely feasible, but we need to be selective and disciplined in what we do.

Warren Ackerman, Barclays;

And what WACC should we be thinking about for Nestlé?

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

For Nestlé, it's around 7%, 6.5 – 7%. But it depends. I mean, if it is a WACC in an emerging market. If it is an acquisition in an emerging market, obviously the WACC is higher. So, it depends very much on that because we apply a specific WACC for this specific asset in a different industry, different category. So, we are applying the specific WACC of a given asset.

Question on: ROIC target
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Warren Ackerman, Barclays;

I just think you mentioned the 15% ROIC target. I mean, going back a few years, it seemed like Nestlé's ROIC was going down every year and you put this measure in place to try and move it the other way. What I like about that is it's a fully loaded number, including M&A.

So, I think the number of it today is around 12, 12.5, 13%. It was slightly impacted by some write-downs. Just interested in when we might achieve that 15 % and how much are you baking in for dilution from goodwill. So how much underlying ROIC improvement do you see mid-term?

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

So indeed, we have made some significant improvement because we were around 10% in 2014. Last year, underlying, we were already at 13.5%. There will be some further improvement this year. So, we are clearly on the journey to 15%. We didn't want to provide a specific timeline for the 15% because it depends precisely on what we will do in terms of M&A. Obviously, any acquisition that we do, even and especially medium size acquisition, that would be dilutive at the beginning because we expect to reach the WACC around five to seven years, or even before in most of these instances. So, in the meantime, we are using all levers in the base business to really increase the ROIC. Accelerated growth in terms of organic growth. Accelerated margin, we talked about it, 50 to 60 basis points of margin improvement over the last couple of years. Reduction of working capital, better management of our asset base as well. We reduced our tax rates. We incentivize as well, in the softer part of it, we incentivize the top management on return on invested capital for the long-term incentive plan as well.

So, we really used all levers with a lot of success. In addition to that, as I mentioned earlier, we have been very disciplined in terms of acquisitions as well.

Questions on:	Portfolio transformations Frozen food in USA
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Warren Ackerman, Barclays;

OK. Thank you, François. Now maybe back to you Steve, again, you mention the portfolio change in the U.S. as a driver for the accelerated growth. Just interested, given what's going on with your distribution, particularly the move on DSD to third party, you have a decision to exit U.S. Water. I know that's moved from a globally managed business to a regionally managed business. Now you're looking to sell that. Could you maybe get some of the background behind that? And U.S. frozen? People ask me all the time, could that be next? Given you've changed distribution, you've got more optionality around that all. What does that need to do to remain in the in the portfolio? I'd be interested in your color on that.

Steven Presley, Chairman and CEO, Nestlé USA;

Thanks. I'll take them in buckets. If you look at any of the moves we make, it's really around this portfolio transformation that sets us up for future wins in the marketplace.

As we look at Water specifically, I think the opportunity for us to become more focused in the premium space in Water with premium mineralized and functional water is a far more structurally attractive space. The base Water business is an attractive category, but as we look across the investments required, our ability to win there and really the organization's focus and prioritization across the portfolio, it pushes us into this much more sharpened focus on the premium space in Waters. So that's what led to the decision to exit the mainstream portion of the business in the regional spring. As we look at that, the review is going very well. I think we're well underway. I think we hope to have it completed early 2021 and then it will allow us to really focus on that space.

Then if I shift to Frozen. Right, the exit on DSD was really around going after efficiencies in the business, to simplify the business, really get focused on what's important to the consumer, unlock resources in the business that then you can turn around and drive growth with on those businesses. The DSD was a very expensive path. The market was a difficult, complex project to unravel, but we did it successfully. We did it six months early, unlocked the margin creation from that move and invested that in growth on those businesses. You see our Frozen, our Pizza business and our Ice cream business have performed quite well through the transition and now after the transition.

As we look at Frozen food or the idea, would it be next in the portfolio transformation? Frozen is actually a structurally attractive category. High cash flows, high ROIC and really strong growth. As you think about Frozen, it's important that you break it into buckets. There's no such thing as a monolithic Frozen category. Stouffer's, which is a very big business for us in the U.S. has been growing for multiple years now, delivering strong margin accretion and winning share actually on that part of the business. So, you think of it in meals, you think of it in pizza. I think the DSD was a critical move to unlock the growth and the potential of that business. So, pizza, I think, is on a very good path. Then you go to our snacking portion of the business, which is primarily Hot Pockets. That one actually has been a growing business and growing share prior to the crisis on Covid.

So, we've really been focused on the turnaround in the nutritional meal segment, which is our Lean Cuisine business, where we've struggled on the personalized meals. We just reimagined that business, relaunched Life Cuisine, which is underneath Lean Cuisine, and that business shows really good early signs that we'll be able to turn that business around as well.

So, for us it is a structurally attractive space. It is consumer focused. Consumers actually have come back to the category in a big way, pre-Covid, through Covid and we think post Covid. It offers a convenience, a taste and a value that can't be beat in their meal offerings. So, we feel really strong about our Frozen portfolio right now. Still work to do. We always have work to do in the space and all of our businesses, but it's an attractive business for us.

Question on:	Coffee category
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Warren Ackerman, Barclays;

Okay. Back to François and a question on Coffee and specifically Starbucks. When you bought it, about \$3 billion of revenues, you've rolled it out incredibly quickly. What is the real potential for this brand? And Steve, maybe you can touch on it in the U.S. as well, which is its heartland. But François when I look at the availability now in the UK, you can see it everywhere. You're starting to capture some of that Nespresso compatible market yourself. So, compared to the acquisition criteria you set out, are we ahead of that? Could this be a bigger brand than Nespresso in time?

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

So, first of all, we are very happy with this acquisition. It was not \$3 billion in size when we bought it, it was \$2 billion. But last year we have added another 300 million of sales, which is very good. This year we are very happy. We are growing at a strong double-digit level for

Starbucks. We gained about already around 10% of the Nespresso compatible capsules in Europe in one year. So very, very happy with what we have seen so far.

There is on the other hand Nespresso, don't forget Nespresso, is more than two times bigger than Starbucks and it continues to grow. I mean, it's amazing to see that thirty-four years after the launch, with a limited patent protection, in spite of compatibles and so forth, we still grow in mid-single digits. We don't have any such objective for Starbucks to exceed Nespresso in sales. So, I think that they both complement and help and support each other as a brand. So, it's much more about complementarity of the different brands with a different architecture, with their own personalities and their own positioning. There might be a little bit of cannibalization here and there, but very limited. So, between our three brands; Nescafé, Nespresso and Starbucks excellent complementarity, so no objective for one to exceed the other one in terms of sales.

Warren Ackerman, Barclays;

Okay, and Steve Nespresso in the U.S.?

Steven Presley, Chairman and CEO, Nestlé USA;

Yes. So, for us, I couldn't agree more with François. I think the stratification of the category in terms of consumption occasions is really important to understand, and the ability for Nespresso, Starbucks and Nescafé to play really complementary with each other across that stratification is a core driver for growth. Your ability to win in all of the segments of the category with leading brands is powerful. For us and Starbucks, the business has done really well. We've transitioned it over. Actually, I've been able to significantly accelerate the growth rate pre deal in traditional CPG business, their traditional grocery part of the business.

Obviously, Covid has hurt the out-of-home portion of the business that came to us some, but it's a much smaller piece of that part of the business that we acquired. But that business continues to accelerate.

What we've really been pleased with in the U.S. is the ability to extend it into Starbucks by Nespresso, we launched Nespresso compatible pods under the Starbucks name. We also launched a Starbucks creamer, you know, we've got a really strong leading position in creaming in the U.S. and we're able to extend again, stratify that category, find a new opportunity through kind of SRM and stratification that allows us to find new growth levers by bringing Starbucks to the creamer category and work in complement with our other creamer brands to further grow our share in that space. So that's been a really big success for the US, for the Starbucks acquisition. It continues, the business continues to perform well. We

acquired a great brand, obviously, but also a really strong team that executes well for us in the market.

Question on: Froneri Joint Venture

Warren Ackerman, Barclays;

Okay, maybe shifting gear to the Froneri JV it has obviously gone very well in Europe. You have now folded the U.S. Ice cream business into Froneri. Can you talk about the potential for you François. Not just the potential in terms of market share and closing the gap versus Unilever, but also the financial improvements you've seen in the business and what the end game might be for Froneri. What options do you have on the table?

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

So Froneri, first of all, I think it's an interesting setup because we show through that, that portfolio management is not just about selling and buying assets, it can be with different configuration. Actually, to partner with a private equity showed that we can be quite creative and think a little bit out of the box as well. There has been two parts to it. The first part was a European phase, whereby it was much more about synergies because we combined our existing, essentially European business, with that of PAI, called R&R at that time. With a very good set of complementarities between geographies and activities within Europe. So, it was much more about synergies within the European context. We did extremely well. We were extremely happy with that. It has not just been about cost cutting because we drove sales as well and we gained significant market share as well. So very successful. And by the way, to work with private equity is not bad at all because these guys bring some skills as well and some know-how that we don't necessarily have.

The second phase, which is the one that we just did at the beginning of the year in the U.S., is a totally different one because PAI doesn't have any business in the US. So, this is about creating a global player worldwide. By the way, Steve and the team restructured the business, exiting DSD before as well. So, which has been very successful as well. So, we now have a global footprint with this set up. What we like as well, with the partnership with PAI, we share values and we have done very well together. But it does offer us some optionality as we get married with a financial partner. We know that these guys eventually, most probably, will leave at a given time, so which gives us optionality that we would need to discuss with them over time. In the meantime, we are very happy to see that we have done well on the top line. We have done very well in market share, both in the US, even before we

contributed our business, as well as in Europe. We have done much better than we used to in the bottom line and very happy with what we have achieved.

Question on:	PPP
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Warren Ackerman, Barclays;

Moving again a bit more to the macro, obviously the macro is weakening, global recession is with us, can you talk to us a little bit, this one for François again, about entry level products the PPPs. We hadn't heard much about them for a few years, up to about 12% of your sales. Forgive me if it's a slightly different number. Given the recession, how much resource is going into the PPPs right now and how big could they become? Are they back into double digit growth? Are you seeing trading down already in some parts of the world?

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

So, to be totally transparent, we admit the fact that we did not do as good a job in PPP, what we call popularly position products or affordability, as we did with premium. You know that in premium we did extremely well over the last couple of years. We did not do that well in PPP, which is the reason why we started to address the issue about 18 months ago by refocusing PPP on emerging markets and on nutrition. So, it's about affordable nutrition in emerging markets.

As a consequence of that, by the way, the definition that we have is more restrictive. It used to be 12% of sales. Now, with this new definition, it's only 6%. But we are starting to do really well. We have very good examples, I will just mention two, for example, Bear Brand in the Philippines in Dairy. So, this is clearly about affordable nutrition because it is dairy and we are really, in affordability, doing very well. I would give you another example, which is nutrition as well, which is, Maggi bouillon cubes in Nigeria, for example. Just to give you a little bit of flavor on this product. You have about 200 million inhabitants in Nigeria. We sell 80 million cubes a day. So, it gives you an idea of the depth that we have. By the way in affordability you need to have scale, which we have, and we need to have cost competitiveness. So, we are very happy with what we have done since we have started to redefine the scope and put more resources in it. Since the beginning of the year, we started to grow again in affordability, which didn't happen over the last couple of years. So, we're very happy. I think the timing is absolutely right, because we do expect, as you say, as a consequence of the coming economic crisis, we do believe that PPP is going to be even more relevant in emerging markets and for nutritional needs of the population there.

Question on: Aimmune acquisition**Warren Ackerman, Barclays;**

Okay. Thank you. I need to ask you about this acquisition, the Aimmune acquisition yesterday. The acquisition is quite a big deal for Nestlé Health Sciences. You've been involved with it for four years. I guess the question is why now? Is it a big price or could this be a real blockbuster? I've seen numbers out there, it could be a billion dollars of revenue in the peanut allergy area. If you can just quickly walk through why now and the justification of the price.

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

Why now? First of all the project has been registered with the FDA in the US relatively recently. So, we needed a triggering event there as well. We have certainty on the product. The product is currently marketed in the US. It has been a little bit delayed because of Covid-19, but they really started in July and August. This is clearly a product that has the potential to be a blockbuster, which means more than \$1 billion in sales over time. Clearly, why? Because this is the only product available for children between the age of four and seventeen. So, we clearly talk of a net medical need. We will be in a position to help some kids to lead a normal life, which they could not really live before. So, we do believe in the product. So, this is the right time as well, because, as you said, we had been in that company through a minority investment and through a seat on the board as well. Greg Behar, the CEO of Nestlé Health Science was sitting on the board of this company for the last four years. We had the partnership with them. We looked at the way that they were working. We looked at the developments and we learned how to work with them as well. So, we believe that this is the right time now that they have just started the marketing in the US and we expect as well to get the registration in other markets, starting with Europe, soon.

Warren Ackerman, Barclays;

Okay. So, time is running a little bit short. I want to ask you a few quick-fire questions, so lots of questions for you. Maybe if you can try and get the answers relatively brief. That would be great.

Question on: E-com expansion in USA

I've got a couple for Steve. Now, just about e-commerce in the US, Steve. Everybody is talking about explosion in e-commerce and leaning into that growth.

Could you maybe just outline what kind of growth you're seeing in the US in e-com, that channel and how are you trying to maximize your growth, your potential in that key channel?

Steven Presley, Chairman and CEO, Nestlé USA;

Pre-Covid the household penetration was around 3-4%. It clearly doubled. We think that's here to stay and it's accelerating. We were winning share pre-Covid and we're winning share through Covid on e-commerce. And you look at our businesses. You know, I talked about Pet food growing nearly 70% in e-com. But if you look at our core Food and Beverage businesses and you take Coffee, triple-digit, creamers, triple-digit and baking. You know there's been this re engagement on our baking business in the US where we've had over 300% growth in e-commerce, so really strong growth. We believe it's here to stay. It's really focused around making sure you win across all the e-commerce channels. There's click and collect, and that's a very distinct need and growing very fast in the U.S. as the traditional retailers become more and more sophisticated in that space. The pure play guys, where they're absolutely growing fast through the Amazons and Instacarts of the world. Then the last one is direct to consumer. I think whether it's Nespresso or our investment in Freshly or our Tails.com, there's a lot of space in the direct to consumer where we continue to go, because the thing that's not going to change is the consumers omni-channel or however you want to describe it, because that's how they live their lives. There's no such thing as channel separation in a consumer's mind. So, your organization has to think omni-channel and be able to win across every single channel, and that has strong ripple effects all the way through the organization.

Question on: Nestlé Professional in USA

Warren Ackerman, Barclays;

The other channel is really challenged at the moment is food service. How big is food service within your U.S. business and what kind of base case on the speed of recovery? I know there's lots of variables. But I'd love to hear your view.

Steven Presley, Chairman and CEO, Nestlé USA;

Yes, for the U.S. it's less than 10% of our sales and clearly it was impacted like the rest of the category across the country as we went into lockdown. For us the recovery, François said it at a global level, I'd say the same thing, really we don't expect to return to pre-Covid levels all the way through 2019 in those businesses. I think we've seen a steady progression of improvement ever since the initial declines we were minus 60, minus 65. Every month gets better, month over month, so we're really happy with the progression. But there are so many

variables. The speed of schools opening, the speed of college campuses opening, the speed of offices actually coming back to capacity. So, all those have influence.

Now, the interesting thing is it created unique opportunities for us that we are really focused on capturing for future growth. And the first one is, look I think out-of-home dollars, look so much of our food and beverage dollars have been shifting out of home for the last few years, that creates this opportunity, space for everybody to think what is the reimagined out of home going to look like? Where are those food and beverage dollars going to go and how do we capture them? So that's a unique opportunity for us, as we look ahead. Then the second one is, I think the people that have strength and have really strong capabilities, that can weather the crisis, will come out of this stronger. We know there'll be a consolidation in that space. We know there'll be fewer, stronger players, but we feel really well positioned to come out of this stronger in the foodservice space than we went in.

Question on: Changes under the leadership of Mark Schneider

Warren Ackerman, Barclays;

Okay. I just finish. I've got two questions, two joint questions for you. The first one is Mark Schneider, your boss, has been CEO since 2017, a lot has changed. If you had to pinpoint what has changed most in that time. I'd love to hear both your perspectives on that front.

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

So, first of all, I think that we went over the last couple of years through an evolution. I mean, Nestlé has been successful for 154 years. Under the leadership of Mark, with the executive team and the support of the board, I think that there has been an acceleration of the pace. But first of all, because we saw a very fast changing environment as well. Look at what we've experienced over the last five years. I could mention some of them like ZBB, the development of e-commerce and digital, the development of start-ups, the acceleration of innovation in our industry. You have sustainability concerns which are mounting for consumers and so forth.

So, I think that we had to accelerate as well as the pace of changes and I would mention a few of them. So, first of all, we increased our growth clearly with a focus on our high growth categories. We accelerated the portfolio management quite significantly. We have a different organization largely today, which is much more focused on the Zones. We have put much more emphasis on cost management. We have a different capital structure today than we had before. Digital is much more important, both in terms of e-commerce, you saw in H1 12.5% of our sales, as well as a digital spending that we have on our advertising and

publicity as well. We have accelerated the pace of innovation. We are really reducing time to market. And we have made some progress as well to make Nestlé one of the leading organizations in terms of force for good as well, on sustainability.

Steven Presley, Chairman and CEO, Nestlé USA;

I think from a market perspective, the biggest thing is speed. We were always functioning at the pace we needed to function. But the world has picked up the cadence at such a pace in the three years since 2017. So, our ability to make decisions and the empowerment at a market level where look the reality is, with a company of Nestlé's scale, you have to win market by market, category by category. You have to have boots on the ground that can operate with this intensity to win and that empowerment and push to the markets to drive winning strategies. And not just to have the strategy but hold them accountable for the execution. That's been has been really strong under Mark. Then speed with portfolio transformation and the efforts to drive those through the organization, to set ourselves up for a better future has been really quick. And we've moved through those actually quite rapidly and are better positioned for the future.

Question on: ESG commitments
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Warren Ackerman, Barclays;

And the final question for both of you on ESG, clearly, Covid could be changing the consumer's attitude around things like plastic and safety. Steve, in terms of the US consumer, how do you think the attitude has changed or is changing?

And then for François, you've got a lot of cost investment to make to transform the packaging. Are you confident that you are able to hit your 2025 commitments? And is it going to cost more to do that?

Steven Presley, Chairman and CEO, Nestlé USA;

Clearly Covid changed prioritization in consumers' minds. I think many of them are concerned with employment coming out of this, post-recession. I think there's a concern around the election and potential changes from the election. So, it slipped down in the mindset of consumers, but it doesn't change the fact it is important to them today. It will become more and more important over time. A lot of these solutions, to achieve the 2025 commitments for the U.S., where we have fully recyclable, reusable packaging, you've got to get ahead of them now. They are difficult, technical solutions, and it's a multi-prong approach to make sure that happens. So, I think it's in their mindset today, becoming more important.

Is it a primary purchase driver? No. Will it be in some categories in future? Yes, we believe so. That's why we've got to get ahead of it now to achieve those 2025 commitments.

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

On the sustainability side, it is on the very top of our agenda. For the executive team, it really is a top priority for us. The cost is material and there are two main components to it. One of them is packaging, which is more probably for the short term, over the next couple of years. And the other one is carbon neutrality where the cost is actually larger. But the space, the time frame is much longer as well because we are talking of a commitment that we have made until 2050. We are starting to do it now. So, first of all, to be able to finance that we need to be at the top, in terms of our industry, in terms of both commercial and financial performance. The best way to finance it is really to be performing very well commercially and financially speaking.

The other thing is that consumers are not going to pay for it. So, we can't expect that we will charge it to consumers and then they will pay for it. Investors and shareholders are not going to pay for it either. So, we don't expect to reduce our margin as a consequence either. What we have to do is really to find efficiencies in our supply chain, efficiencies across the organization in order to be able to finance it. In the same way as we, and the analogy may not be perfect, but over the last couple of years, over the last couple of decades, we have been able to reduce massively the content of sugar, salt and fat in our products at a cost. We have been able to do that not by passing it on to consumers and to the trade, not passing it to our shareholders either, but through efficiencies in our supply chain. This is not small. Take sugar, for example. We have reduced our sugar content for our products by 37% over the last 15 years, and it came at a cost as well. So, we expect to do the same for sustainability costs.

Warren Ackerman, Barclays;

Well, listen, thank you for your time. We've been beaten by time, sadly. It's been very interesting. Very informative, as always. I do really appreciate it. I very much hope to see you in Boston in person next year. Have a good afternoon.

End of Transcript